LANNETT CO INC
Form 10-K
August 29, 2016
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

**x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended June 30, 2016**

**OR**

**o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File No. 001-31298**

# LANNETT COMPANY, INC.

(Exact name of registrant as specified in its charter)

| **State of Delaware** | **23-0787699** |
|---|---|
| State of Incorporation | I.R.S. Employer I.D. No. |

**9000 State Road**

**Philadelphia, Pennsylvania 19136**

**Registrant s telephone number, including area code: (215) 333-9000**

(Address of principal executive offices and telephone number)

Securities registered under Section 12(b) of the Exchange Act:

**Common Stock, $.001 Par Value**

(Title of class)

Securities registered under Section 12(g) of the Exchange Act: **None**

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

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

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 x No o

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

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |

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 x No o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12B-12 of the Exchange Act). Yes o No x

Aggregate market value of common stock held by non-affiliates of the registrant, as of December 31, 2015 was $1,248,715,702 based on the closing price of the stock on the NYSE.

As of July 31, 2016, there were 36,892,377 shares of the registrant s common stock, $.001 par value, outstanding.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains forward-looking statements. Any statements made in this Annual Report that are not statements of historical fact or that refer to estimated or anticipated future events are forward-looking statements. We have based our forward-looking statements on management s beliefs and assumptions based on information available to them at this time. Without limiting the generality of the foregoing, words such as may, will, expect, believe, anticipate, intend, could, would, estimate, continue, or pursue, or the negative other variations thereof or c terminology, are intended to identify forward-looking statements. Such forward-looking statements reflect our current perspective of our business, future performance, existing trends and information as of the date of this filing. These include, but are not limited to, our beliefs about future revenue and expense levels, growth rates, prospects related to our strategic initiatives and business strategies, express or implied assumptions about government regulatory action or inaction, anticipated product approvals and launches, business initiatives and product development activities, assessments related to clinical trial results, product performance and competitive environment, anticipated financial performance and integration of acquisitions. The statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. We caution the reader that certain important factors may affect our actual operating results and could cause such results to differ materially from those expressed or implied by forward-looking statements. We believe the risks and uncertainties discussed under the Item 1A - Risk Factors and other risks and uncertainties detailed herein and from time to time in our SEC filings may affect our actual results.

We disclaim any obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. We also may make additional disclosures in our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and in other filings that we may make from time to time with the SEC. Other factors besides those listed here could also adversely affect us.

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**PART I**

## ITEM 1. DESCRIPTION OF BUSINESS

**Business Overview**

Lannett Company, Inc. and subsidiaries (the Company, Lannett, we, or us ) was incorporated in 1942 under the laws of the Commonwealth of Pennsylvania and reincorporated in 1991 as a Delaware corporation. We develop, manufacture, market and distribute generic versions of brand pharmaceutical products. We report financial information on a quarterly and fiscal year basis with the most recent being the fiscal year ended June 30, 2016. All references herein to a fiscal year or Fiscal refer to the applicable fiscal year ended June 30.

The Company has experienced total net sales growth at a compounded annual growth rate in excess of 28% over the past fifteen years. In that time period, total net sales increased from $12.1 million in fiscal year 2001 to $542.5 million in fiscal year 2016. This growth has been achieved through filing and receiving approvals for abbreviated new drug applications ( ANDAs ), favorable product pricing environments, strategic partnerships and launches of additional manufactured drugs, opportunities resulting from our strong historical record of regulatory compliance, as well as the June 1, 2015 acquisition of Silarx Pharmaceuticals, Inc. ( Silarx ) and the recent Kremers Urban Pharmaceuticals Inc. ( KUPI ) acquisition.

All products that we currently manufacture and/or distribute are prescription products with the exception of a small portfolio of over-the-counter products manufactured by Silarx Pharmaceuticals, Inc., our wholly-owned subsidiary. Our top five products in fiscal years 2016, 2015 and 2014 accounted for 57%, 78% and 74% of total net sales, respectively.

On November 25, 2015, the Company completed the acquisition of KUPI, the former U.S. specialty generic pharmaceuticals subsidiary of global biopharmaceuticals company UCB S.A. KUPI is a specialty pharmaceuticals manufacturer focused on the development of products that are difficult to formulate or utilize specialized delivery technologies. Strategic benefits of the acquisition include expanded manufacturing capacity, a diversified product portfolio and pipeline and complementary research and development ( R&D ) expertise.

**Competitive Strengths**

*Vertically Integrated Manufacturer, Supplier and Distributor of Narcotics and Controlled Drugs*. In July 2008, the U.S. Drug Enforcement Administration ( DEA ) granted Cody Laboratories, Inc. ( Cody Labs ) a license to directly import concentrated poppy straw for conversion into opioid-based active pharmaceutical ingredients ( APIs ) for commercial use in various dosage forms for pain management. This license, along with Cody Labs expertise in API development and manufacture, allows the Company to perform in a market with high barriers to entry, no foreign dosage form competition and limited domestic competition. Because of this vertical integration, the Company has direct control of

its supply and can avoid increased costs associated with buying APIs from third-party manufacturers, thereby achieving higher margins.

*Proven Ability to Develop Successful Products and Achieve Scale in Production*. We believe that our ability to select viable products for development, efficiently develop such products, including obtaining any applicable regulatory approvals, vertically integrate into certain markets and achieve economies of scale in production are critical to our success in the generic pharmaceutical industry. We intend to focus on long-term profitability driven in part by securing market positions with few vertically integrated competitors.

*Efficient Development Systems and Manufacturing Expertise for New Products*. We believe that our manufacturing expertise, low overhead expenses, efficient product development and marketing capabilities can help us remain competitive in the generic pharmaceutical market. We intend to dedicate significant capital toward developing new products because we believe our success is linked to our ability to continually introduce new generic products into the marketplace. Competition from new and other market participants for the manufacture and distribution of certain products would likely affect our market share with respect to such products as well as force us to reduce our selling price for such products due to their increased availability. As a result, we believe that our success depends on our ability to properly assess the competitive market for new products, including market share, the number of competitors and the generic unit price erosion. We intend to reduce our exposure to competitive influences that may negatively affect our sales and profits, including the potential saturation of the market for certain products, by continuing to emphasize maintenance of a strong product selection R&D pipeline.

*Mutually Beneficial Supply and Distribution Arrangements*. In 2004, we entered into an exclusive ten-year distribution agreement (the JSP Distribution Agreement ) with Jerome Stevens Pharmaceuticals ( JSP ) covering four different product lines. On August 19, 2013, the Company entered into an agreement with JSP to extend its initial contract to continue as the exclusive distributor in the United States of three JSP products: Butalbital, Aspirin, Caffeine with Codeine Phosphate Capsules USP; Digoxin Tablets USP; and Levothyroxine Sodium Tablets USP. The amendment to the original agreement extends the initial contract, which was due to expire on March 22, 2014, for five years. In connection with the amendment, the Company issued a total of 1.5 million shares of the Company s common stock to JSP and its designees. In accordance with its policy related to renewal and extension costs for recognized intangible assets, the Company recorded a $20.1 million expense in cost of sales, which represented the fair value of the shares on August 19, 2013.

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If the parties agree to a second five year extension from March 23, 2019 to March 23, 2024, the Company is required to issue to JSP or its designees an additional 1.5 million shares of the Company s common stock. Both Lannett and JSP have the right to terminate the contract if one of the parties does not cure a material breach of the contract within thirty (30) days of notice from the non-breaching party. Levothyroxine Sodium and Digoxin collectively accounted for 34% of our total net sales in fiscal year 2016.

During the renewal term of the JSP Distribution Agreement, the Company is required to use commercially reasonable efforts to purchase minimum dollar quantities of JSP products. There is no guarantee that the Company will continue to meet the minimum purchase requirement for Fiscal 2017 and thereafter. If the Company does not meet the minimum purchase requirements, JSP s sole remedy is to terminate the agreement.

*Dependable Supplier to our Customers*. We believe we are viewed within the generic pharmaceutical industry as a strong, dependable supplier. We have cultivated strong and dependable customer relationships by maintaining adequate inventory levels, employing a responsive order filling system and prioritizing timely fulfillment of those orders. A majority of our orders are filled and shipped on or the day after we receive the order.

*Strong Track Record of Obtaining Regulatory Approvals for New Products*. During the past three fiscal years, we have received several approved ANDA /ANDA supplements from the Food and Drug Administration (the FDA ). Although the timing of ANDA approvals by the FDA is uncertain, we currently expect to receive several more during Fiscal 2017. These regulatory approvals will enable us to manufacture and supply a broader portfolio of generic pharmaceutical products.

*Reputation for Regulatory Compliance*. We have a strong track record of regulatory compliance. We believe that we have strong effective regulatory compliance capabilities and practices due to the hiring of qualified individuals and the implementation of strong current Good Manufacturing Practices ( cGMP ). Our agility in responding quickly to market events and a reputation for regulatory compliance position us to avail ourselves of market opportunities as they are presented to us.

In addition, narcotics which are classified by the DEA as controlled drugs are subject to a rigorous regulatory compliance regimen. We have been granted a license from the DEA to import raw concentrated poppy straw for conversion into commercial APIs. Such licenses are renewed annually and non-compliance could result in a license not being renewed. As a result, we believe that our strong reputation for regulatory compliance allows us to have a competitive edge in managing the production and distribution of controlled drugs.

**Business Strategies**

*Continue to Broaden our Product Lines Through Internal Development and Strategic Partnerships*.

We are focused on increasing our market share in the generic pharmaceutical industry while concentrating additional resources on the development of new products, with an emphasis on controlled substance products. We continue to improve our financial performance by expanding our line of generic products, increasing unit sales to current customers, creating manufacturing efficiencies and managing our overhead and administrative costs.

We have four strategies for expanding our product offerings: (1) deploying our experienced R&D staff to develop products in-house; (2) entering into product development agreements or strategic alliances with third-party product developers and formulators; (3) purchasing ANDAs from other generic manufacturers; and (4) marketing drugs under brand-names. We expect that each strategy will facilitate our identification, selection and development of additional pharmaceutical products that we may distribute through our existing network of customers.

Key highlights related to product developments during Fiscal 2016 included the Company announcing a strategic partnership with YiChang HEC ChangJiang Pharmaceutical Co., Ltd, an HEC Group company, to co-develop a generic insulin pharmaceutical product for the U.S. market. The product is currently in late stage development. The Company will manage the remaining clinical and regulatory steps specific for a U.S. Food and Drug Administration (FDA) license to market and will have the exclusive U.S. marketing rights to the product.

We have several existing supply and development agreements with both international and domestic companies; in addition, we are currently in negotiations on similar agreements with additional companies through which we can market and distribute future products. We intend to capitalize on our strong customer relationships to build our market share for such products.

*Mergers and Acquisitions*.

We are active in evaluating potential mergers and acquisitions opportunities that are a strategic fit and accretive to our business. We are particularly interested in opportunities that globalize our business, further vertically integrate our operations, or enhance shareholder value through tax favorable jurisdiction treatment. During Fiscal 2016, we completed the acquisition of KUPI, the former subsidiary of global biopharmaceuticals company UCB S.A.

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KUPI is a U.S. specialty pharmaceuticals manufacturer focused on the development of products that are difficult to formulate or utilize specialized delivery technologies. Strategic benefits of the acquisition include expanded manufacturing capacity, a diversified product portfolio and pipeline and complementary R&D expertise.

*Improve our Operating Profile in Certain Targeted Specialty Markets*.

In certain situations, we may increase our focus on particular specialty markets within the generic pharmaceutical industry. By narrowing our focus to specialty markets, we can provide product alternatives in categories with relatively fewer market participants. We plan to strengthen our relationships with strategic partners, including providers of product development research, raw materials, APIs and finished products. We believe that mutually beneficial strategic relationships in such areas, including potential financing arrangements, partnerships, joint ventures or acquisitions, could enhance our competitive advantages in the generic pharmaceutical market.

*Leverage Ability to Vertically Integrate as a Manufacturer, Supplier and Distributor of Controlled Substance Products*.

One initiative that is at the core of the Company s strategy is to continue leveraging the asset we acquired in 2007, Cody Labs. In July 2008, the DEA granted Cody Labs a license to directly import concentrated poppy straw for conversion into opioid-based commercial APIs for use in various dosage forms for pain management. The value of this license comes from the fact that, to date, only a limited number of companies in the U.S. have been granted this license. This license, along with Cody Labs expertise in API development and manufacture, allows the Company to perform in a market with high barriers to entry, no foreign dosage form competition and limited domestic competition. Because of this vertical integration, the Company has direct control of its supply and can avoid increased costs associated with buying APIs from third-party manufacturers, thereby achieving higher margins. The Company can also leverage this vertical integration not only for direct supply of opioid-based APIs, but also for the manufacture of non-opioid-based APIs.

The Company believes that the demand for controlled substance, pain management drugs will continue to grow as the Baby Boomer generation ages. By concentrating additional resources in the development of opioid-based APIs and abuse deterrent features to current dosage forms, the Company is well-positioned to take advantage of this opportunity. The Company is currently vertically integrated on two products with several others in various stages of development.

**Key Products**

*Levothyroxine Sodium Tablets*

Levothyroxine Sodium tablets, which are used for the treatment of thyroid deficiency by patients of various ages and demographic backgrounds, is the second most prescribed drug in the United States. The product is manufactured by JSP and distributed by us under the JSP Distribution Agreement and is produced and marketed in 12 potencies. Net sales of Levothyroxine Sodium tablets totaled $162.4 million in fiscal year 2016. Levothyroxine is a narrow therapeutic index drug and very difficult to formulate which results in a less competitive market environment for this

molecule. In our distribution of these products, we compete with two brand Levothyroxine Sodium products, AbbVie s Synthroid and Pfizer s Levoxyl, as well as generic products from Mylan and Sandoz.

*Digoxin Tablets*

Digoxin tablets, which are used to treat congestive heart failure in patients of various ages and demographics, are produced and marketed with two different potencies. This product is manufactured by JSP and we distribute it under the JSP Distribution Agreement. Net sales of this product totaled $23.9 million in fiscal year 2016. The product is highly potent based on Environment, Health & Safety ( EHS ), regulations and its API availability is limited given there are only two active suppliers, based on the FDA Drug Master File ( DMF ) list. In our distribution of these products, we compete with generic products from Mylan, Impax, West-Ward and until recently Sun, as well as the brand product Lanoxin distributed by Concordia.

*Acetazolamide Tablets*

Acetazolamide tablets are used for the treatment of glaucoma. The product is a carbonic anhydrase inhibitor that reduces fluid pressure in the eyeball. It also increases the removal of water from the body by the kidneys and may block certain nerve discharges that may contribute to seizures. Net sales of Acetazolamide tablets totaled $25.3 million in fiscal year 2016. Currently, our primary generic competitor for this drug is Taro Pharmaceutical Industries.

*Butalbital Products*

We distribute three products containing Butalbital. We have manufactured and sold Butalbital with Aspirin and Caffeine capsules for more than 25 years. Butalbital with Aspirin, Caffeine and Codeine Phosphate capsules are manufactured by JSP and distributed under the JSP Distribution Agreement. Additionally, in September 2012, the Company was approved to sell Butalbital, Acetaminophen and Caffeine Tablets. Butalbital products, which are orally administered in capsule or tablet dosage forms, are prescribed to treat migraines and tension headaches caused by contractions of the muscles in the neck and shoulder area.

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The drug is prescribed primarily for adults of various demographics. Migraines are an increasingly prevalent condition in the United States, and we believe the demand for effective medical treatments will continue to increase. Net sales of Butalbital products totaled $21.8 million in fiscal year 2016. Although new innovator drugs to treat migraines have been introduced by brand-name drug companies, we believe that there is still a loyal following of doctors and consumers who prefer to use Butalbital products for treatment. In our distribution of these products, we compete with products from Mallinckrodt, Mikart, Qualitest, Watson, West-Ward, Actavis and Breckenridge.

*Ursodiol Capsules*

Ursodiol Capsules are produced and marketed in 300 mg capsules and are used for the treatment of gallstones. Net sales of Ursodiol capsules totaled $67.3 million in fiscal year 2016. We compete with a generic product from Epic and Mylan, as well as the brand product Actigall distributed by Actavis.

*Omeprazole Capsules*

Omeprazole is a proton pump inhibitor that decreases the amount of acid produced in the stomach. The product is a generic version of the branded drug Prilosec®. It is indicated for heartburn or irritation of the esophagus caused by gastroesophageal reflux disease. KUPI produces Omeprazole DR capsules in 10mg, 20mg and 40mg dosages. Net sales of Omeprazole capsules totaled $23.7 million in fiscal year 2016. In distributing this product, we compete primarily with Sandoz, Dr. Reddy s and Zydus.

*Methylphendiate Hydrochloride ER*

Methylphenidate ER is a central nervous system stimulant indicated for the treatment of Attention Deficit Hyperactivity Disorder ( ADHD ) in children six years of age and older, adolescents and adults up to the age of 65. The product is a generic version of the branded drug Concerta®, which is currently marketed by Janssen Pharmaceuticals, Inc. and competes with a generic product marketed by Mallinckrodt Pharmaceuticals and an Authorized Generic ( AG ) marketed by Actavis. The product was approved by the FDA in 2013 with a therapeutic equivalence rating of AB, meaning the FDA deemed it therapeutically equivalent to the brand-name drug, Concerta®. Net sales of Methylphenidate ER tablets totaled $28.3 million in fiscal year 2016.

During a teleconference in November 2014, the FDA informed KUPI that it had concerns about whether generic versions of Concerta® (methylphenidate hydrochloride extended release tablets), including KUPI s Methylphenidate ER product, are therapeutically equivalent to Concerta®. FDA indicated that its concerns were based in part on adverse event reports concerning lack of effect and its analyses of pharmacokinetic data. FDA informed KUPI that it was changing the therapeutic equivalence rating of its product from AB (therapeutically equivalent) to BX. A BX-rated drug is a product for which data are insufficient to determine therapeutic equivalence; it is still approved and can be dispensed, but it may not be automatically substitutable at the pharmacy for the brand-name drug under certain state laws. The FDA has

indicated that there are no safety issues with KUPI s product.

During the November 2014 teleconference, FDA also asked KUPI to either voluntarily withdraw its product or to conduct new bioequivalence ( BE ) testing in accordance with the recommendations for demonstrating bioequivalence to Concerta proposed in a new draft BE guidance that FDA issued earlier that November. FDA had approved the KUPI product (and originally granted it an AB rating) in 2013, on the basis of KUPI data showing its product met bioequivalence criteria set forth in draft bioequivalence guidance that FDA had issued in 2012. FDA s position concerning the KUPI product was the subject of a public announcement by the agency. KUPI agreed to conduct new bioequivalence studies per the new draft bioequivalence guidance. KUPI submitted the data from those studies to FDA in May 2015. The Company continues to pursue the FDA to obtain its decision on the submitted study as well as its response on whether it will restore the AB-rating for our product.

*Pain Management Products*

Cocaine Topical® Solution ( C-Topical® ) is produced and marketed under a preliminary new drug application ( PIND ) in two different strengths and two different size containers. C-Topical® is utilized primarily for the anesthetization of the patient during ear, nose or throat surgery and sinoplasty. The Company has completed a Phase III clinical trial and our Clinical Research Organization ( CRO ) is assembling the data for our New Drug Application ( NDA ) for C-Topical® and continues to actively market the product utilizing a group of brand representatives in key market locations throughout the United States.

Morphine Sulfate Oral Solution is produced and marketed in three different size containers. We manufacture this product at Cody Labs and are currently finishing the manufacturing methods and capabilities to make the API. This drug is prescribed primarily for the management of pain in adults.

Oxycodone HCl Oral Solution ( Oxycodone ) was produced until August 20, 2012 and marketed until October 4, 2012 in two different size containers, at which point, as a result of FDA enforcement actions against all market participants, the Company voluntarily exited the market. Prior to the enforcement actions the Company had submitted an ANDA to the FDA and subsequently received approval and commenced shipping Oxycodone in September 2014.

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This drug is prescribed primarily for the management and relief of moderate to moderately severe pain.

Other products in the pain management franchise include Hydromorphone HCl tablets, where we are vertically integrated, and Codeine Sulfate tablets. Additionally, the Company added several pain management products through the Silarx acquisition. Net sales of pain management products totaled $29.8 million in fiscal year 2016.

**Validated Pharmaceutical Capabilities**

Lannett s 31,000 square foot manufacturing facility sits on 3.5 acres of Company-owned land. In addition, we own a 63,000 square foot building residing on 3.0 acres of Company-owned land. This facility is located within one mile of our manufacturing facility. The facility houses our Quality Control ( QC ) laboratories, packaging and research and development and has capacity for additional manufacturing space, if needed. We also own a 66,000 square foot building on 7.3 acres of land, which is used for certain administrative functions, warehouse space and shipping. It also has capacity for additional manufacturing space, if needed. All three of these buildings are located in Philadelphia, Pennsylvania.

The manufacturing facility of our wholly-owned subsidiary, Cody Labs, consists of an approximately 73,000 square foot facility located on 15.0 acres of land in Cody, Wyoming. Cody Labs leases the facility from Cody LCI Realty, LLC ( Realty ), which is 50% owned by Lannett and 50% owned by a former officer of Cody Labs. Cody Labs manufacturing facility currently has little capacity for further expansion.

In June 2015, we completed the acquisition of Silarx. The Silarx manufacturing facility consists of an 110,000 square foot facility located in Carmel, New York and sits on 25.8 acres of land. The facility currently houses manufacturing, packaging, research and development and has capacity for additional manufacturing space, if needed.

In November 2015, we completed the acquisition of KUPI. KUPI s 432,000 square foot Seymour, Indiana facility contains approximately 107,000 square feet of manufacturing space as well as a leased 116,000 square foot temperature/humidity controlled storage warehouse. Seymour has had satisfactory inspections conducted by the FDA and EMA and similar regulatory authorities of Japan, Taiwan, Brazil, Korea and Turkey. Since 2008, KUPI has invested more than $75 million into improvements to the facility and new equipment. This investment enabled the facility to increase production from approximately 1.2 billion doses in 2008 to over 2.7 billion doses in 2014. KUPI recently completed a $20 million, 20,000 square foot expansion of the facility which, in combination with an additional planned expansion in 2016, is expected to increase capacity to 3.9 billion doses by 2017. KUPI added a large vault for storing controlled substances in 2011 and is also planning to expand its vault capabilities relating to Schedule II ( CII ) products in conformance with DEA requirements. The facility also includes four packaging lines, one of which is a high speed line added in 2012. The serialization has been completed on three lines and we expect to complete the fourth line in the near future.

We have adopted many processes in support of regulations relating to cGMPs in the last several years and we believe we are operating our facilities in substantial compliance with the FDA s cGMP regulations. In designing our facilities, full attention was given to material flow,

equipment and automation, quality control and inspection. A granulator, an automatic film coating machine, high-speed tablet presses, blenders, encapsulators, fluid bed dryers, high shear mixers, high-speed bottle filling and high potency or specialized manufacturing suites are a few examples of the sophisticated product development, manufacturing and packaging equipment used in the production process. In addition, our Quality Control laboratory facilities are equipped with high precision instruments, such as automated liquid chromatographs ( HPLC and UPLC ), gas chromatographs and laser particle size analyzers.

We continue to pursue Quality by Design for improving and maintaining quality control and quality assurance programs in our pharmaceutical development and manufacturing facilities, which is outlined in the FDA report entitled, Pharmaceutical Quality for the 21st Century: A Risk-Based Approach. The FDA periodically inspects our production facilities to determine our compliance with the FDA s manufacturing standards. Typically, after completing its inspection, the FDA will issue a report, entitled a Form 483, containing observations arising from an inspection. The FDA s observations may be minor or severe in nature and the degree of severity is generally determined by the time necessary to remediate the cGMP violation, any consequences to the consumer of the products and whether the observation is subject to a Warning Letter from the FDA. By strictly complying with cGMPs and the various FDA guidelines, Good Laboratory Practices ( GLPs ), as well as adherence to our Standard Operating Procedures, we have never received a cGMP Warning Letter in more than 70 years of business.

**Research and Development Process**

Over the past several years, we have invested heavily in R&D projects. The costs of these R&D efforts are expensed during the periods incurred. We believe that such costs may be recovered in future years when we receive approval from the FDA to manufacture and distribute such products. We have embarked on a plan to grow in future years, which includes organic growth to be achieved through our R&D efforts. We expect that our growing list of generic products under development will drive future growth. Over the past several years, we have hired additional personnel in product development, production and formulation. The following steps outline the numerous stages in the generic drug development process:

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1.) *Formulation and Analytical Method Development*. After a drug candidate is selected for future sale, product development scientists perform various experiments in order for the binding agents or lubricants to incorporate APIs into a dosage form that will then, not only be therapeutically equivalent to the brand name drug, but match its size and shape as well. These experiments will result in the creation of a number of product formulations to determine which formula will be most suitable for our subsequent development process. Various formulations are tested in the laboratory to measure results against the innovator brand drug. During this time, we may use reverse engineering methods on samples of the innovator drug to determine the type and quantity of inactive ingredients. During the formulation phase, our R&D chemists begin to develop an analytical, laboratory testing method. The successful development of this test method will allow us to test developmental and commercial batches of the product in the future. All of the information used in the final formulation, including the analytical test methods adopted for the generic drug candidate, will be included as part of the Chemistry, Manufacturing and Controls ( CMC ) section of the ANDA submitted to the FDA.

2.) *Scale-up and Tech Transfer*. After product development, scientists and the R&D chemists agree on a final formulation for use in moving the drug candidate forward in the developmental process, we then attempt to increase the batch size of the product. The batch size represents the standard magnitude to be used in manufacturing a batch of the product. The determination of batch size affects the amount of raw material that is used in the manufacturing process and the number of expected dosages to be created during the production cycle. We attempt to determine batch size based on the amount of active ingredient in each dosage, the available production equipment and unit sales projections. The scaled-up batch is then generally produced in our commercial manufacturing facilities. During this manufacturing process, we document the equipment used, the amount of time in each major processing step and any other steps needed to consistently produce a batch of that product. This information, generally referred to as the validated manufacturing process, is included in the ANDA.

3.) *Bioequivalency and Clinical Testing*. After a successful scale-up of the generic drug batch, we schedule and perform generally required bioequivalency testing on the product and in some cases, clinical testing if required by the FDA. These procedures, which are generally outsourced to third parties, include testing the absorption of the generic product in the human bloodstream compared to the absorption of the innovator drug. The results of this testing are then documented and reported to us to determine the success of the generic drug product. Success, in this context, means that we are able to demonstrate that our product is comparable to the innovator product in dosage form, strength, route of administration, quality, performance characteristics and intended use.

Bioequivalence (meaning that the product performs in the same manner and in the same amount of time as the innovator drug) and a stable formula are the primary requirements for a generic drug approval (assuming the manufacturing plant is in compliance with the FDA s cGMP regulations). With the exception of 505(b)(2) NDA filings, lengthy and costly clinical trials proving safety and efficacy, which are required by the FDA for innovator drug approvals, are typically unnecessary for generic companies. If the results are successful, we will continue the collection of information and documentation for assembly of the drug application.

4.) *Submission of the ANDA for FDA Review and Approval*. The ANDA process became formalized under The Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act

( Hatch-Waxman Act ). The Hatch-Waxman Act amended the Federal Food, Drug and Cosmetic Act ( FDCA ) to permit the FDA to review and approve an ANDA for a generic equivalent of a new drug product, which previously received FDA approval through its new drug approval process, without having the generic drug company conduct costly clinical trials. An ANDA is a comprehensive submission that contains, among other things, data and information pertaining to the active pharmaceutical ingredient, drug product formulation, specifications and stability of the generic drug, as well as analytical methods, manufacturing process validation data and quality control procedures.

We currently file our ANDAs and NDAs electronically. On July 9, 2012, the Food and Drug Administration Safety and Innovation Act was enacted, which included the Generic Drug User Fee Amendments of 2012 ( GDUFA ). Under these Amendments the FDA committed to reviewing 90% of complete electronic generic applications within 10 months after the date of submission. Applications filed after October 2014 will be reviewed under this process. While we have received approval for some of our ANDAs in as little as 14 months, we have also waited longer than 77 months before receiving approval. The FDA has advised that electronic submissions of applications may shorten the approval process, however ANDAs and NDAs submitted for our products may not receive FDA approval on a timely basis, or at all.

When a generic drug company files an ANDA with the FDA, it must certify either that (i) no patent was filed for the listed drug (a paragraph I certification), (ii) the patent has expired (a paragraph II certification), (iii) the patent will expire on a specified date and the ANDA filer will not market the drug until that date (a paragraph III certification), or (iv) the patent is invalid or would not be infringed by the manufacture, use, or sale of the new drug (a paragraph IV certification). A paragraph IV certification must be provided to each owner of the patent that is the subject of the certification and to the holder of the approved NDA to which the ANDA refers.

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A paragraph IV certification can trigger an automatic 30 month stay of the ANDA if the innovator company files a claim which would delay the approval of the generic company s ANDA.

As of June 30, 2016, we have 12 paragraph IV certifications pending with the FDA. Four of the paragraph IV certifications are currently being challenged. In response to our paragraph IV certification with respect to the Zomig® nasal spray product, AstraZeneca AB, AstraZeneca UK Limited and Impax Laboratories, Inc. filed two patent infringement complaints against the Company in July 2014. In response to our paragraph IV certification with respect to Thalomid®, Celegene Corporation and Children s Medical Center Corporation filed a patent infringement lawsuit against the Company in January 2015. In response to our paragraph IV certification with respect to Dilaudid®, Purdue Pharmaceutical Products L.P, Purdue Pharma L.P and Purdue Pharma Technologies Inc. filed a patent infringement lawsuit against the Company in August 2015. The Company is in various stages of responding to the patent infringement claims; and in the case of Dilaudid, a settlement has been reached in principle and details are being finalized. Refer to Note 12 Legal and Regulatory Matters for additional information.

**Sales and Customer Relationships**

We sell our pharmaceutical products to generic pharmaceutical distributors, drug wholesalers, chain drug retailers, private label distributors, mail-order pharmacies, other pharmaceutical manufacturers, managed care organizations, hospital buying groups, governmental entities and health maintenance organizations. We promote our products through direct sales, trade shows and bids. Our practice of maintaining adequate inventory levels, employing a responsive order filling system and prioritizing timely fulfillment of those orders have contributed to a strong reputation among our customers as a dependable supplier of high quality generic pharmaceuticals.

**Management**

We have been focused on enhancing the quality of our management team in anticipation of continuing growth. As part of our growth, we have established corporate and non-corporate officer positions. We recently promoted two internal candidates to officer positions. We have hired experienced personnel from large, established, brand pharmaceutical companies as well as competing generic companies to complement the skills and knowledge of the existing management team. As we continue to grow, additional personnel may need to be added to our management team. We intend to hire the best people available to expand the knowledge base and expertise within our personnel ranks.

**Current Products**

As of the date of this filing, we manufactured and/or distributed the following products:

| Name of Product(1) | Medical Indication | Equivalent Brand |
|---|---|---|

| | | | |
|---|---|---|---|
| 1 | Acetazolamide Tablets | Glaucoma | Diamox® |
| 2 | Butalbital, Acetaminophen and Caffeine Tablets | Migraine | Fioricet® |
| 3 | Butalbital, Aspirin and Caffeine Capsules | Migraine | Fiorinal® |
| 4 | C-Topical ® Solution | Anesthetic | N/A |
| 5 | Digoxin Tablets* | Congestive Heart Failure | Lanoxin® |
| 6 | Glycolax Rx | Gastrointestinal | MiraLAX® |
| 7 | Isosorbide Mononitrate CR | Cardiovascular | Imdur® |
| 8 | Levothyroxine Sodium Tablets* | Thyroid Deficiency | Levoxyl®/ Synthroid® |
| 9 | Methylphenidate HCL CD | Central Nervous System | Metadate® CD |
| 10 | Methylphenidate ER | Central Nervous System | Concerta® |
| 11 | Nifedipine CR | Cardiovascular | Procardia® |
| 12 | Omeprazole DR | Gastrointestinal | Prilosec® |
| 13 | Oxbutynin ER | Urinary | Ditropan® |
| 14 | Pantoprazole DR | Gastrointestinal | Protonix® |
| 15 | Pilocarpine HCl Tablets | Dryness of the Mouth | Salagen® |
| 16 | Triamterene w/Hydrochlorothiazide Capsules | Hypertension | Dyazide® |
| 17 | Ursodiol Capsules | Gallstone | Actigall ® |

*Distributed under the JSP Distribution Agreement

(1) Products not listed each represented less than 1% of total net sales in Fiscal 2016.

Unlike brand, innovator companies, we generally do not develop new molecules. However, we have filed and received two patents for APIs at our Cody, Wyoming manufacturing facility, with additional patents in process. Additionally, the Company has completed the Phase III clinical trial and our CRO is assembling the data for our New Drug Appication.

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The Company continues to actively market the product utilizing a group of brand representatives in key market locations throughout the United States.

In fiscal year 2016, we received several ANDA/ANDA supplement approvals from the FDA. The following summary contains more specific details regarding our latest ANDA approvals. Market data was obtained from Wolters Kluwer and IMS.

In August 2015, we received a letter from the FDA with approval to market and launch Aripiprazole Oral Solution 1 mg/ML, the generic version of the antidepressant drug ABILIFY®. According to IMS, annual total U.S. sales of Aripiprazole 1mg/mL Oral Solution at Average Wholesale Price ( AWP ) were approximately $76.0 million. However, when the brand-name drug was discontinued just prior to our approval being received from the FDA, the market opportunity declined.

In October 2015, we received a letter from the FDA with approval to market and launch Memantine Hydrochloride Oral Solution 2 mg/mL, the therapeutic equivalent to the reference listed drug Namenda® Oral Solution, 2mg/mL of Forest Pharmaceuticals. According to IMS, for the year ended June 2015, total U.S. sales of Memantine Hydrochloride Oral Solution 2 mg/mL at AWP were approximately $12.0 million.

In February 2016, we received a letter from the FDA with approval to market and launch Temozolomide Capsules 5 mg, 20 mg, 100 mg, 140 mg, 180 mg and 250 mg, the therapeutic equivalent to the reference drug listed Temodar® Capsules of Merck & Co. According to IMS, total U.S. sales in 2015 of Temozolomide Capsules 5 mg, 20 mg, 100 mg, 140 mg, 180 mg and 250 mg at AWP were approximately $206.0 million.

In February 2016, we received a letter from the FDA with approval to market and launch Sumatriptan Nasal Spray USP, 5 mg/spray and 20 mg/spray, the therapeutic equivalent to the reference listed drug Imitrex® Nasal Spray, of GlaxoSmithKline. According to IMS, total U.S. sales in 2015 of Sumatriptan Nasal Spray USP, 5 mg/spray and 20mg/spray at AWP were approximately $62.0 million.

In March 2016, we received a letter from the FDA with approval to market and launch Potassium Chloride Extended-release Capsules USP, 8 mEq and 10 mEq, the therapeutic equivalent to the reference listed drug of Actavis Labs FL, Inc. According to IMS, total U.S. sales in 2015 of Potassium Chloride Extended-release Capsules USP, 8 mEq and 10 mEq at AWP were approximately $89.0 million.

In June 2016, we received a letter from the FDA with approval to market and launch Neomycin Sulfate Tablets USP, 500 mg, the therapeutic equivalent to the reference listed drug, Neomycin Sulfate Tablets USP, 500 mg, of Teva Pharmaceuticals USA, Inc. According to IMS, total U.S. sales in 2015 of Neomycin Sulfate Tablets USP, 500 mg, at AWP were approximately $3.0 million.

In June 2016, we received a letter from the FDA with approval to market and launch Diazepam Oral Solution, 5 mg/5 mL, the therapeutic equivalent to the reference listed drug, Diazepam Oral Solution, 5mg/5mL, of Roxane Laboratories, Inc. According to IMS, total U.S. sales in 2015 of Diazepam Oral Solution, 5 mg/5 mL, at AWP were approximately $4.0 million.

We have additional products currently under development which are orally administered solid oral-dosage products (i.e., tablet/capsule) or oral solutions, nasal, topicals or parentarels, as well as other dosage forms designed to be generic equivalents to brand-named innovator drugs. Our developmental drug products are intended to treat a diverse range of indications. The products under development are at various stages in the development cycle formulation, scale-up, clinical testing and FDA review.

The cost associated with each product that we are currently developing is dependent on numerous factors, including but not limited to, the complexity of the active ingredient s chemical characteristics, the price of the raw materials and the FDA-mandated requirement of bioequivalence studies (depending on the FDA s Orange Book classification). With the introduction of GDUFA and additional guidance issued by the FDA, the cost to develop a new generic product varies but now totals several million dollars.

In addition, we currently own several ANDAs that are dormant for products which we currently do not manufacture and market. Occasionally, we review such ANDAs to determine if the market potential for any of these older drugs has recently changed to make it attractive for us to reconsider manufacturing and selling. If we decide to introduce one of these products into the consumer market, we must review the original ANDA and related documentation to ensure that the approved product specifications, formulation and other factors meet current FDA requirements for the marketing of the applicable drug. Generally, in these situations, we file a supplement to the FDA for the applicable ANDA, informing the FDA of any significant changes in the manufacturing process, the formulation, the raw material supplier, or another major feature of the previously approved ANDA. We would then redevelop the product and submit it to the FDA for supplemental approval. The FDA s approval process for an ANDA supplement is similar to that of a new ANDA.

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In addition to the efforts of our internal product development group, we have contracted with numerous outside firms for the formulation and development of several new generic drug products. These outsourced R&D products are at various stages in the development cycle formulation, analytical method development and testing and manufacturing scale-up. These products include orally administered solid dosage products, injectables and nasal delivery products that are intended to treat a diverse range of medical indications. We intend to ultimately transfer the formulation technology and manufacturing process for some of these R&D products to our own commercial manufacturing sites. We initiated these outsourced R&D efforts to complement the progress of our own internal R&D efforts.

The following table summarizes key information related to our R&D products at June 30, 2016. The column headings are defined as follows:

1.) Stage of R&D defines the current stage of the R&D product in the development process, as of the date of this Form 10-K.

2.) Regulatory Requirement defines whether the R&D product is or is expected to be a new ANDA submission or a NDA.

3.) Number of Products defines the number of products in R&D at the stage noted. In this context, a product means any finished dosage form, including all potencies, containing the same API or combination of APIs and which represents a generic version of the same Reference Listed Drug ( RLD ) or innovator drug, identified in the FDA s Orange Book.

| Stage of R&D | Regulatory Requirement | Number of Products |
|---|---|---|
| FDA Review | ANDA | 30 |
| In Development | ANDA/NDA | 26 |

We recorded R&D expenses of $45.1 million in fiscal year 2016, $30.3 million in fiscal year 2015 and $27.7 million in fiscal year 2014. These amounts included expenses associated with bioequivalence studies, internal development resources as well as outsourced development. While we manage all R&D from our principal executive office in Philadelphia, Pennsylvania, we have also been taking steps to capitalize on favorable development costs in other countries. We have strategic relationships with various companies that either act as contract research organizations or API suppliers as well as dosage form manufacturers. In addition, U.S.-based research organizations have been engaged for product development to enhance our internal development. Fixed payment arrangements are established between Lannett and these research organizations and in some cases include a royalty provision. Development payments are normally scheduled in advance, based on attaining development milestones.

**Raw Materials and Finished Goods Suppliers**

Our use of raw materials in the production process consists of using pharmaceutical chemicals in various forms that are generally available from several sources. FDA approval is required in connection with the process of using active ingredient suppliers. In addition to the raw materials we purchase for the production process, we purchase certain finished dosage inventories. We sell these finished dosage form products directly to our customers along with the finished dosage form products manufactured in-house. We generally take precautionary measures to avoid a disruption in raw materials and finished goods, such as finding secondary suppliers for certain raw materials or finished goods when available.

The Company s primary finished goods inventory supplier is JSP, in Bohemia, New York. Purchases of finished goods from JSP accounted for 52% of our inventory purchases in fiscal year 2016, 68% in fiscal year 2015 and 62% in fiscal year 2014. On March 23, 2004, the Company entered into an agreement with JSP for the exclusive distribution rights in the United States to the current line of JSP products, in exchange for 4.0 million shares of the Company s common stock. The JSP products covered under the agreement included Butalbital, Aspirin, Caffeine with Codeine Phosphate Capsules; Digoxin Tablets; and Levothyroxine Sodium Tablets, sold generically and under the brand-name Unithroid®. On August 19, 2013, the Company entered into an agreement with JSP to extend its initial contract to continue as the exclusive distributor in the United States of three JSP products: Butalbital, Aspirin, Caffeine with Codeine Phosphate Capsules USP; Digoxin Tablets USP; and Levothyroxine Sodium Tablets USP. The amendment to the original agreement extends the initial contract, which was due to expire on March 22, 2014, for five years through March 2019. In connection with the amendment, the Company issued a total of 1.5 million shares of the Company s common stock to JSP and its designees. The Company recorded a $20.1 million expense in cost of sales, which represents the fair value of the shares on August 19, 2013. If the parties agree to a second five year extension from March 23, 2019 to March 23, 2024, the Company is required to issue to JSP or its designees an additional 1.5 million shares of the Company s common stock. Both Lannett and JSP have the right to terminate the contract if one of the parties does not cure a material breach of the contract within thirty (30) days of notice from the non-breaching party.

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During the renewal term of the JSP Distribution Agreement, the Company is required to use commercially reasonable efforts to purchase minimum dollar quantities of JSP products. There is no guarantee that the Company will continue to meet the minimum purchase requirement for Fiscal 2017 and thereafter. If the Company does not meet the minimum purchase requirements, JSP s sole remedy is to terminate the agreement.

We have entered into definitive supply and development agreements with JSP, Summit Bioscience LLC, HEC Pharm Group, Pharma Pass II LLC and various other international and domestic companies. The Company is currently in negotiations on similar agreements with other companies and is actively seeking additional strategic partnerships, through which it will market and distribute products manufactured in-house or by third parties. The Company plans to continue evaluating potential merger and acquisition opportunities as well as product acquisitions that are a strategic fit and accretive to the business.

**Customers and Marketing**

We sell our products primarily to wholesale distributors, generic drug distributors, mail-order pharmacies, group purchasing organizations, chain drug stores and other pharmaceutical companies. The pharmaceutical industry s largest wholesale distributors, Amerisource Bergen, McKesson and Cardinal Health, accounted for 25%, 16% and 7%, respectively, of our total net sales in fiscal year 2016 and 30%, 11% and 7%, respectively, of our total net sales in fiscal year 2015. Our largest chain drug store customer in fiscal year 2016 and 2015 accounted for 5% and 6% of total net sales, respectively.

Sales to wholesale customers include indirect sales, which represent sales to third-party entities, such as independent pharmacies, managed care organizations, hospitals, nursing homes and group purchasing organizations, collectively referred to as indirect customers. We enter into definitive agreements with our indirect customers to establish pricing for certain covered products. Under such agreements, the indirect customers independently select a wholesaler from which to purchase the products at these agreed-upon prices. We will provide credit to the wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler s invoice price. This credit is called a chargeback. For more information on chargebacks, see the section entitled Critical Accounting Policies in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K. These indirect sale transactions are recorded on our books as sales to wholesale customers.

We promote our products through direct sales, trade shows and group purchasing organizations bidding processes. We also market our products through private label arrangements, under which we manufacture our products with a label containing the name and logo of our customer. This practice is commonly referred to as private label. Private label allows us to leverage our internal sales efforts by using the marketing services from other well-respected pharmaceutical competitors. The focus of our sales efforts is the relationships we create with our customer accounts.

Strong and dependable customer relationships have created a positive platform for us to increase our sales volumes. Historically and in fiscal years 2016, 2015 and 2014, our advertising expenses were immaterial. When our sales representatives make contact with a customer, we will generally offer to supply the customer our products at fixed prices. If accepted, the customer s purchasing department will coordinate the purchase, receipt and distribution of the products throughout its distribution centers and retail outlets. Once a customer accepts our supply of a product, the customer typically expects a high standard of service, including timely receipt of products ordered, availability of convenient, user-friendly and effective customer service functions and maintaining open lines of communication.

We believe that retail-level consumer demand dictates the total volume of sales for various products. In the event that wholesale and retail customers adjust their purchasing volumes, we believe that consumer demand will be fulfilled by other wholesale or retail sources of supply. As a result, we attempt to develop and maintain strong relationships with most of the major retail chains, wholesale distributors and mail-order pharmacies in order to facilitate the supply of our products through whatever channel the consumer prefers. Although we have agreements with customers governing the transaction terms of our sales, generally there are no minimum purchase quantities applicable to these agreements.

**Competition**

The manufacturing and distribution of generic pharmaceutical products is a highly competitive industry. Competition is based primarily on price. In addition to competitive pricing, our competitive advantages are our ability to provide strong and dependable customer service by maintaining adequate inventory levels, employing a responsive order filling system and prioritizing timely fulfillment of orders. We ensure that our products are available from national suppliers as well as our own warehouse. The modernization of our facilities, hiring of experienced staff and implementation of inventory and quality control programs have improved our competitive cost position.

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We compete with other manufacturers and marketers of generic and brand-name drugs. Each product manufactured and/or sold by us has a different set of competitors. The list below identifies the companies with which we primarily compete with respect to each of our major products:

| Product | Primary Competitors |
|---|---|
| Acetazolomide Tablets | Taro |
| Butalbital, Acetaminophen and Caffeine Tablets | Mallinckrodt, Mikart, Qualitest, Watson and West-Ward |
| Butalbital with Aspirin and Caffeine, with and without Codeine Phosphate Capsules | Actavis and Breckenridge |
| C-Topical® Solution | Compounding pharmacies and alternative drugs |
| Digoxin Tablets | Mylan, Impax, West-Ward, Sun and Concordia |
| Levothyroxine Sodium Tablets | AbbVie, Pfizer, Mylan and Sandoz |
| Methylphenidate ER Tablets | Janssen, Mallinckrodt and Actavis |
| Omeprazole Capsules | Sandoz, Dr. Reddy s and Zydus |
| Ursodiol Capsules | Epic, Mylan and Actavis |

**Government Regulation**

Pharmaceutical manufacturers are subject to extensive regulation by the federal government, principally by the FDA and, in cases of controlled substance products the DEA and to a lesser extent by other federal regulatory bodies and state governments. The Federal Food, Drug and Cosmetic Act (the FDCA ), the Controlled Substance Act (the CSA ) and other federal statutes and regulations govern or influence the testing, manufacture, safety, labeling, storage, record keeping, approval, pricing, advertising and promotion of our generic drug products. Non-compliance with applicable regulations can result in fines, product recalls and seizure of products, total or partial suspension of production, personal and/or corporate prosecution and debarment and refusal of the government to approve new drug applications. The FDA also has the authority to revoke previously approved drug applications after a hearing.

Generally, FDA approval is required before a prescription drug can be marketed. A new drug is one not generally recognized by qualified experts as safe and effective for its intended use. New drugs are typically developed and submitted to the FDA by companies expecting to brand the product and sell it. The FDA review process for new drugs is very extensive and requires a substantial investment to research and test the drug candidate. However, less burdensome approval procedures are generally used for generic equivalents. Typically, the investment required to develop a generic drug is less costly than the innovator drug.

There are currently three ways to obtain FDA approval of a drug:

- ***New Drug Applications (NDA):*** Unless one of the two procedures discussed in the following sections is available, a manufacturer must conduct and submit to the FDA complete clinical studies to establish a drug s safety and efficacy. The new drug approval process generally involves:

- completion of preclinical laboratory and animal testing in compliance with the FDA s GLP regulations;

- submission to the FDA of an Investigational New Drug ( IND ) application for human clinical testing, which must become effective before human clinical trials may begin;

- performance of adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug product for each intended use;

- satisfactory completion of an FDA pre-approval inspection of the facility or facilities at which the product is produced to assess compliance with the FDA s cGMP regulations; and

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- submission to and approval by the FDA of an NDA.

The results of preclinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND, which must become effective before human clinical trials may begin. Further, each clinical trial must be reviewed and approved by an independent Institutional Review Board. Human clinical trials are typically conducted in three sequential phases that may overlap. These phases generally include:

- Phase I, during which the drug is introduced into healthy human subjects or, on occasion, patients and is tested for safety, stability, dose tolerance and metabolism;

- Phase II, during which the drug is introduced into a limited patient population to determine the efficacy of the product in specific targeted indications, to determine dosage tolerance and optimal dosage and to identify possible adverse effects and safety risks; and

- Phase III, during which the clinical trial is expanded to a larger and more diverse patient group at geographically dispersed clinical trial sites to further evaluate clinical efficacy, optimal dosage and safety.

The drug sponsor, the FDA, or the independent Institutional Review Board at each institution at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the subjects are being exposed to an unacceptable health risk.

The results of preclinical animal studies and human clinical studies, together with other detailed information, are submitted to the FDA as part of the NDA. The NDA also must contain extensive manufacturing information. The FDA may disapprove the NDA if applicable FDA regulatory criteria are not satisfied or it may require additional clinical data. Once approved, the FDA may withdraw the product approval if compliance with pre- and post-market regulatory standards is not maintained or if problems occur or are identified after the product reaches the marketplace. In addition, the FDA may require post-marketing studies to monitor the effect of approved products and may limit further marketing of the product based on the results of these post-marketing studies.

The FDA has broad post-market regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products and withdraw approvals.

Satisfaction of FDA new drug approval requirements typically takes several years and the actual time required may vary substantially based upon the type, complexity and novelty of the product or disease. Government regulation may delay or prevent marketing of potential products for a considerable period of time and/or require additional procedures which increase manufacturing costs. Success in early stage clinical trials does not assure success in later stage clinical trials. Data obtained from clinical activities is not always conclusive and may be subject to varying interpretations that could delay, limit, or prevent regulatory approval. Even if a product receives regulatory approval, later discovery of

previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market.

- ***Abbreviated New Drug Applications****:* An ANDA is similar to an NDA except that the FDA generally waives the requirement of complete clinical studies of safety and efficacy. However, it may require bioavailability and bioequivalence studies. Bioavailability indicates the rate of absorption and levels of concentration of a drug in the bloodstream needed to produce a therapeutic effect. Bioequivalence compares one drug product with another and indicates if the rate of absorption and the levels of concentration of a generic drug in the body are within prescribed statistical limits to those of a previously approved drug. Under the Hatch-Waxman Act, an ANDA may be submitted for a drug on the basis that it is the equivalent of an approved drug regardless of when such other drug was approved. The FDA will approve the generic product as suitable for an ANDA application if it finds that the generic product does not raise new questions of safety and effectiveness as compared to the innovator product. A product is not eligible for ANDA approval if the FDA determines that it is not equivalent to the referenced innovator drug, if it is intended for a different use, or if it is not subject to an approved Suitability Petition. However, such a product might be approved under an NDA, with supportive data from clinical trials.

In addition to establishing a new ANDA procedure, the Hatch-Waxman Act created statutory protections for approved brand-name drugs. Under the Hatch-Waxman Act, an ANDA for a generic drug may not be made effective until all relevant product and use patents for the brand-name drug have expired or have been determined to be invalid. Prior to this act, the FDA gave no consideration to the patent status of a previously approved drug. Upon NDA approval, the FDA lists in its Orange Book the approved drug product and any patents identified by the NDA applicant that relate to the drug product. Any applicant who files an ANDA seeking approval of a generic equivalent version of a drug listed in the FDA s Orange Book before expiration of the referenced patent(s), must certify to the FDA that (1) no patent information on the drug product that is the subject of the ANDA has been submitted to the FDA; (2) such patent has expired; (3) the date on which such patent expires; or (4) such patent is invalid or will not be infringed upon by the manufacture, use, or sale of the drug product for which the ANDA is submitted.

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This last certification is known as a paragraph IV certification. A notice of the paragraph IV certification must be provided to each owner of the patent that is the subject of the certification and to the holder of the approved NDA to which the ANDA refers. Before the enactment of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the MMA ), which amended the Hatch-Waxman Act, if the NDA holder or patent owner(s) asserted a patent challenge within 45 days of its receipt of the certification notice, the FDA was prevented from approving that ANDA until the earlier of 30 months from the receipt of the notice of the paragraph IV certification, the expiration of the patent, when the infringement case concerning each such patent was favorably decided in an ANDA applicant s favor, or such shorter or longer period as may be ordered by a court. This prohibition is generally referred to as the 30-month stay. In some cases, NDA owners and patent holders have obtained additional patents for their products after an ANDA had been filed but before that ANDA received final marketing approval and then initiated a new patent challenge, which resulted in more than one 30-month stay. The MMA amended the Hatch-Waxman Act to eliminate certain unfair advantages of patent holders in the implementation of the Hatch-Waxman Act. As a result, the NDA owner remains entitled to an automatic 30-month stay if it initiates a patent infringement lawsuit within 45 days of its receipt of notice of a paragraph IV certification, but only if the patent infringement lawsuit is directed to patents that were listed in the FDA s Orange Book before the ANDA was filed. An ANDA applicant is now permitted to take legal action to enjoin or prohibit the listing of certain of these patents as a counterclaim in response to a claim by the NDA owner that its patent covers its approved drug product. As of June 30, 2016, we have 12 paragraph IV certifications pending with the FDA. Four of the paragraph IV certifications are currently being challenged. In response to our paragraph IV certification with respect to the Zomig® nasal spray product, AstraZeneca AB, AstraZeneca UK Limited and Impax Laboratories, Inc. filed two patent infringement complaints against the Company in July 2014. In response to our paragraph IV certification with respect to Thalomid®, Celegene Corporation and Children s Medical Center Corporation filed a patent infringement lawsuit against the Company in January 2015. In response to our paragraph IV certification with respect to Dilaudid®, Purdue Pharmaceutical Products L.P, Purdue Pharma L.P and Purdue Pharma Technologies Inc. filed a patent infringement lawsuit against the Company in August 2015. The Company is in various stages of responding to the patent infringement claims; and in the case of Dilaudid, a settlement has been reached in principle and details are being finalized. Refer to Note 12 Legal and Regulatory Matters for additional information.

If an ANDA applicant is the first-to-file a substantially complete ANDA with a paragraph IV certification and provides appropriate notice to the FDA, the NDA holder and all patent owner(s) for a particular generic product, the applicant may be awarded a 180-day period of marketing exclusivity against other companies that subsequently file ANDAs for that same product. A substantially complete ANDA is one that contains all the information required by the Hatch-Waxman Act and the FDA s regulations, including the results of any required bioequivalence studies. The FDA may refuse to accept the filing of an ANDA that is not substantially complete or may determine during substantive review of the ANDA that additional information, such as an additional bioequivalence study, is required to support approval.

Such a determination may affect an applicant s first-to-file status and eligibility for a 180-day period of marketing exclusivity for the generic product. The MMA also modified the rules governing when the 180-day marketing exclusivity period is triggered or forfeited and shared. Prior to the legislation, the 180-day marketing exclusivity period was triggered upon the first commercial marketing of the ANDA or a court decision holding the patent invalid, unenforceable, or not infringed. For ANDAs accepted for filing before March 2000, that court decision had to be final and non-appealable (other than a petition to the U.S. Supreme Court for a writ of certiorari). In March 2000, the FDA changed its position in response to two court cases that challenged the FDA s original interpretation of what constituted a court decision under the Hatch-Waxman Act. Under the changed policy, the 180-day marketing exclusivity period began running immediately upon a district court decision holding the patent at issue invalid, unenforceable, or not infringed, regardless of whether the ANDA had been approved and the generic product had been marketed. In codifying the FDA s original policy, the MMA retroactively applies a final and non-appealable court decision trigger for all ANDAs filed before December 8, 2003 leaving intact the first commercial marketing trigger. As for ANDAs filed after December 8, 2003, the marketing exclusivity period is only triggered upon the first commercial marketing of the ANDA product, but that exclusivity may be forfeited under certain circumstances, including, if the ANDA is not marketed within 75 days after a final and non-appealable court decision by the first-to-file or other ANDA applicant, or if the FDA does not tentatively approve the first-to-file applicant s ANDA within 30 months.

In addition to patent exclusivity, the holder of the NDA for the listed drug may be entitled to a period of non-patent market exclusivity, during which the FDA cannot approve an ANDA. If the listed drug is a new chemical entity ( NCE ), the FDA may not accept an ANDA for a bioequivalent product for up to five years following approval of the NDA for the NCE. If the listed drug is not a new chemical entity but the holder of the NDA conducted clinical trials essential to approval of the NDA or a supplement thereto, the FDA may not approve an ANDA for a bioequivalent product before expiration of three years.

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Certain other periods of exclusivity may be available if the listed drug is indicated for treatment of a rare disease or is studied for pediatric indications.

- ***Section 505(b)(2) New Drug Applications:*** For a drug that is identical to a previously approved drug, a prospective manufacturer need not go through the full NDA procedure. Instead, it may demonstrate safety and efficacy by relying on published literature and reports where at least some of information required for approval comes from studies not conducted by or for the applicant and for which the applicant has not obtained a right of reference. The Hatch-Waxman Act permits the applicant to rely upon certain preclinical or clinical studies conducted for an approved product. The manufacturer must also submit, if the FDA so requires, bioavailability or bioequivalence data illustrating that the generic drug formulation produces the same effects, within an acceptable range, as the previously approved innovator drug. Because published literature to support the safety and efficacy of post-1962 drugs may not be available, this procedure is of limited utility to generic drug manufacturers and the resulting approved product will not be interchangeable with the innovator drug as an ANDA drug would be unless bioequivalency testing were undertaken and approved by FDA. Moreover, the utility of Section 505(b)(2) applications have with the exception of Grandfathered drugs been diminished by the availability of the ANDA process, as described above.

Additionally, certain products marketed prior to the FDCA may be considered GRASE ( Generally Recognized As Safe and Effective ) or Grandfathered. GRASE products are those old drugs that do not require prior approval from FDA in order to be marketed because they are generally recognized as safe and effective based on published scientific literature. Similarly, Grandfathered products are those which entered the market before the passage of the 1938 act or the 1962 amendments to the act. Under the grandfather clause, such a product is exempted from the effectiveness requirements [of the act] if its composition and labeling have not changed since 1962 and if, on the day before the 1962 amendments became effective, it was (1) used or sold commercially in the United States, (2) not a new drug as defined by the act at that time and (3) not covered by an effective application.

*Manufacturing cGMP Requirements*

Among the requirements for a new drug approval, a company s manufacturing methods must conform to FDA cGMP regulations before a facility may be used to manufacture a product. The FDA performs pre-approval inspections to assess a company s manufacturing methods as part of a new drug approval process. These inspections include reviews of procedures and operations used in the manufacture and testing of our products to assess compliance with application regulations. The cGMP regulations must be followed at all times during which the approved drug is manufactured and the manufacturing facilities are subject to periodic inspections by the FDA and other authorities. FDA s cGMP regulations require, among other things, quality control and quality assurance as well as the corresponding maintenance of records and documentation. In complying with the standards set forth in the cGMP regulations, we must continue to expend time, money and effort in the areas of production and quality control to ensure full technical compliance.

Failure to comply with statutory and regulatory requirements subject a manufacturer to possible legal or regulatory action, including but not limited to, the seizure or recall of non-complying drug products, injunctions, consent decrees placing significant restrictions on or suspending manufacturing operations and/or civil and criminal penalties. Adverse experiences with the product must be reported to the FDA and could result in the imposition of market restriction through labeling changes or in product removal. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product occur following approval.

*Other Regulatory Requirements*

With respect to post-market product advertising and promotion, the FDA imposes a number of complex regulations on entities that advertise and promote pharmaceuticals, which include, among others, standards for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the internet. The FDA has very broad enforcement authority under the FDCA and failure to abide by these regulations can result in penalties, including the issuance of a warning letter directing entities to correct deviations from FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA and state and/or federal civil and criminal investigations and prosecutions.

We are also subject to various laws and regulations regarding laboratory practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances in connection with our research. In each of these areas, as above, the FDA has broad regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products and withdraw approvals. Any one or a combination of FDA regulatory or enforcement actions against the Company could have a material adverse effect on our financial results.

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*DEA Regulation*

We maintain registrations with the DEA that enable us to receive, manufacture, store and distribute controlled substances in connection with our operations. Controlled substances are those drugs that appear on one of five schedules promulgated and administered by the DEA under the CSA. The CSA governs, among other things, the distribution, recordkeeping, handling, security and disposal of controlled substances. We are subject to periodic and ongoing inspections by the DEA and similar state drug enforcement authorities to assess our ongoing compliance with the DEA s regulations. Any failure to comply with these regulations could lead to a variety of sanctions, including the revocation or a denial of renewal of our DEA registration, injunctions, or civil or criminal penalties.

*Fraud and Abuse Laws*

Because of the significant federal funding involved in Medicare and Medicaid, Congress and state legislatures have enacted and actively enforce, a number of laws whose purpose is to eliminate fraud and abuse in federal health care programs. Our business is subject to compliance with these laws, such as Sarbanes-Oxley Act of 2002, Dodd-Frank and the Foreign Corrupt Practices Act ( FCPA ).

*Anti-Kickback Statutes, Sunshine Act and Federal False Claims Act*

The federal health care programs fraud and abuse law (sometimes referred to as the Anti-Kickback Statue ) prohibits persons from knowingly and willfully soliciting, offering, receiving, or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service, for which payment may be made under a federal health care program such as Medicare or Medicaid. The definition of remuneration has been broadly interpreted to include anything of value, including for example gifts, certain discounts, the furnishing of free supplies, equipment or services, credit arrangements, payment of cash and waivers of payments. Several courts have interpreted the statute s intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal health care covered business, the statute has been violated. Penalties for violations include criminal penalties and civil sanctions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federal health care programs. In addition, some kickback allegations have been claimed to violate the Federal False Claims Act, discussed in more detail below.

The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the health care industry. Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements, Congress authorized the Office of Inspector General of the U.S. Department of Health and Human Services ( OIG ) to issue a series of regulations, known as safe harbors. These safe harbors, issued by the OIG beginning in July 1991, set forth provisions that, if all their applicable requirements are met, will assure health care providers and other parties that they will not be prosecuted under the Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued.

However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities such as OIG.

Many states have adopted laws similar to the Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for health care items or services reimbursed by any source, not only the Medicare and Medicaid programs.

Government officials have focused their enforcement efforts on marketing of health care services and products, among other activities and recently have brought cases against companies and certain sales, marketing and executive personnel, for allegedly offering unlawful inducements to potential or existing customers in an attempt to procure their business.

Another development affecting the health care industry is the increased use of the Federal False Claims Act ( FFCA ) and in particular, action brought pursuant to the FFCA s Whistleblower or Qui Tam provisions. The FFCA imposes liability on any person or entity who, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment by a federal health care program. The Qui Tam provisions of the FFCA allow a private individual to bring actions on behalf of the federal government alleging that the defendant has submitted a false claim to the federal government and to share in any monetary recovery. In recent years, the number of suits brought against health care providers by private individuals has increased dramatically. In addition, various states have enacted false claims law analogous to the FFCA, although many of these state laws apply where a claim is submitted to any third-party payer and not merely a federal health care program.

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When an entity is determined to have violated the FFCA, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties. Liability arises, primarily, when an entity knowingly submits or causes another to submit a false claim for reimbursement to the federal government. The federal government has used the FFCA to assert liability on the basis of inadequate care, kickbacks and other improper referrals and improper use of Medicare numbers when detailing the provider of services, in addition to the more predictable allegations as to misrepresentations with respect to the services rendered. In addition, the federal government has prosecuted companies under the FFCA in connection with off-label promotion of products. Our future activities relating to the reporting of wholesale or estimated retail prices of our products, the reporting of discount and rebate information and other information affecting federal, state and third-party reimbursement of our products and the sale and marketing of our products may be subject to scrutiny under these laws. We are unable to predict whether we will be subject to actions under the FFCA or a similar state law, or the impact of such actions. However, the costs of defending such claims, as well as any sanctions imposed, could significantly affect our financial performance.

*Foreign Corrupt Practices Act*

The Foreign Corrupt Practices Act of 1977, as amended ( FCPA ), was enacted for the purpose of making it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business. Specifically, the anti-bribery provisions of the FCPA prohibit the bribery of government officials.

*HIPAA and Other Fraud and Privacy Regulations*

The Health Insurance Portability and Accountability Act of 1996 ( HIPAA ) created two new federal crimes: health care fraud and false statements relating to health care matters. The HIPAA health care fraud statute prohibits, among other things, knowing and willfully executing, or attempting to execute, a scheme to defraud any health care benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment and/or exclusion from government-sponsored programs. The HIPAA false statements statute prohibits knowingly and willfully falsifying, concealing, or covering up a material fact or making any materially false, fictitious, or fraudulent statement or representation in connection with the delivery of or payment for health care benefits, items, or services. A violation of this statute is a felony and may result in fines and/or imprisonment.

*Pricing*

In the United States, our sales are dependent upon the availability of coverage and reimbursement for our products from third-party payors, including federal and state programs such as Medicare and Medicaid and private organizations such as commercial health insurance and managed care companies. Such third-party payors increasingly challenge the price of medical products and services and instituting cost containment measures to control or significantly influence the purchase of medical products and services.

Over the past several years, the rising costs of providing health care services has triggered legislation to make certain changes to the way in which pharmaceuticals are covered and reimbursed, particularly by government programs. For instance, recent federal legislation and regulations have created a voluntary prescription drug benefit, Medicare Part D, which revised the formula used to reimburse health care providers and physicians under Medicare Part B and imposed significant revisions to the Medicaid Drug Rebate Program. These changes have resulted in and may continue to result in, coverage and reimbursement restrictions and increased rebate obligations by manufacturers.

In addition, there continues to be legislative and regulatory proposals at the federal and state levels directed at containing or lowering the cost of health care. Examples of how limits on drug coverage and reimbursement in the United States may cause reduced payments for drugs in the future include:

- changing Medicare reimbursement methodologies;
- revising drug rebate calculations under the Medicaid program;
- reforming drug importation laws;
- fluctuating decisions on which drugs to include in formularies; and
- requiring pre-approval of coverage for new or innovative drug therapies.

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We cannot predict the likelihood or pace of such additional changes or whether there will be significant legislative or regulatory reform impacting our products, nor can we predict with precision what effect such governmental measures would have if they were ultimately enacted into law. However, in general, we believe that legislative and regulatory reform activity likely will continue.

Current or future federal or state laws and regulations may influence the prices of drugs and, therefore, could adversely affect the prices that we receive for our products. Programs in existence in certain states seek to set prices of all drugs sold within those states through the regulation and administration of the sale of prescription drugs. Expansion of these programs, in particular, state Medicaid programs, or changes required in the way in which Medicaid rebates are calculated under such programs, could adversely affect the price we receive for our products and could have a material adverse effect on our business, results of operations and financial condition. Further, generic pharmaceutical drug prices have been the focus of increased scrutiny by certain states attorney generals, the U.S. Department of Justice and Congress. Decreases in health care reimbursements or prices of our prescription drugs could limit our ability to sell our products or decrease our revenues, which could have a material adverse effect on our business, results of operations and financial condition.

The Company believes that under the current regulatory environment, the generic pharmaceutical industry as a whole will be the target of increased governmental scrutiny, especially with respect to state and federal anti-trust and price fixing claims.

In July 2014, the Company and at least one of its competitors each received a subpoena and interrogatories from the Connecticut Attorney General s Office concerning its investigation into the pricing of Digoxin. In June 2016, the Connecticut Attorney General issued interrogatories and a subpoena to an employee of the Company. The Company maintains that it acted in compliance with all applicable laws and regulations and continues to cooperate with the Connecticut Attorney General s investigation.

In Fiscal 2015, the Company and certain affiliated individuals each were served with a grand jury subpoena relating to a federal investigation of the generic pharmaceutical industry into possible violations of the Sherman Act. The subpoenas request corporate documents of the Company relating to corporate, financial and employee information, communications or correspondence with competitors regarding the sale of generic prescription medications and the marketing, sale, or pricing of certain products, generally for the period of 2005 through the dates of the subpoenas. Based on reviews performed to date by outside counsel, the Company currently believes that it has acted in compliance with all applicable laws and regulations and continues to cooperate with the federal investigation.

*Other Applicable Laws*

We are also subject to federal, state and local laws of general applicability, including laws regulating working conditions and the storage, transportation, or discharge of items that may be considered hazardous substances, hazardous waste, or environmental contaminants. We monitor our compliance with laws and we believe we are in substantial compliance with all regulatory bodies.

As a publicly-traded company, we are also subject to significant regulations and laws, included in the Sarbanes-Oxley Act of 2002. Since its enactment, we have developed and instituted a corporate compliance program based on what we believe are the current best practices and we continue to update the program in response to newly implemented or changing regulatory requirements.

**Employees**

As of June 30, 2016, we had 1,149 employees.

**Securities and Exchange Act Reports**

We maintain a website at *www.lannett.com*. We make available on or through our website our current and periodic reports, including any amendments to those reports, that are filed with the Securities and Exchange Commission (the SEC ) in accordance with the Securities Exchange Act of 1934, as amended (the Exchange Act ). These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. This information is available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. The contents of our website are not incorporated by reference in this Form 10-K and shall not be deemed filed under the Exchange Act.

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## ITEM 1A. RISK FACTORS

**General Risks Relating to the Company**

**We materially rely on an uninterrupted supply of finished products from JSP for a significant amount of our sales. If we were to experience an interruption of that supply, our operating results would suffer.**

In fiscal year 2016, 35% of our total net sales are of distributed products manufactured by JSP. Two of these products are Levothyroxine Sodium and Digoxin, which accounted for 30% and 4%, respectively, of our Fiscal 2016 total net sales and 38% and 12%, respectively, of our total net sales for Fiscal 2015. On August 19, 2013, the Company entered into an agreement with JSP to extend its initial contract to continue as the exclusive distributor in the United States of three JSP products: Butalbital, Aspirin, Caffeine with Codeine Phosphate Capsules USP; Digoxin Tablets USP; and Levothyroxine Sodium Tablets USP. The amendment to the original agreement extended the initial contract, which was due to expire on March 22, 2014, for five years through March 2019. Both Lannett and JSP have the right to terminate the contract if one of the parties does not cure a material breach of the contract within thirty (30) days of notice from the non-breaching party. If the supply of these products is interrupted in any way by any form of temporary or permanent business interruption to JSP, including but not limited to fire or other naturally-occurring, damaging event to their physical plant and/or equipment, condemnation of their facility, legislative or regulatory cease and desist declaration regarding their operations, FDA action and any interruption in their source of API for their products, our operating results could be materially adversely affected. We do not have, at this time, a second source for these products.

**Our gross profit may fluctuate from period to period depending upon our product sales mix, our product pricing and our costs to manufacture or purchase products.**

Our future results of operations, financial condition and cash flows depend to a significant extent upon our product sales mix. Sales of certain products that we manufacture tend to create higher gross margins than the products we purchase and resell. As a result, our sales mix will significantly impact our gross profit from period to period.

Factors that may cause our sales mix to vary include:

- the number of new product introductions;
- marketing exclusivity, if any, which may be obtained on certain new products;
- the level of competition in the marketplace for certain products;

•the availability of raw materials and finished products from our suppliers; and

•the scope and outcome of governmental regulatory action that may involve us.

The Company is continuously seeking to keep product costs low, however there can be no guarantee that gross profit percentages will stay consistent in future periods. Pricing pressure from competitors, changes in product mix and the costs of producing or purchasing new drugs may also fluctuate in future periods.

**Acquisitions could result in operating difficulties, dilution and other harmful consequences that may adversely impact our business and results of operations.**

Acquisitions are an important element of our overall corporate strategy and use of capital and we expect our current pace of acquisitions to continue or increase. These transactions could be material to our financial condition and results of operations. We also expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or technology may create unforeseen operating difficulties and expenditures. The areas where we may face risks include but are not limited to (i) diversion of management time and focus from operating our business to acquisition integration challenges, (ii) implementation or remediation of controls, procedures and policies at the acquired company, (iii) integration of the acquired company s accounting, human resource and other administrative systems and coordination of product, engineering and sales and marketing functions, (iv) transition of operations, users and customers onto our existing platforms, (v) failure to obtain required approvals from governmental authorities under competition and antitrust laws on a timely basis, if at all, which could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition, (vi) cultural challenges associated with integrating employees from the acquired company into our organization and retention of employees from the businesses we acquire and (vii) liability for activities of the acquired company before the acquisition, including infringement claims, violations of laws, commercial disputes, tax liabilities, claims from current and former employees and customers and other known and unknown liabilities.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions could cause us to fail to realize the anticipated benefits of such acquisitions, incur unanticipated liabilities and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, or write-offs of goodwill, any of which could harm our financial condition.

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Also, the anticipated benefit of many of our acquisitions may not materialize.

**The generic pharmaceutical industry is highly competitive.**

We face strong competition in our generic product business. Revenues and gross profit derived from the sales of generic pharmaceutical products tend to follow a pattern based on certain regulatory and competitive factors. As patents for brand-name products and related exclusivity periods expire or fall under patent challenges, the first generic manufacturer to receive regulatory approval for generic equivalents of such products is generally able to achieve significant market penetration. As competing off-patent manufacturers receive regulatory approvals on similar products or as brand manufacturers launch generic versions of such products (for which no separate regulatory approval is required), market share, revenues and gross profit typically decline, in some cases dramatically. Accordingly, the level of market share, revenue and gross profit attributable to a particular generic product is normally related to the number of competitors in that product s market and the timing of that product s regulatory approval and launch, in relation to competing approvals and launches. Consequently, we must continue to develop and introduce new products in a timely and cost-effective manner to maintain our revenues and gross margins.

**Extensive industry regulation has had and will continue to have, a significant impact on our business in the area of cost of goods, especially our product development, manufacturing and distribution capabilities.**

All pharmaceutical companies, including Lannett, are subject to extensive, complex, costly and evolving regulation by the federal government, including the FDA and in the case of controlled drugs, the DEA and state government agencies. The FDCA, the CSA and other federal statutes and regulations govern or influence the development, testing, manufacturing, packing, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of our products.

The process for obtaining governmental approval to manufacture and market pharmaceutical products is rigorous, time-consuming and costly and we cannot predict the extent to which we may be affected by legislative and regulatory developments. We are dependent on receiving FDA and other governmental or third-party approvals prior to manufacturing, marketing and shipping our products. The FDA approval process for a particular product candidate can take several years and requires us to dedicate substantial resources to securing approvals and we may not be able to obtain regulatory approval for our product candidates in a timely manner, or at all. In order to obtain approval for our generic product candidates, we must demonstrate that our drug product is bioequivalent to a drug previously approved by the FDA through the drug approval process, known as an innovator drug. Bioequivalency may be demonstrated in vivo or in vitro by comparing the generic product candidate to the innovator drug product in dosage form, strength, route of administration, quality, dissolution performance characteristics and intended use. The FDA may not agree that the bioequivalence studies we submit in the ANDA applications for our generic drug products are adequate to support approval. If it determines that an ANDA application is not adequate to support approval, the FDA could deny our application or request additional information, including clinical trials, which could delay approval of the product and impair our ability to compete with other versions of the generic drug product.

Consequently, there is always the chance that we will not obtain FDA or other necessary approvals, or that the rate, timing and cost of such approvals will adversely affect our product introduction plans or results of operations. We carry inventories of certain products in anticipation of launch and if such products are not subsequently launched, we may be required to write-off the related inventory. Furthermore, the FDA also has the authority to revoke drug approvals previously granted and remove these products from the market for a variety of reasons, including a failure to comply with applicable regulations, the discovery of previously unknown problems with the product, or because the ingredients in the drug are no longer approved by the FDA.

Additionally, certain products marketed prior to the FDCA may be considered GRASE or Grandfathered. GRASE products are those old drugs that do not require prior approval from FDA in order to be marketed because they are generally recognized as safe and effective based on published scientific literature. Similarly, Grandfathered products are those which entered the market before the passage of the 1906 Act, 1938 Act or the 1962 amendments to the Act. Under the Grandfathered drug clause, such a product is exempted from the effectiveness requirements [of the act] if its composition and labeling have not changed since 1962 and if, on the day before the 1962 amendments became effective, it was (1) used or sold commercially in the United States, (2) not a new drug as defined by the act at that time and (3) not covered by an effective application. Recently, the FDA has increased its efforts to force companies to file and seek FDA approval for GRASE or Grandfathered products. Efforts have included issuing notices to companies currently producing these products to cease its distribution of said products. Lannett currently manufactures and markets one product that is considered a GRASE or Grandfathered product, C-Topical® Solution. The Company has completed the Phase III clinical trial and our CRO is assembling the data for our New Drug Application. The FDA is currently undertaking activities to force all companies who manufacture certain GRASE products to file applications and seek approval for these products or remove their products from the market.

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In addition, we, as well as many of our significant suppliers of distributed product and raw materials, are subject to periodic inspection of facilities, procedures and operations and/or the testing of the finished products by the FDA, the DEA and other authorities, which conduct periodic inspections to confirm that pharmaceutical companies are in compliance with all applicable regulations. The FDA conducts pre-approval and post-approval reviews and plant inspections to determine whether systems and processes are in compliance with cGMP and other FDA regulations. Following such inspections, the FDA may issue notices on Form 483 that could cause us or our suppliers to modify certain activities identified during the inspection. A Form 483 notice is generally issued at the conclusion of a FDA inspection and lists conditions the FDA inspectors believe may violate cGMP or other FDA regulations. The DEA and comparable state-level agencies also heavily regulate the manufacturing, holding, processing, security, record-keeping and distribution of drugs that are considered controlled substances. Some of the pain management products we manufacture contain controlled substances. The DEA periodically inspects facilities for compliance with its rules and regulations. If our manufacturing facilities or those of our suppliers fail to comply with applicable regulatory requirements, it could result in regulatory action and additional costs.

Our inability or the inability of our suppliers to comply with applicable FDA and other regulatory requirements can result in, among other things, delays in or denials of new product approvals, warning letters, fines, consent decrees restricting or suspending manufacturing operations, injunctions, civil penalties, recall or seizure of products, total or partial suspension of sales and/or criminal prosecution. Any of these or other regulatory actions could materially harm our operating results and financial condition. Although we have instituted internal compliance programs, if these programs do not meet regulatory agency standards or if compliance is deemed deficient in any significant way, it could materially harm our business. Additionally, if the FDA were to undertake additional enforcement activities with Lannett s GRASE product, their actions could result in, among other things, removal of some of the product from the market, seizure of the product and total or partial suspension of sales. Any of these regulatory actions could materially harm our operating results and financial condition.

**Our manufacturing operations as well as our suppliers manufacturing operations are subject to licensing by the FDA and/or DEA. If we or our suppliers are unable to maintain the proper agency licensing arrangements, our operating results would be materially negatively impacted.**

All of our manufacturing operations as well as those of our suppliers rely on maintaining active licenses to produce and develop generic drugs. Specifically, our Cody Labs operations rely on a DEA license to directly import and convert raw concentrated poppy straw into several APIs or dosage forms. This license is granted for a one year period and must be renewed successfully each year in order for us to maintain Cody s current operations and allow the Company to continue to work towards becoming a fully integrated narcotics supplier. If the Company is unable to successfully renew its FDA and/or DEA licenses, the financial results of Lannett would be negatively impacted.

**If we are unable to successfully develop or commercialize new products, our operating results will suffer.**

Our future results of operations will depend to a significant extent upon our ability to successfully commercialize new generic products in a timely manner. There are numerous difficulties in developing and commercializing new products, including:

•developing, testing and manufacturing products in compliance with regulatory standards in a timely manner;

•receiving requisite regulatory approvals for such products in a timely manner;

•the availability, on commercially reasonable terms, of raw materials, including APIs and other key ingredients;

•developing and commercializing a new product is time consuming, costly and subject to numerous factors that may delay or prevent the successful commercialization of new products; and

•commercializing generic products may be substantially delayed by the listing with the FDA of patents that have the effect of potentially delaying approval of the off-patent product by up to 30 months and in some cases, such patents have been issued and listed with the FDA after the key chemical patent on the brand drug product has expired or been litigated, causing additional delays in obtaining approval.

As a result of these and other difficulties, products currently in development by Lannett may or may not receive the regulatory approvals necessary for marketing. If any of our products, when developed and approved, cannot be successfully or timely commercialized, our operating results could be adversely affected. We cannot guarantee that any investment we make in developing products will be recouped, even if we are successful in commercializing those products.

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**The loss of key personnel could cause our business to suffer.**

The success of our present and future operations will depend, to a significant extent, upon the experience, abilities and continued services of our key personnel. If we lose the services of our key personnel, or if they are unable to devote sufficient attention to our operations for any other reason, our business may be significantly impaired. If the employment of any of our current key personnel is terminated, we cannot assure you that we will be able to attract and replace the employee with the same caliber of key personnel. As such, we have entered into employment agreements with all of our senior executive officers in order to help retain these key individuals.

**If brand pharmaceutical companies are successful in limiting the use of generics through their legislative and regulatory efforts, our sales of generic products may suffer.**

Many brand pharmaceutical companies increasingly have used state and federal legislative and regulatory means to delay generic competition. These efforts have included:

•pursuing new patents for existing products which may be granted just before the expiration of one patent which could extend patent protection for additional years or otherwise delay the launch of generics;

•using the Citizen Petition process to request amendments to FDA standards;

•seeking changes to U.S. Pharmacopeia, an organization which publishes industry recognized compendia of drug standards;

•attaching patent extension amendments to non-related federal legislation;

•engaging in state-by-state initiatives to enact legislation that restricts the substitution of some generic drugs, which could have an impact on products that we are developing;

•persuading regulatory bodies to withdraw the approval of brand-name drugs for which the patents are about to expire and converting the market to another product of the brand company on which longer patent protection exists;

•entering into agreements whereby other generic companies will begin to market an authorized generic, a generic equivalent of a branded product, at the same time or after generic competition initially enters the market;

•filing suits for patent infringement and other claims that may delay or prevent regulatory approval, manufacture and/or scale of generic products; and,

•introducing next-generation products prior to the expiration of market exclusivity for the reference product, which often materially reduces the demand for the generic or the reference product for which we seek regulatory approval.

In the U.S., some companies have lobbied Congress for amendments to the Hatch-Waxman Act that would give them additional advantages over generic competitors. For example, although the term of a company s drug patent can be extended to reflect a portion of the time an NDA is under regulatory review, some companies have proposed extending the patent term by a full year for each year spent in clinical trials rather than the one-half year that is currently permitted.

If proposals like these were to become effective, or if any other actions by our competitors and other third parties to prevent or delay activities necessary to the approval, manufacture, or distribution of our products are successful, our entry into the market and our ability to generate revenues associated with new products may be delayed, reduced, or eliminated, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or share price.

**The generic pharmaceutical industry is characterized by intellectual property litigation and third parties may claim that we infringe on their proprietary rights which could result in litigation that could be costly, result in the diversion of management s time and efforts, require us to pay damages or prevent us from marketing our existing or future products.**

Our commercial success will depend in part on not infringing or violating the intellectual property rights of others. The manufacture, use and sale of new products that are the subject of conflicting patent rights have been the subject of substantial litigation in the pharmaceutical industry. These lawsuits relate to the validity and infringement of patents or proprietary rights of third parties. We may have to defend against charges that we violated patents or proprietary rights of third parties. This is especially true in the case of generic products on which the patent covering the brand product is expiring, an area where infringement litigation is prevalent and in the case of new brand products in which a competitor has obtained patents for similar products. Our competitors, some of which have substantially greater resources than we do and have made substantial intellectual property investments in competing technologies, may have applied for or obtained, or may in the future apply for and obtain, patent rights and other intellectual property that will prevent, limit or otherwise interfere with our ability to make, use and sell our products.

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We may not be aware of whether our products do or will infringe existing or future patents or the intellectual property rights of others. In addition, patent applications can be pending for many years and may be confidential for a number of months after filing and because pending patent claims can be revised before issuance, there may be applications of others now pending of which we are unaware that may later result in issued patents that will prevent, limit or otherwise interfere with our ability to make, use or sell our products. Even if we prevail, litigation may be costly and time-consuming and could divert the attention of our management and technical personnel. Any potential intellectual property litigation also could force us to do one or more of the following:

•stop making, selling or using products or technologies that allegedly infringe the asserted intellectual property;

•lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property rights against others;

•incur significant legal expenses;

•pay substantial damages or royalties to the party whose intellectual property rights we may be found to be infringing;

•pay the attorney fees and costs of litigation to the party whose intellectual property rights we may be found to be infringing;

•redesign or rename, in the case of trademark claims, those products that contain the allegedly infringing intellectual property, which could be costly, disruptive and/or infeasible; or

•attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

Any litigation or claim against us, even those without merit, may cause us to incur substantial costs and could place a significant strain on our financial resources, divert the attention of management from our core business and harm our reputation. For a description of intellectual property-related litigation matters, see Note 12 Legal and Regulatory Matters. If we are found to infringe the intellectual property rights of third parties, we could be required to pay substantial damages and/or substantial royalties and could be prevented from selling our products unless we obtain a license or are able to redesign our products to avoid infringement. If we fail to obtain any required licenses or make any necessary changes to our products or technologies, we may have to withdraw existing products from the market or may be unable to commercialize one or more of our products, all of which could have a material adverse effect on our business, results of operations and financial condition.

Although the parties to patent and intellectual property disputes in the pharmaceutical industry have often settled their disputes through licensing or similar arrangements, the costs associated with these arrangements may be substantial and could include ongoing royalties. Any such license may not be available on reasonable terms, if at all and there can be no assurance that we would be able to redesign our products in a way that would not infringe the intellectual property rights of others. Even if we were able to obtain rights to the third-party s intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. As a result, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling a number of our products, or force us to redesign or rename our products to avoid infringing the intellectual property rights of third parties, which, even if it is possible to so redesign or rename our products, which could harm our business, financial condition, results of operations and cash flows.

**If we are unable to obtain sufficient supplies from key suppliers that in some cases may be the only source of finished products or raw materials, our ability to deliver our products to the market may be impeded.**

We are required to identify the supplier(s) of all the raw materials for our products in our applications with the FDA. To the extent practicable, we attempt to identify more than one supplier in each drug application. However, some products and raw materials are available only from a single source and, in some of our drug applications, only one supplier of products and raw materials has been identified, even in instances where multiple sources exist. To the extent any difficulties experienced by our suppliers cannot be resolved within a reasonable time and at reasonable cost, or if raw materials for a particular product become unavailable from an approved supplier and we are required to qualify a new supplier with the FDA, our profit margins and market share for the affected product could decrease and our development and sales and marketing efforts could be delayed.

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**Our policies regarding returns, allowances and chargebacks and marketing programs adopted by wholesalers may reduce our revenues in future fiscal periods.**

Based on industry practice, generic drug manufacturers have liberal return policies and have been willing to give customers post-sale inventory allowances. Under these arrangements, from time to time we give our customers credits on our generic products that our customers hold in inventory after we have decreased the market prices of the same generic products due to competitive pricing. Therefore, if new competitors enter the marketplace and significantly lower the prices of any of their competing products, we would likely reduce the price of our products. As a result, we would likely be obligated to provide credits to our customers who are then holding inventories of such products, which could reduce sales revenue and gross margin for the period the credit is provided. Like our competitors, we also give credits for chargebacks to wholesalers that have contracts with us for their sales to hospitals, group purchasing organizations, pharmacies or other customers.

A chargeback is the difference between the price the wholesaler pays and the price that the wholesaler s end-customer pays for a product. Although we establish reserves based on our prior experience and our best estimates of the impact that these policies may have in subsequent periods, we cannot ensure that our reserves are adequate or that actual product returns, allowances and chargebacks will not exceed our estimates.

**Health care initiatives and other third-party payor cost-containment pressures could cause us to sell our products at lower prices, resulting in decreased revenues.**

Some of our products are purchased or reimbursed by state and federal government authorities, private health insurers and other organizations, such as health maintenance organizations, or HMOs and managed care organizations, or MCOs. Third-party payors increasingly challenge pharmaceutical product pricing. There also continues to be a trend toward managed health care in the United States. Pricing pressures by third-party payors and the growth of organizations such as HMOs and MCOs could result in lower prices and a reduction in demand for our products.

In addition, legislative and regulatory proposals and enactments to reform health care and government insurance programs could significantly influence the manner in which pharmaceutical products and medical devices are prescribed and purchased. We expect there will continue to be federal and state laws and/or regulations, proposed and implemented, that could limit the amounts that federal and state governments will pay for health care products and services. The extent to which future legislation or regulations, if any, relating to the health care industry or third-party coverage and reimbursement may be enacted or what effect such legislation or regulation would have on our business remains uncertain. For example, the American Recovery and Reinstatement Act of 2009, also known as the Stimulus Package, includes $1.1 billion in funding to study the comparative effectiveness of health care treatments and strategies. The Stimulus Package funding is expected to be used for, among other things, to conduct, support or synthesize research that compares and evaluates the risk and benefits, clinical outcomes, effectiveness and appropriateness of products. Although Congress has indicated that this funding is intended for improvement in quality of health care, it remains unclear how the research will impact coverage, reimbursement or other third-party payor policies. Such measures or other health care system reforms that are adopted could have a material adverse effect on our industry generally and our ability to successfully commercialize our products or could limit or eliminate our spending on development projects and affect our ultimate profitability.

**We may need to change our business practices to comply with changes to fraud and abuse laws.**

We are subject to various federal and state laws pertaining to health care fraud and abuse, including the Anti-Kickback Statute, which apply to our sales and marketing practices and our relationships with physicians. At the federal level, the Anti-Kickback Statute prohibits any person or entity from knowingly and willfully soliciting, receiving, offering, or paying any remuneration, including a bribe, kickback, or rebate, directly or indirectly, in return for or to induce the referral of patients for items or services covered by federal health care programs, or the furnishing, recommending, or arranging for products or services covered by federal health care programs. Federal health care programs have been defined to include plans and programs that provide health benefits funded by the federal government, including Medicare and Medicaid, among others. The definition of remuneration has been broadly interpreted to include anything of value, including, for example, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash and waivers of payments. Several courts have interpreted the federal Anti-Kickback Statute s intent requirement to mean that if even one purpose in an arrangement involving remuneration is to induce referrals or otherwise generate business involving goods or services reimbursed in whole or in part under federal health care programs, the statute has been violated. The federal government has issued regulations, commonly known as safe harbors that set forth certain provisions which, if fully met, will assure parties that they will not be prosecuted under the federal Anti-Kickback Statute. The failure of a transaction or arrangement to fit within a specific safe harbor does not necessarily mean that the transaction or arrangement will be illegal or that prosecution under the federal Anti-Kickback Statute will be pursued, but such transactions or arrangements face an increased risk of scrutiny by government enforcement authorities and an ongoing risk of prosecution. If our sales and marketing practices or our relationships with physicians are considered by federal or state enforcement authorities to be knowingly and willfully soliciting, receiving, offering, or providing any remuneration in exchange for arranging for or recommending our products and services and such activities do not fit within a safe harbor, then these arrangements could be challenged under the federal Anti-Kickback Statute.

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If our operations are found to be in violation of the federal Anti-Kickback Statute we may be subject to civil and criminal penalties including fines of up to $25 thousand per violation, civil monetary penalties of up to $50 thousand per violation, assessments of up to three times the amount of the prohibited remuneration, imprisonment and exclusion from participating in the federal health care programs. In addition, HIPAA and its implementing regulations created two new federal crimes: health care fraud and false statements relating to health care matters. The HIPAA health care fraud statute prohibits, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any health care benefit program, including private payors. A violation of this statue is a felony and may result in fines, imprisonment and/or exclusion from government-sponsored programs. The HIPAA false statements statute prohibits, among other things, knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement or representation in connection with the delivery of or payment for health care benefits, items, or services.

A violation of this statute is a felony and may result in fines and/or imprisonment. A number of states also have anti-fraud and anti-kickback laws similar to the federal Anti-Kickback Statute that prohibit certain direct or indirect payments if such arrangements are designed to induce or encourage the referral of patients or the furnishing of goods or services. Some states anti-fraud and anti-kickback laws apply only to goods and services covered by Medicaid. Other states anti-fraud and anti-kickback laws apply to all health care goods and services, regardless of whether the source of payment is governmental or private. Due to the breadth of these laws and the potential for changes in laws, regulations, or administrative or judicial interpretations, we may have to change our business practices or our existing business practices could be challenged as unlawful, which could materially adversely affect our business.

Certain federal and state governmental agencies, including the U.S. Department of Justice and the U.S. Department of Health and Human Services, have been investigating issues surrounding pricing information reported by drug manufacturers and used in the calculation of reimbursements as well as sales and marketing practices. For example, many government and third-party payors, including Medicare and Medicaid, reimburse doctors and others for the purchase of certain pharmaceutical products based on the product s AWP reported by pharmaceutical companies. The federal government, certain state agencies and private payors are investigating and have begun to file court actions related to pharmaceutical companies reporting practices with respect to AWP, alleging that the practice of reporting prices for pharmaceutical products has resulted in a false and overstated AWP, which in turn is alleged to have improperly inflated the reimbursement paid by Medicare beneficiaries, insurers, state Medicaid programs, medical plans and others to health care providers who prescribed and administered those products. In addition, some of these same payors are also alleging that companies are not reporting their best price to the states under the Medicaid program.

**We may become subject to federal and state false claims litigation brought by private individuals and the government.**

We are subject to state and federal laws that govern the submission of claims for reimbursement. The FFCA, also known as Qui Tam, imposes civil liability and criminal fines on individuals or entities that knowingly submit, or cause to be submitted, false or fraudulent claims for payment to the government. Violations of the FFCA and other similar laws may result in criminal fines, imprisonment and civil penalties for each false claim submitted and exclusion from federally funded health care programs, including Medicare and Medicaid. The FFCA also allows private individuals to bring a suit on behalf of the government against an individual or entity for violations of the FFCA. These suits, also known as Qui Tam actions, may be brought by, with only a few exceptions, any private citizen who has material information of a false claim that has not yet been previously disclosed. These suits have increased significantly in recent years because the FFCA allows an individual to share in any amounts paid to the federal government in fines or settlement as a result of a successful Qui Tam action. If our past or present operations are found to be in violation of any of such laws or any other governmental regulations that may apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from federal health care programs and/or the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment, or restructuring of our operations could adversely affect our ability to operate our business and our financial results, action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business.

**Sales of our products may continue to be adversely affected by the continuing consolidation of our distribution network and the concentration of our customer base.**

Our principal customers are wholesale drug distributors and major retail drug store chains. These customers comprise a significant part of the distribution network for pharmaceutical products in the U.S. This distribution network is continuing to undergo significant consolidation marked by mergers and acquisitions among wholesale distributors and the growth of large retail drug store chains. As a result, a small number of large wholesale distributors control a significant share of the market and the number of independent drug stores and small drug store chains has decreased. We expect that consolidation of drug wholesalers and retailers will increase pricing and other competitive pressures on drug manufacturers, including Lannett.

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Our three largest customers accounted for 25%, 16% and 7%, respectively, of our total net sales for the fiscal year ended June 30, 2016 and 30%, 11% and 7%, respectively, of our total net sales for the fiscal year ended June 30, 2015. The loss of any of these customers could materially adversely affect our business, results of operations and financial condition and our cash flows. In addition, the Company generally does not enter into long-term supply agreements with its customers that would require them to purchase our products.

**A relatively small group of products may represent a significant portion of our revenues, gross profit, or net earnings from time to time.**

Sales of a limited number of our products from time to time represent a significant portion of our revenues, gross profit and net earnings. For the fiscal years ended June 30, 2016, 2015 and 2014, our top five products in terms of sales, in the aggregate, represented approximately 57%, 78% and 74%, respectively, of our total net sales. If the volume or pricing of our largest selling products decline in the future, our business, financial condition, results of operations, cash flows and/or share price could be materially adversely affected. See Item 1. Description of Business for more information on our top products.

**We are increasingly dependent on information technology and our systems and infrastructure face certain risks, including cybersecurity and data leakage risks.**

Significant disruptions to our information technology systems or breaches of information security could adversely affect our business. We are increasingly dependent on information technology systems and infrastructure to operate our business. In the ordinary course of business, we collect, store and transmit large amounts of confidential information (including trade secrets or other intellectual property, proprietary business information and personal information) and it is critical that we do so in a secure manner to maintain the confidentiality and integrity of such confidential information. We could be susceptible to third-party attacks on our information technology systems, which attacks are of ever increasing levels of sophistication and are made by groups and individuals with a wide range of motives and expertise, including state and quasi-state actors, criminal groups, hackers and others. Maintaining the security, confidentiality and integrity of this confidential information (including trade secrets or other intellectual property, proprietary, business information and personal information) is important to our competitive business position. There can be no assurance that we can prevent service interruptions or security breaches in our systems or the unauthorized or inadvertent wrongful use or disclosure of confidential information that could adversely affect our business operations or result in the loss, misappropriation and/or unauthorized access, use or disclosure of, or the prevention of access to, confidential information. A breach of our security measures or the accidental loss, inadvertent disclosure, unapproved dissemination, misappropriation or misuse of trade secrets, proprietary information, or other confidential information, whether as a result of theft, hacking, fraud, trickery or other forms of deception, or for any other cause, could enable others to produce competing products, use our proprietary technology or information and/or adversely affect our business position. Further, any such interruption, security breach, or loss, misappropriation and/or unauthorized access, use or disclosure of confidential information could result in financial, legal, business and reputational harm to us and could have a material adverse effect on our business, financial condition and results of operations.

**The design, development, manufacture and sale of our products involves the risk of product liability claims by consumers and other third parties and insurance against such potential claims is expensive and may be difficult to obtain.**

The design, development, manufacture and sale of our products involve an inherent risk of product liability claims and the associated adverse publicity. Insurance coverage is expensive and may be difficult to obtain and may not be available in the future on acceptable terms, or at all. Although we currently maintain product liability insurance for our products in amounts we believe to be commercially reasonable, if the coverage limits of these insurance policies are not adequate, a claim brought against Lannett, whether covered by insurance or not, could have a material adverse effect on our business, results of operations, financial condition and cash flows.

**Rising insurance costs, as well as the inability to obtain certain insurance coverage for risks faced by us, could negatively impact profitability.**

The cost of insurance, including workers compensation, product liability and general liability insurance, has risen in recent years and may increase in the future. In response, we may increase deductibles and/or decrease certain coverage to mitigate these costs. These increases and our increased risk due to increased deductibles and reduced coverage, could have a negative impact on our results of operations, financial condition and cash flows.

Additionally, certain insurance coverage may not be available to us for risks faced by us. Sometimes the coverage we obtain for certain risks may not be adequate to fully reimburse the amount of damage that we could possibly sustain. Should either of these events occur, the lack of insurance to cover our entire cost would adversely affect our results of operations and financial condition.

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**Federal regulation of arrangements between manufacturers of brand and generic products could adversely affect our business.**

As part of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, companies are now required to file with the Federal Trade Commission ( FTC ) and the Department of Justice certain types of agreements entered into between brand and generic pharmaceutical companies related to the manufacture, marketing and sale of generic versions of brand drugs. This new requirement could affect the manner in which generic drug manufacturers resolve intellectual property litigation and other disputes with brand pharmaceutical companies and could result generally in an increase in private-party litigation against pharmaceutical companies or additional investigations or proceedings by the FTC or other governmental authorities. The impact of this new requirement and the potential private-party lawsuits associated with arrangements between brand-name and generic drug manufacturers is uncertain and could adversely affect our business.

**If our goodwill or indefinite-lived intangible assets become impaired, we may be required to record a significant charge to earnings.**

Under accounting principles generally accepted in the U.S. ( GAAP ), we review our goodwill and indefinite lived intangible assets for impairment at least annually and when there are changes in circumstances. In the fourth quarter of Fiscal 2016, we recorded an $8.0 million impairment charge related to certain intellectual property research and development ( IPR&D ) assets acquired as part of the KUPI acquisition mainly related to delays in expected launch dates as well as competitive pricing factors for two products in development. We may be required to record additional significant charges to earnings in our financial statements during the period in which any impairment of our goodwill or indefinite lived intangible assets is determined, resulting in a negative effect on our results of operations.

**Risks Related to our Recent Acquisition (the Acquisition ) of Kremers Urban Pharmaceuticals, Inc. ( KUPI )**

***The integration of the Lannett business with the KUPI business may present significant challenges.***

There is a significant degree of difficulty inherent in the process of integrating the Lannett and KUPI businesses. These difficulties include, among others:

•the challenge of integrating the Lannett and KUPI businesses while also effectively carrying on the ongoing operations of each business;

•the challenge of integrating the business cultures of each company;

•the challenges of managing customer relationships smoothly and maintaining customer accounts, particularly in instances where both companies serve the same customer;

•difficulties encountered in any internal reorganization that we may undertake;

•the challenge and cost of integrating the information technology and financial management systems of each company; and

•the potential difficulty in retaining key personnel.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of Lannett s or KUPI s businesses and may require us to incur substantial costs. For example, in October 2015, KUPI received notice from a significant customer, representing approximately 20% of pre-acquisition net revenues, of its intention to re-source with alternative suppliers certain products it currently purchases from KUPI. Any inability to recoup these sales from other existing and new customers may result in an adverse impact on our financial results. Members of senior management may be required to devote considerable amounts of time and attention to this integration process, which will decrease the time they will have to manage our business, service existing customers, attract new customers, develop new services or strategies and manage risk. If senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, the combined business could suffer.

Additionally, we must integrate the accounting systems of Lannett and KUPI, which may be incompatible and which may take different approaches to similar accounting policies, including revenue recognition. The changes in accounting policies and integrating these disparate accounting systems and records have placed and will continue to place, significant additional demands on our management, administrative and operational resources, including our accounting resources. We cannot guarantee that this integration will be able to identify and resolve all issues in the integration time frame contemplated, or at all, or that the integration will not cost more than we have budgeted. Any delay in integrating our accounting systems may have an adverse effect on our results of operations or financial condition.

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We cannot assure you that we will successfully or cost-effectively integrate the Lannett and KUPI businesses. The failure to do so could have a material adverse effect on our financial condition and results of operations.

***We may not realize the anticipated synergies, cost savings and growth opportunities from the Acquisition.***

The benefits that we expect to achieve as a result of the Acquisition will depend, in part, on the ability of the combined company to realize anticipated growth opportunities and cost synergies. Our success in realizing these growth opportunities and cost synergies and the timing of this realization, depends on the successful integration of the historical Lannett business and operations and the historical KUPI business and operations. Even if we are able to integrate the Lannett and KUPI businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that we currently expect from this integration within the anticipated time frame or at all. Moreover, we may incur substantial expenses in connection with this integration. While we anticipate that certain expenses will be incurred, such expenses are difficult to estimate accurately and may exceed current estimates. Accordingly, the benefits from the Acquisition may be offset by costs or delays incurred in integrating the businesses.

***Our actual financial position and results of operations may differ materially from the unaudited pro forma combined financial data filed previously with the SEC.***

The unaudited pro forma combined financial information that we filed previously with the SEC is presented for illustrative purposes only and may not be an indication of what our financial position or results of operations would have been had the Acquisition been completed on the dates indicated. The unaudited pro forma combined financial information has been derived from the audited and unaudited financial statements of Lannett and KUPI and certain adjustments and assumptions have been made regarding Lannett after giving effect to the Acquisition. Actual results are expected to differ from these preliminary estimates once we have completed the valuation studies necessary to finalize the required purchase price allocations.

Differences between preliminary estimates in the unaudited pro forma combined financial information and the final acquisition accounting may occur and could have a material impact on the pro forma combined financial information and our financial position and future results of operations. In addition, the assumptions used in preparing the pro forma combined financial information may not prove to be accurate and other factors may affect our financial condition or results of operations. Any potential decline in our financial condition or results of operations may have a material effect on our ability to service and ultimately repay our indebtedness.

***The Company is in the process of seeking restoration by the FDA of an AB rating for its methylphenidate hydrochloride extended release product. Such restoration could take significant time, if it occurs at all, and failure to timely reestablish an AB rating may adversely affect our financial results.***

In November 2014, the FDA asked KUPI to conduct new bioequivalence testing of its Methylphenidate ER product using proposed bioequivalence criteria or to voluntarily withdraw the product from the market. The FDA concurrently made the same request to the other non-AG competitor (Mallinckrodt) regarding its Methylphenidate product. The FDA also changed the therapeutic bioequivalence rating for KUPI s and Mallinckrodt s products from AB to BX at such time. A product that is BX-rated is still approved and can be dispensed, but it may not be automatically substitutable at the pharmacy for the brand-name drug under certain state laws. The FDA explained that while there were

no safety or efficacy concerns, an FDA internal analysis (based on reports of lack of effect and differences in pharmacokinetic ( PK ) profiles and delivery systems) suggested that KUPI s generic Methylphenidate ER product may not be therapeutically equivalent to Concerta®. In June 2015, KUPI submitted the final results of new bioequivalence studies designed to assess whether KUPI s Methylphenidate ER product meets the FDA s newly-revised bioequivalence criteria. The Company continues to market Methylphenidate ER under the BX rating. The Company also continues to pursue the FDA to obtain its decision on the submitted study, as well as its response on whether it will restore the AB-rating for our product.

The FDA has not indicated when it will reach a decision on whether to revise the bioequivalence rating of Methylphenidate ER and no assurance can be made that any such decision will result in Methylphenidate ER s AB rating being restored. If the FDA should decide to retain the BX rating of Methylphenidate ER, the Company will have to continue marketing the drug under its current rating. In addition, if the Company is unable to regain an AB therapeutic rating, there is no assurance that the FDA will allow the Company to retain the BX rating over the longer term. This could result in the Company having to potentially reformulate Methylphenidate ER or otherwise discontinue sales.

As a result of the change in rating to BX from AB, the Company s net sales of Methylphenidate ER have materially decreased. We can provide no assurance that net sales of Methylphenidate ER will not continue to fall significantly. We can also provide no assurance that the FDA will re-establish an AB rating for the Company s Methylphenidate ER product in a timely manner, if at all. If the FDA does not re-establish an AB rating for the Company s Methylphenidate ER product in a timely manner, or at all, our financial results could be adversely affected.

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***KUPI has received notification regarding state inquiries into its pricing practices.***

In August 2015, KUPI received a letter from the Texas Office of the Attorney General alleging that KUPI had inaccurately reported certain price information in violation of the Texas Medicaid Fraud Prevention Act. The Company is currently cooperating with the Texas Attorney General s Office, however, the outcome of the investigation could result in serious fines being levied on us, along with harm to our reputation. Any negative outcome from this or any other investigation related to our pricing could have a material adverse effect on our business, financial condition and results of operations.

**Risks Related to our Indebtedness**

***Our substantial indebtedness may adversely affect our financial health.***

We currently have substantial indebtedness. As of June 30, 2016, we had total indebtedness of $1.2 billion. Our total indebtedness consists of a $1.1 billion amended term loan facility (the Amended Term Loan Facility ) as well as a $125.0 million revolving credit facility (the Revolving Credit Facility ). The Amended Term Loan Facility consists of an initial $910.0 million senior secured term loan facility (the Senior Secured Term Loan Facility ), which was amended in June 2016 to include an additional $150.0 million incremental term loan (the Incremental Term Loan ). The Amended Term Loan Facility, together with the Revolving Credit Facility comprises the amended senior secured credit facility (the Amended Senior Secured Credit Facility ).

Our substantial indebtedness may have important consequences for us. For example, it may:

•make it more difficult for us to make payments on our indebtedness;

•increase our vulnerability to general economic and industry conditions, including recessions and periods of significant inflation and financial market volatility;

•expose us to the risk of increased interest rates, because any borrowings we make under the Revolving Facility and other borrowings under the Term Loan Facility under certain circumstances, will bear interest at variable rates;

•require us to use a substantial portion of cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures and other expenses;

•limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

•place us at a competitive disadvantage compared to competitors that have less indebtedness; and

•limit our ability to borrow additional funds that may be needed to operate and expand our business.

***The Amended Senior Secured Credit Facility imposes operating and financial restrictions, which may prevent us from pursuing certain business opportunities and taking certain actions that may be potentially profitable or in our best interests.***

The operating and financial restrictions and covenants in our Amended Senior Secured Credit Facility restrict and future debt instruments may restrict, subject to certain important exceptions and qualifications, our and our subsidiaries ability to, among other things:

•incur or guarantee additional indebtedness;

•make certain investments or acquisitions;

•grant or permit certain liens on our assets;

•enter into certain transactions with affiliates;

•pay dividends, redeem our equity or make other restricted payments;

•prepay, repurchase or redeem contractually subordinated debt and certain other debt;

•merge, consolidate or transfer substantially all of our assets;

•transfer, sell or dispose of property and assets; and

•change the business we conduct or enter into new kinds of business.

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These covenants could adversely affect our ability to finance our future operations or capital needs, withstand a future downturn in our business or the economy in general, engage in business activities, including future opportunities that may be in our interest and plan for or react to market conditions or otherwise execute our business strategies. Our ability to comply with these covenants may be affected by events beyond our control. A breach of any of these covenants could result in a default in respect of the related indebtedness. If an event of default occurs, the relevant lenders or holders of such indebtedness could elect to declare the indebtedness, together with accrued interest, fees and other liabilities, to be immediately due and payable and proceed against any collateral securing that indebtedness. Acceleration of our other indebtedness could result in a default under the terms of the Amended Senior Secured Credit Facility. There is no guarantee that we would be able to satisfy our obligations if any of our indebtedness is accelerated.

In addition, the limitations imposed in the Amended Senior Secured Credit Facility on our ability to incur certain additional debt and to take other corporate actions might significantly impair our ability to obtain other financing. If, for any reason, we are unable to comply with the restrictions in the Amended Senior Secured Credit Facility, we may not be granted waivers or amendments to such restrictions or we may not be able to refinance our debt on terms acceptable to us, or at all. The lenders under the Amended Senior Secured Credit Facility also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we were unable to pay such amounts, the lenders under the Amended Senior Secured Credit Facility could recover amounts owed to them by foreclosing against the collateral pledged to them. We have pledged a substantial portion of our assets to the lenders under the Amended Senior Secured Credit Facility, including the equity of our subsidiaries.

***Our Amended Senior Secured Credit Facility contains a financial covenant and other restrictive covenants that limit our flexibility. We may not be able to comply with these covenants, which could result in the amounts outstanding under our Amended Senior Secured Credit Facility becoming immediately due and payable.***

Our Revolving Credit Facility requires us to comply with a first lien net leverage ratio not to exceed 4.25:1.00 when there are outstanding loans and letters of credit (other than (i) drawn letters of credit that have been cash collateralized, (ii) up to $5.0 million of undrawn letters of credit and (iii) with respect to each test period ending on or prior to December 31, 2016, up to $22.8 million of loans under the Revolving Credit Facility made on the Acquisition closing date) thereunder that exceed 30% of the aggregate commitment amount under the Revolving Credit Facility of $125.0 million as of the last day of the applicable fiscal quarter (with two step downs occurring as of December 31, 2017 and as of December 31, 2019 of 3.75:1.00 and 3.25:1.00, respectively). In addition, the Term Loan A Facility is subject to a financial performance covenant, which provides that the Company shall not permit its secured net leverage ratio as of the last day of any four consecutive fiscal quarters to be greater than 4.25:1.00 (with two step downs occurring as of December 31, 2017 and as of December 31, 2019 to 3.75:1.00 and 3.25:1.00, respectively). Accordingly, if our liquidity and performance significantly worsens, we could become non-compliant with such covenants.

In addition, our Amended Senior Secured Credit Facility contains other restrictive covenants, including covenants that limit and in some circumstances prohibit, our ability to, among other things, incur additional debt, sell, transfer or otherwise dispose of our assets, pay dividends, make investments, loans, advances and acquisition, guarantee debt or obligations, create liens, enter into transactions with our affiliates and enter into certain merger, consolidation or other fundamental transactions.

If we fail to meet any covenants in our Amended Senior Secured Credit Facility and cannot secure a waiver for such failure, the lenders under our Amended Senior Secured Credit Facility would be entitled to exercise various rights, including causing the amounts outstanding under the entire Amended Senior Secured Credit Facility to become immediately due and payable.

We are also subject to requirements to make mandatory prepayments, with the net proceeds of certain asset sales, excess cash flows and debt issuances. These requirements could limit our ability to obtain future financing, make acquisitions or needed capital expenditures, withstand any downturns in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise, any of which could place us at a competitive disadvantage relative to our competitors that have less debt and are not subject to such restrictions.

***Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.***

Borrowings under the Amended Senior Secured Credit Facility are at variable rates of interest and expose us to interest rate risk. Interest rates are currently at historically low levels. If interest rates increase, our debt service obligations on our variable rate indebtedness will increase even though the amount borrowed remained the same and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Based on total indebtedness as of June 30, 2016 and the assumption that interest rates are above the interest rate floor set forth in the Amended Senior Secured Credit Facility, each 1/8th percentage point change in interest rates would result in a $1.5 million change in annual interest expense on our indebtedness under the Amended Senior Secured Credit Facility.

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***Due to many factors beyond our control, we may not be able to generate sufficient cash to service all of our indebtedness and meet our other ongoing liquidity needs and we may be forced to take other actions to satisfy our obligations under our debt agreements, which may not be successful.***

Our ability to make payments on and to refinance, our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond our control.

Our business may not generate sufficient cash flow from operations and we may not have available to us future borrowings in an amount sufficient, to enable us to pay our indebtedness or to fund our other liquidity needs. In these circumstances, we may need to refinance all or a portion of our indebtedness on or before maturity. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things:

•our financial condition at the time;

•restriction in the agreements governing our indebtedness; and

•the condition of the financial markets and the industry in which we operate.

As a result, we may not be able to refinance any of our indebtedness on commercially reasonable terms or at all. In such a case, we could be forced to sell assets, reduce or delay capital expenditures or issue equity securities to make up for any shortfall in our payment obligations under unfavorable circumstances. The terms of the Amended Senior Secured Credit Facility limit our ability to sell assets. In addition, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations. Any failure to make scheduled payments of interest and principal on our outstanding indebtedness when due would permit the holders of such indebtedness to declare an event of default and accelerate the indebtedness. This could result in the lenders under the Amended Senior Secured Credit Facility terminating their commitments to lend us money and foreclosing against the assets securing the borrowings and we could be forced into bankruptcy or other insolvency proceedings. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms.

***Despite our substantial indebtedness level, we and any of our existing or future subsidiaries may still be able to incur substantially more debt, which could exacerbate the risks associated with our substantial leverage.***

The terms of the agreements governing the Amended Senior Secured Credit Facility permit us and our subsidiaries to incur a substantial amount of additional debt, including secured debt. Although the agreement that governs the Amended Senior Secured Credit Facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and the indebtedness

incurred in compliance with these restrictions could be substantial. Additionally, the Amended Senior Secured Credit Facility may be increased from time to time, subject to certain conditions. All of those borrowings would be secured indebtedness. If new debt is added to our and our subsidiaries current debt levels, the risks that we now face as a result of our leverage would intensify and we may not be able to meet all of our debt obligations, in whole or in part.

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## ITEM 2. DESCRIPTION OF PROPERTY

Lannett owns five facilities in Philadelphia, Pennsylvania. Certain administrative functions, manufacturing and production facilities and our quality control laboratory are located in a 31,000 square foot facility at 9000 State Road, Philadelphia, PA. The second facility consists of 63,000 square feet and is located within one mile of the State Road facility at 9001 Torresdale Avenue, Philadelphia, PA. Our research laboratory and packaging functions are located at this location. Additionally, the facility has capacity for additional manufacturing space, if needed. We also own a building at 13200 Townsend Road Philadelphia, PA consisting of 66,000 square feet on 7.3 acres of land which is used for certain administrative functions, warehouse space and shipping. It also has capacity for additional manufacturing space, if needed.

On December 20, 2013, the Company acquired two separate properties located in Philadelphia, Pennsylvania for $4.0 million and $5.0 million. The buildings are 196,000 and 400,000 square feet. In connection with the purchase of these two buildings, the Company expects to incur capital expenditures for fit out costs over the next several years.

The manufacturing facility of our wholly-owned subsidiary, Cody Labs, consists of a 73,000 square foot structure located on approximately 15.0 acres in Cody, Wyoming. Cody Labs manufacturing facility currently has capacity for further expansion, both inside and outside the existing structure.

In connection with the acquisition of Silarx, the Company acquired an 110,000 square foot manufacturing facility located in Carmel, New York, which sits on 25.8 acres of land. The facility currently houses manufacturing, packaging, research and development and has capacity for additional manufacturing space, if needed.

In November 2015, we completed the acquisition of KUPI. KUPI s 432,000 square foot Seymour, Indiana facility contains approximately 107,000 square feet of manufacturing space as well as a leased 116,000 square foot temperature/humidity controlled storage warehouse. The Seymour facility has had satisfactory inspections conducted by the FDA and EMA and similar regulatory authorities of Japan, Taiwan, Brazil, Korea and Turkey. Since 2008, KUPI has invested more than $75 million into improvements to the facility and new equipment. This investment enabled the facility to increase production from approximately 1.2 billion doses in 2008 to over 2.7 billion doses in 2014. KUPI recently completed a $20 million, 20,000 square foot expansion of the facility which, in combination with an additional planned expansion in 2016, is expected to increase capacity to 3.9 billion doses by 2017. KUPI added a large vault for storing controlled substances in 2011 and is also planning to expand its vault capabilities relating to Schedule II ( CII ) products in conformance with DEA requirements. The facility also includes four packaging lines, one of which is a high speed line added in 2012. The serialization has been completed on three lines and we expect to complete the fourth line in the near future.

## ITEM 3. LEGAL PROCEEDINGS

Information pertaining to legal proceedings can be found in Note 12 Legal and Regulatory Matters under Item 15. Exhibits and Financial Statement Schedules and is incorporated by reference herein.

**ITEM 4.** **MINE SAFETY DISCLOSURES**

Not applicable

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**PART II**

## ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

**Market Information**

The Company s common stock trades on the NYSE. The following table sets forth certain information with respect to the high and low sales prices per share of the Company s common stock during Fiscal 2016 and 2015, as quoted by the NYSE.

**Fiscal Year Ended June 30, 2016**

| | High | Low |
|---|---|---|
| First quarter | $ 62.90 | $ 40.85 |
| Second quarter | $ 49.44 | $ 33.13 |
| Third quarter | $ 40.66 | $ 16.91 |
| Fourth quarter | $ 26.25 | $ 17.05 |

**Fiscal Year Ended June 30, 2015**

| | High | Low |
|---|---|---|
| First quarter | $ 51.66 | $ 33.51 |
| Second quarter | $ 59.44 | $ 39.05 |
| Third quarter | $ 71.26 | $ 40.34 |
| Fourth quarter | $ 72.44 | $ 52.10 |

**Holders**

As of June 30, 2016, there were 523 holders of record of the Company s common stock.

**Dividends**

The Company did not pay cash dividends in Fiscal 2016 or Fiscal 2015. The Company intends to use available funds for working capital, plant and equipment additions, various product extension ventures and mergers and acquisitions or other growth opportunities. In addition, the Company is subject to certain restrictions on dividends under its Amended Senior Secured Credit Facility. The Company does not expect to pay, nor should stockholders expect to receive, cash dividends in the foreseeable future.

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The following table sets forth certain information with respect to the Company s share repurchase activity.

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period (In thousands) | (a) Total Number of Shares (or Units) Purchased* | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 1 to April 30, 2016 | 1,599 | $ 20.37 | | $ |
| May 1 to May 31, 2016 | | | | |
| June 1 to June 30, 2016 | 1,608 | 24.61 | | |
| Total | 3,207 | 22.50 | | |

*Shares were repurchased to settle employee tax withholding obligations pursuant to equity award programs.

**Stock Performance Chart**

The following graph presents a comparison of the cumulative total stockholder return on the Company s stock with the cumulative total return of various indexes for the period of five fiscal years commencing July 1, 2011 and ending June 30, 2016. The graph assumes that $100 was invested on July 1, 2011 in each of the various indexes.

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**ITEM 6.** **SELECTED FINANCIAL DATA**

The following financial information as of and for the five years ended June 30, 2016, has been derived from our consolidated financial statements. This information should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere herein. Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

**Lannett Company, Inc. and Subsidiaries**

**Financial Highlights**

| **(In thousands, except per share data)**<br>**As of and for the Fiscal Year Ended June 30,** | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|
| ***Operating Highlights*** | | | | | |
| Net sales | $ 566,091 | $ 406,837 | $ 273,771 | $ 151,054 | $ 122,990 |
| Settlement agreement | $ (23,598) | $ | $ | $ | $ |
| Total net sales | $ 542,493 | $ 406,837 | $ 273,771 | $ 151,054 | $ 122,990 |
| Gross profit | $ 286,493 | $ 306,356 | $ 154,408 | $ 57,420 | $ 38,947 |
| Operating income | $ 130,758 | $ 226,487 | $ 88,089 | $ 18,757 | $ 6,910 |
| Net income attributable to Lannett Company, Inc. | $ 44,782 | $ 149,919 | $ 57,101 | $ 13,317 | $ 3,948 |
| Basic earnings per common share attributable to Lannett Company, Inc. | $ 1.23 | $ 4.18 | $ 1.70 | $ 0.47 | $ 0.14 |
| Diluted earnings per common share attributable to Lannett Company, Inc. | $ 1.20 | $ 4.04 | $ 1.62 | $ 0.46 | $ 0.14 |
| | | | | | |
| ***Balance Sheet Highlights*** | | | | | |
| | | | | | |
| Total Assets | $ 1,764,018 | $ 508,766 | $ 342,773 | $ 167,752 | $ 142,592 |
| Total Debt | $ 1,061,848 | $ 1,009 | $ 1,138 | $ 6,514 | $ 7,161 |
| Long-Term Debt, net | $ 883,612 | $ 874 | $ 1,009 | $ 5,844 | $ 6,513 |
| Total Stockholders Equity | $ 554,457 | $ 463,766 | $ 294,765 | $ 128,809 | $ 111,313 |

Settlement agreement relates to a Settlement Agreement Release and Mutual Release with one of the Company s former customers. Refer to Note 22 Settlement Agreement for additional information.

On November 25, 2015, the Company completed the acquisition of KUPI. The Company s Consolidated Statements of Operations for Fiscal 2016 includes the impact of KUPI from that date.

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## ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis describes material changes in the financial condition and results of operations, as well as liquidity and capital resources of the Company. Additionally, it addresses accounting policies that management has deemed are critical accounting policies. This discussion and analysis is intended as a supplement to and should be read in conjunction with the Consolidated Financial Statements, the Notes to the Consolidated Financial Statements and other sections of this Form 10-K.

The following discussion contain forward-looking statements. You should refer to the Cautionary Statement Regarding Forward-Looking Statements set forth in Part I of this Annual Report.

All references to Fiscal 2016 or Fiscal Year 2016 shall mean the fiscal year ended June 30, 2016 and all references to Fiscal 2015 or Fiscal Year 2015 shall mean the fiscal year ended June 30, 2015.

**Company Overview**

Lannett Company, Inc. (a Delaware corporation) and its subsidiaries (collectively, the Company , Lannett , we or us ) develop, manufacture, package, market and distribute solid oral and extended release (tablets and capsules), topical, nasal and oral solution finished dosage forms of drugs, that address a wide range of therapeutic areas. Certain of these products are manufactured by others and distributed by the Company. The Company also manufactures active pharmaceutical ingredients through its Cody Labs subsidiary, providing a vertical integration benefit. Additionally, the Company is pursuing partnerships, research contracts and internal expansion for the development and production of other dosage forms including: ophthalmic, nasal, patch, foam, buccal, sublingual, soft gel, injectable and oral dosages.

On November 25, 2015, the Company completed the acquisition of Kremers Urban Pharmaceutical, Inc. ( KUPI ), the former subsidiary of global biopharmaceuticals company UCB S.A. KUPI is a specialty pharmaceuticals manufacturer focused on the development of products that are difficult to formulate or utilize specialized delivery technologies. Strategic benefits of the acquisition include expanded manufacturing capacity, a diversified product portfolio and pipeline and complementary research and development expertise.

The Company operates pharmaceutical manufacturing plants in Philadelphia, Pennsylvania; Cody, Wyoming; Carmel, New York and Seymour, Indiana. The Company s customers include generic pharmaceutical distributors, drug wholesalers, chain drug stores, private label distributors, mail-order pharmacies, other pharmaceutical manufacturers, managed care organizations, hospital buying groups, governmental entities and health maintenance organizations.

**2016 Restructuring Plan**

On February 1, 2016, in connection with the acquisition of KUPI, the Company announced a plan related to the future integration of KUPI and the Company s operations (the 2016 Restructuring Program ). The plan focuses on the closure of KUPI s corporate functions and the consolidation of manufacturing, sales, research and development and distribution functions. The Company estimates that it will incur an aggregate of up to approximately $23.0 million in restructuring charges for actions that have been announced or communicated since the 2016 Restructuring Program began. Of this amount, approximately $14.0 million relates to employee separation costs, approximately $1.0 million relates to contract termination costs and approximately $8.0 million relates to facility closures costs and other actions.

The plan is expected to result in cost synergies of approximately $45.0 million during the 12 months following the close of the acquisition, including $32.9 million realized in Fiscal 2016 and is currently estimated to generate annualized synergies of approximately $50.0 million by the end of Fiscal 2018. It is expected to achieve an ultimate annual run rate of synergies totaling approximately $65.0 million by the end of Fiscal 2020.

These amounts are preliminary estimates based on the information currently available to management. It is possible that additional charges and future cash payments could occur in relation to the restructuring actions.

**Financial Summary**

For Fiscal 2016, net sales increased to $566.1 million, which included $165.6 million of net sales from the recent KUPI acquisition in November 2015. Excluding the impact of KUPI, net sales decreased 2% as compared to Fiscal 2015 primarily due to pricing pressures and increased competition, partially offset by increased volumes. Total net sales, which included a $23.6 million reduction for a settlement agreement, increased to $542.5 million from $406.8 million in the prior year period.

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Gross profit, including the $23.6 million settlement agreement, decreased $19.9 million to $286.5 million, compared to the prior year period and gross profit percentage decreased to 53% compared to 75% in Fiscal 2015. Excluding the impact of KUPI and the settlement agreement, gross profit as a percentage of net sales decreased to 71%. R&D expenses increased 48% to $45.1 million compared to the prior year period while SG&A expenses increased 51% to $68.3 million. Acquisition and integration-related expenses increased to $27.2 million from $4.3 million in the prior year period. Restructuring expenses increased to $7.2 million as a result of implementing the 2016 Restructuring Program. Operating income for Fiscal 2016, which included an $8.0 million intangible asset impairment charge, was $130.8 million compared to $226.5 million in the prior year period. Net income attributable to Lannett Company, Inc. for Fiscal 2016, which included a $3.0 million loss on extinguishment of debt, was $44.8 million, or $1.20 per diluted share. Comparatively, net income attributable to Lannett Company, Inc. in the prior year was $149.9 million, or $4.04 per diluted share.

A more detailed discussion of the Company s financial results can be found below.

**Results of Operations Fiscal 2016 compared to Fiscal 2015**

Total net sales, which included a $23.6 million reduction for a settlement agreement, increased to $542.5 million from $406.8 million in the prior year period. The settlement agreement relates to a Settlement Agreement Release and Mutual Release with one of the Company s former customers. Refer to Note 22 Settlement Agreement for additional information.

Net sales increased 39% to $566.1 million for the fiscal year ended June 30, 2016. The following table identifies the Company s approximate net product sales by medical indication for the fiscal years ended June 30, 2016 and 2015:

| (In thousands) | Fiscal Year Ended June 30, | |
|---|---|---|
| **Medical Indication** | **2016** | **2015** |
| Antibiotic | $ 14,558 | $ 12,306 |
| Cardiovascular | 53,541 | 55,166 |
| Central Nervous System | 36,291 | |
| Gallstone | 67,348 | 65,262 |
| Gastrointestinal | 52,699 | |
| Glaucoma | 25,336 | 21,145 |
| Gout | 303 | 6,833 |
| Migraine | 21,776 | 25,729 |
| Muscle Relaxant | 5,403 | 8,779 |
| Obesity | 3,809 | 4,004 |
| Pain Management | 29,804 | 27,461 |
| Respiratory | 9,982 | |
| Thyroid Deficiency | 162,411 | 153,460 |
| Urinary | 17,398 | 212 |
| Other | 43,389 | 26,480 |
| Contract manufacturing revenue | 22,043 | |
| Net sales | 566,091 | 406,837 |
| Settlement agreement | (23,598) | |
| Total net sales | $ 542,493 | $ 406,837 |

Revenues from the KUPI acquisition of $165.6 million and increased volumes of $38.7 million contributed to the overall increase in net sales, partially offset by product price decreases of $45.0 million. Although the Company has benefited in the past from favorable pricing trends, the trends are stabilizing and in, some instances, beginning to reverse. During the period, the Company experienced pricing pressure and increased competition on several products. The level of competition in the marketplace is constantly changing and the Company cannot predict with certainty the extent to which pricing pressures will continue.

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The following chart details price and volume changes by medical indication:

| Medical indication | Sales volume change % | Sales price change % | Acquisition change % |
|---|---|---|---|
| Antibiotic | 33% | (15)% | % |
| Cardiovascular | (20)% | (25)% | 42% |
| Central Nervous System | % | % | 100% |
| Gallstone | 13% | (10)% | % |
| Gastrointestinal | % | % | 100% |
| Glaucoma | 19% | 1% | % |
| Gout | (95)% | % | % |
| Migraine | (3)% | (13)% | % |
| Muscle Relaxant | (34)% | (4)% | % |
| Obesity | (5)% | % | % |
| Pain Management | (7)% | 15% | % |
| Respiratory | % | % | 100% |
| Thyroid Deficiency | 17% | (11)% | % |
| Urinary | 500% | (176)% | 7783% |

***Cardiovascular.*** Net sales of drugs used for cardiovascular treatment decreased by $1.6 million, primarily as a result of decreased volumes due to several new entrants in the market for products used to treat congestive heart failure, as well as pricing pressures. The decreases were partially offset by net sales from cardiovascular products acquired in the KUPI acquisition.

***Central Nervous System.*** Net sales of central nervous system products increased by $36.3 million. The increase in net sales was attributable to net sales from the Methylphenidate Hydrochloride Extended Release tablets, a product acquired in the KUPI acquisition.

*Methylphendidate Hydrochloride Extended Release Tablets*

During a teleconference in November 2014, the FDA informed KUPI that it had concerns about whether generic versions of Concerta (methylphenidate hydrochloride extended release tablets), including KUPI s Methylphenidate ER product, are therapeutically equivalent to Concerta. The FDA indicated that its concerns were based in part on adverse event reports concerning lack of effect and its analyses of pharmacokinetic data. The FDA informed KUPI that it was changing the therapeutic equivalence rating of its product from AB (therapeutically equivalent) to BX. A BX-rated drug is a product for which data are insufficient to determine therapeutic equivalence; it is still approved and can be prescribed, but the FDA does not recommend it as automatically substitutable for the brand-name drug at the pharmacy. The FDA has indicated that there are no safety issues with KUPI s product.

During the November 2014 teleconference, the FDA also asked KUPI to either voluntarily withdraw its product or to conduct new bioequivalence ( BE ) testing in accordance with the recommendations for demonstrating bioequivalence to Concerta proposed in a new draft BE guidance that the FDA issued earlier that November. The FDA had approved the KUPI product (and originally granted it an AB rating) in 2013, on the basis of KUPI data showing its product met BE criteria set forth in draft BE guidance that the FDA had issued in 2012. The FDA s

position concerning the KUPI product was the subject of a public announcement by the agency. The Company agreed to conduct new BE studies per the new draft BE guidance. KUPI submitted the data from those studies to the FDA in May 2015. The Company continues to pursue the FDA to obtain its decision on the submitted study as well as its response on whether it will restore the AB-rating for our product.

There can be no assurance as to when or if the Company will receive the AB rating. However, if the Company were to receive the AB rating, net sales of the product could increase subject to market factors existing at that time. The Company also agreed to potential acquisition-related contingent payments to UCB related to Methylphenidate ER if the FDA reinstates the AB-rating and certain sales thresholds are met.

***Gallstone.*** Net sales of drugs used for gallstones increased by $2.1 million. The increase in net sales was primarily attributable to increased volumes, partially offset by price decreases.

***Gastrointestinal.*** Net sales of gastrointestinal products increased by $52.7 million. The increase in net sales was primarily attributable to sales of gastrointestinal products acquired in the KUPI acquisition.

***Glaucoma.*** Net sales of drugs used for the treatment of glaucoma increased by $4.2 million. The increase in net sales was primarily attributable to increased volumes.

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***Gout.*** Net sales of drugs used to treat gout decreased by $6.5 million. The decrease in net sales was attributable to decreased volumes resulting from the loss of a customer contract.

***Pain Management.*** Net sales of pain management products increased $2.3 million. The increase in net sales was mainly attributable to price increases on the Company s C-Topical® Solution product as well as a higher average net sales price. Net sales was lower in the prior year period as a result of an increase in return reserves related to a voluntary recall of one lot of product manufactured at the Company s facility in Cody, Wyoming due to incorrect labeling. The Company has completed its C-Topical® Solution Phase III trial and anticipates filing an NDA application with the FDA in calendar year 2017.

***Respiratory.*** Net sales of respiratory products increased by $10.0 million. The increase in net sales was attributable to sales of respiratory products acquired in the KUPI acquisition.

***Thyroid Deficiency.*** Net sales of drugs used for the treatment of thyroid deficiency increased by $9.0 million, primarily as a result of increased volumes, partially offset by a price concession to secure a long-term customer commitment.

***Urinary.*** Net sales of urinary products increased by $17.2 million. The increase in net sales was primarily attributable to net sales of urinary products acquired in the KUPI acquisition.

***Contract manufacturing revenue.*** Contract manufacturing revenue for Fiscal 2016 totaled $22.0 million, which was the result of the acquisition of KUPI.

The Company sells its products to customers in various distribution channels. The table below presents the Company s net sales to each distribution channel for the fiscal year ended June 30:

| **(In thousands)**<br>**Customer Distribution Channel** | **June 30, 2016** | **June 30, 2015** |
|---|---|---|
| Wholesaler/Distributor | $ 419,375 | $ 297,675 |
| Retail Chain | 84,614 | 65,130 |
| Mail-Order Pharmacy | 40,059 | 44,032 |
| Contract manufacturing revenue | 22,043 | |
| Net sales | 566,091 | 406,837 |
| Settlement agreement | (23,598) | |
| Total net sales | $ 542,493 | $ 406,837 |

Net sales to wholesaler/distributor and retail chain increased primarily as a result of additional net sales related to the KUPI acquisition. Mail-order pharmacy net sales decreased primarily as a result of lower cardiovascular drug sales as well as drugs used for the treatment of gallstones to a specific mail-order pharmacy customer.

***Cost of Sales, including amortization of intangibles.*** Cost of sales for Fiscal 2016 increased $155.5 million to $256.0 million.

The increase primarily reflected additional costs from the acquisition of KUPI, as well as the effects of purchase accounting related to the amortization of inventory step-up totaling $17.0 million and increased provisions for excess and obsolete inventory totaling $9.4 million. Product royalties included in cost of sales totaled $17.0 million for Fiscal 2016 and $175 thousand for Fiscal 2015. The increase was primarily the result of additional product royalties from the acquisition of KUPI. Amortization of intangible assets included in cost of sales totaled $18.6 million for Fiscal 2016 and $137 thousand for Fiscal 2015. The increase primarily reflected additional amortization of the acquired intangibles from the acquisition of KUPI and Silarx.

***Gross Profit.*** Gross profit for the fiscal year ended June 30, 2016 decreased 6% to $286.5 million or 53% of total net sales. In comparison, gross profit for the fiscal year ended June 30, 2015 was $306.4 million or 75% of total net sales. The decrease in gross profit percentage for Fiscal 2016 was attributable to the settlement agreement, the dilutive impact of gross profit margins of KUPI products, additional amortization of intangibles, as well as amortization of inventory step-up and depreciation of property, plant and equipment step-up related to the acquisition of KUPI. Product mix and pricing pressures also contributed to lower gross profit as a percentage of total net sales during Fiscal 2016. Excluding the impact of KUPI and the settlement agreement, gross profit as a percentage of total net sales decreased to 71%.

***Research and Development Expenses.*** Research and development expenses increased 48% to $45.1 million for the fiscal year ended June 30, 2016 compared to $30.3 million in the prior year period. The increase was primarily due to the acquisitions of KUPI and Silarx, which resulted in additional research and development expenses. The increase was partially offset by lower contract laboratory and bio-equivalency studies expenses.

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***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses increased 51% to $68.3 million for the fiscal year ended June 30, 2016 compared with $45.2 million in the prior year period. The increase was primarily due to the acquisition of KUPI and Silarx, which resulted in additional selling, general and administrative expenses. Additional compensation-related costs, including separation benefits for two former executive officers, also contributed to the increase.

The Company is focused on controlling operating expenses and has implemented its 2016 Restructuring Plan as noted above, however increases in personnel and other costs to facilitate enhancements in the Company s infrastructure and expansion may continue to impact operating expenses in future periods.

***Acquisition and Integration-related Expenses.*** Acquisition and integration-related expenses increased $22.9 million compared to the prior year period. The increase was primarily due to costs associated with the acquisition of KUPI, including investment banking, legal and accounting fees as well as post-acquisition integration costs. In the fourth quarter of Fiscal Year 2016, the Company also recorded compensation-related expense, of which $2.5 million was classified as integration-related expenses.

***Restructuring Expenses.*** Restructuring expenses increased $7.2 million compared to the prior year period as a result of implementing the 2016 Restructuring Program on February 1, 2016.

***Intangible Assets Impairment Charge.*** As part of the Company s annual impairment analysis performed in the fourth quarter of Fiscal 2016, the Company recorded an $8.0 million impairment charge related to certain intangible assets acquired as part of the KUPI acquisition. The impairment was mainly related to delays in expected launch dates as well as competitive pricing factors for two products in development.

***Other Income (Loss).*** Interest expense in Fiscal 2016 totaled $65.9 million compared to $207 thousand in the prior year period. The increase was due to interest on debt obligations used to finance the acquisition of KUPI, as well as amortization of debt discount and other debt issuance costs. The weighted average interest rate for Fiscal 2016 was 9.1%. Investment income in Fiscal 2016 totaled $368 thousand compared to investment income of $1.1 million in the prior year period. The Company also recorded a $3.0 million loss on extinguishment of debt related to the repurchase of the 12.0% Senior Notes in the fourth quarter of Fiscal 2016.

***Income Tax.*** The Company recorded income tax expense for the fiscal year ended June 30, 2016 of $17.3 million compared to $77.4 million for the fiscal year ended June 30, 2015. The effective tax rate for the fiscal year ended June 30, 2016 was 27.9%, compared to 34.0% for the prior year period. The decrease in the effective tax rate in the fiscal year ended June 30, 2016 as compared to the fiscal year ended June 30, 2015 was primarily due to state deferred tax benefits recorded in Fiscal 2016 as a result of the KUPI acquisition, as compared to overall state deferred tax

expense in Fiscal 2015. In addition, research and development tax credits and domestic manufacturing deductions relative to pre-tax income also contributed to the lower effective tax rate for Fiscal 2016 compared to Fiscal 2015.

At June 30, 2016, the Company had recognized a net deferred tax asset of $52.4 million. The net deferred tax asset is net of a valuation allowance of $3.9 million that is primarily related to the Cody notes receivable impairment recorded in conjunction with the acquisition of Cody Labs. The Company expects the remaining net deferred tax assets to be fully realizable based on the Company s history and future expectations of taxable income.

***Net Income.*** For the fiscal year ended June 30, 2016, the Company reported net income attributable to Lannett Company, Inc. of $44.8 million, or $1.23 basic and $1.20 per diluted share. Comparatively, net income attributable to Lannett Company, Inc. in the prior year was $149.9 million, or $4.18 basic and $4.04 per diluted share.

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**Results of Operations Fiscal 2015 compared to Fiscal 2014**

Net sales increased 49% to $406.8 million for the fiscal year ended June 30, 2015. The following table identifies the Company s approximate net product sales by medical indication for the fiscal years ended June 30, 2015 and 2014:

| (In thousands) Medical Indication | Fiscal Year Ended June 30, 2015 | 2014 |
|---|---|---|
| Antibiotic | $ 12,306 | $ 13,572 |
| Cardiovascular | 55,166 | 62,121 |
| Gallstone | 65,262 | 6,578 |
| Glaucoma | 21,145 | 11,987 |
| Gout | 6,833 | 10,822 |
| Migraine | 25,729 | 14,527 |
| Muscle Relaxant | 8,779 | |
| Obesity | 4,004 | 4,032 |
| Pain Management | 27,461 | 27,174 |
| Thyroid Deficiency | 153,460 | 102,248 |
| Urinary | 212 | |
| Other | 26,480 | 20,710 |
| Total net sales | $ 406,837 | $ 273,771 |

Product price increases contributed $157.3 million to the overall increase in net sales, partially offset by decreased volumes of $24.2 million. The Company experienced favorable trends in product pricing on several key products during the period, as discussed below.

The following chart details price and volume changes by medical indication:

| Medical indication | Sales volume change % | Sales price change % |
|---|---|---|
| Antibiotic | 1% | (10)% |
| Cardiovascular | (42)% | 30% |
| Gallstone | (15)% | 907% |
| Glaucoma | (4)% | 81% |
| Gout | (37)% | % |
| Migraine | (10)% | 87% |
| Muscle Relaxant | 100% | % |
| Obesity | 9% | (10)% |
| Pain Management | 4% | (3)% |
| Thyroid Deficiency | (4)% | 54% |

***Thyroid Deficiency.*** Net sales of drugs used for the treatment of thyroid deficiency increased by $51.2 million, primarily as a result of price increases on key products.

***Gallstone.*** Net sales of drugs used for gallstones increased by $58.7 million. The increase in net sales was primarily attributable to price increases on key products.

***Migraine.*** Net sales of drugs used to treat migraines increased by $11.2 million. The increase in net sales was primarily attributable to price increases on key products, partially offset by decreased volumes.

***Glaucoma.*** Net sales of drugs used for the treatment of glaucoma increased by $9.2 million. The increase in net sales was primarily attributable to price increases on key products.

***Muscle Relaxant.*** Net sales of muscle relaxant products increased by $8.8 million due to the launch of a new product in the first quarter of Fiscal 2015.

***Pain Management.*** Net sales of pain management products increased $287 thousand. The increase in net sales was primarily attributable to increased volumes of C-Topical® Solution and Oxycodone HCl Oral Solution. A lower average net sales price resulting from an increase in return reserves related to a voluntary recall in April 2015 of one lot of product manufactured at the Company s facility in Cody, Wyoming, due to incorrect labeling and lower volumes on other pain management products partially offset the increase in net sales.

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The Company continues to actively market its C-Topical® Solution product utilizing a group of brand representatives in anticipation of an NDA filing.

***Cardiovascular.*** Net sales of drugs used for cardiovascular treatment decreased by $7.0 million, primarily as a result of lower volumes, partially offset by price increases on products used to treat congestive heart failure. The Company experienced lower volumes and additional competition beginning in the third quarter of Fiscal 2015.

The Company sells its products to customers in various distribution channels. The table below presents the Company s net sales to each distribution channel for the fiscal year ended June 30:

| **(In thousands)**<br>**Customer Distribution Channel** | | **June 30, 2015** | | **June 30, 2014** |
|---|---|---|---|---|
| Wholesaler/Distributor | $ | 297,675 | $ | 172,503 |
| Retail Chain | | 65,130 | | 80,710 |
| Mail-Order Pharmacy | | 44,032 | | 20,558 |
| Total net sales | $ | 406,837 | $ | 273,771 |

Total net sales to wholesaler/distributor increased as a result of increased sales in a variety of products for thyroid deficiency, gallstone and cardiovascular, as discussed above. Additionally, the increase in total net sales to wholesaler/distributor was impacted by the strategic partnership between Amerisource Bergen and Walgreens, whereby Amerisource Bergen began product distribution on behalf of Walgreens in third quarter of Fiscal Year 2014. Other strategic partnerships between industry wholesalers and retailers also impacted total net sales to wholesaler/distributor and retail chain. Mail-order pharmacy total net sales increased primarily as a result of increased sales of drugs used for the treatment of thyroid deficiency, as discussed above.

***Cost of Sales, including amortization of intangibles.*** Cost of sales for Fiscal 2015 decreased $18.9 million to $100.5 million. The decrease was primarily attributable to the nonrecurring $20.1 million charge related to the JSP contract renewal recorded in the first quarter of Fiscal Year 2014 as well as lower amortization. The decrease was partially offset by increased provisions for excess and obsolete inventory totaling $6.7 million. Amortization expense included in cost of sales totaled $137 thousand for Fiscal 2015 and $1.4 million for Fiscal 2014.

***Gross Profit.*** Gross profit for the fiscal year ended June 30, 2015 increased 98% to $306.4 million or 75% of total net sales. In comparison, gross profit for the fiscal year ended June 30, 2014 was $154.4 million or 56% of total net sales. The gross profit percentage change for the fiscal year ended June 30, 2015 was mainly attributable to product price increases. The remaining increase was due to the charge related to the JSP contract renewal, which negatively impacted gross margin percentage by 7% in Fiscal Year 2014.

While the Company is continuously seeking to keep product costs low, there can be no guarantee that gross profit percentages will stay consistent in future periods. Pricing pressure from competitors and costs of producing or purchasing new drugs may also fluctuate in future periods. Changes in future product sales mix may also occur.

***Research and Development.*** Research and development expenses increased 9% to $30.3 million for the fiscal year ended June 30, 2015 compared to $27.7 million in the prior-year period. The increase was primarily due to increased product development costs totaling $2.0 million as well as costs associated with bio-equivalency studies and the clinical trial for the Company s C-Topical® Solution product totaling $1.9 million. The increase was partially offset by decreased third-party contract lab expenses totaling $2.7 million. Compensation-related and other miscellaneous expenses also contributed to the increase.

***Selling, General and Administrative.*** Selling, general and administrative expenses increased 17% to $45.2 million for the fiscal year ended June 30, 2015 compared with $38.6 million in the prior year period. The increase was primarily due to additional compensation-related expenses totaling $3.1 million. Legal expenses also contributed an additional increase of $1.5 million.

The Company is focused on controlling selling, general and administrative costs; however increases in personnel and other costs to facilitate changes in the Company s infrastructure and expansion may impact selling, general and administrative expenses in future periods.

***Acquisition and Integration-related Expenses.*** Acquisition and integration-related expenses increased $4.3 million compared to the prior year period. The increase was due to costs associated with the acquisition of Silarx, KUPI and other prospective acquisitions.

***Other Income (Loss).*** The Company recorded a net gain on investment securities during the fiscal year ended June 30, 2015 totaling $705 thousand compared to a net gain on investment securities totaling $1.9 million in the prior year period.

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***Income Tax.*** The Company recorded income tax expense for the fiscal year ended June 30, 2015 of $77.4 million compared to $32.9 million for the fiscal year ended June 30, 2014. The effective tax rate for the fiscal year ended June 30, 2015 was 34.0%, compared to 36.5% for the prior-year period. The decrease in the effective tax rate in the fiscal year ended June 30, 2015 as compared to the fiscal year ended June 30, 2014 was due primarily to the effect of changes in local tax laws and domestic manufacturing deductions recorded in Fiscal 2015. Research-related tax credits also contributed to the lower rate.

At June 30, 2015, the Company had recognized a net deferred tax asset of $28.8 million. The net deferred tax asset is net of a valuation allowance of $2.3 million that is primarily related to the Cody notes receivable impairment recorded in conjunction with the acquisition of Cody Labs. The Company expects the remaining net deferred tax assets to be fully realizable based on the Company s history and future expectations of taxable income.

***Net Income.*** For the fiscal year ended June 30, 2015, the Company reported net income attributable to Lannett Company, Inc. of $149.9 million, or $4.18 basic and $4.04 per diluted share. Comparatively, net income attributable to Lannett Company, Inc. in the prior year was $57.1 million, or $1.70 basic and $1.62 per diluted share, which included the charge related to the JSP contract renewal equal to $0.36 per diluted share.

**Liquidity and Capital Resources**

**Cash Flow**

Until November 25, 2015, the date of the KUPI acquisition, the Company had historically financed its operations with cash flow generated from operations supplemented with borrowings from various government agencies and financial institutions. At June 30, 2016, working capital was $306.1 million as compared to $327.0 million at June 30, 2015, a decrease of $20.9 million. Current product portfolio sales as well as sales related to future product approvals are anticipated to continue to generate positive cash flow from operations, which we expect will be sufficient to service our outstanding debt.

Net cash from operating activities of $135.3 million for the fiscal year ended June 30, 2016 reflected net income of $44.9 million, adjustments for non-cash items of $48.1 million, as well as cash provided by changes in operating assets and liabilities of $42.3 million. In comparison, net cash from operating activities of $128.5 million for the fiscal year ended June 30, 2015 reflected net income of $150.0 million, offset by cash used by changes in operating assets and liabilities of $21.5 million.

Significant changes in operating assets and liabilities from June 30, 2015 to June 30, 2016 are comprised of:

- A decrease in accounts receivable of $15.1 million due to lower gross accounts receivable outstanding and the timing of collections during the quarter ended June 30, 2016 compared to the quarter ended June 30, 2015. The Company s days sales outstanding ( DSO ) at June 30, 2016, based on gross sales for the fiscal year ended June 30, 2016 and gross accounts receivable at June 30, 2016, was 77 days. The level of DSO at June 30, 2016 was comparable to the Company s expectation that DSO will be in the 70 to 80 day range based on customer payment terms.

- A decrease in inventories of $15.3 million primarily due to the timing of customer order fulfillment.

- A decrease in accrued payroll and payroll-related costs of $20.9 million primarily related to payments made in the third quarter of Fiscal 2016 in connection with compensation accrued by KUPI prior to the acquisition as well as payments made in August 2015 in connection with incentive compensation accrued in Fiscal Year 2015.

- A decrease in other assets of $7.7 million primarily related to compensation-related reimbursements received from UCB.

- An increase in settlement liability of $18.6 million related to a settlement charge recorded in the third quarter of Fiscal 2016, partially offset by payments made pursuant to the agreement.

Significant changes in operating assets and liabilities from June 30, 2014 to June 30, 2015 are comprised of:

- An increase in accounts receivable of $25.4 million mainly due to an increase in gross accounts receivable resulting from increased sales partially offset by increases in total revenue-related reserves. The Company s days sales outstanding ( DSO ) at June 30, 2015, based on gross sales for the fiscal year ended June 30, 2015 and gross accounts receivable at June 30, 2015, was 66 days. The level of DSO at June 30, 2015 was comparable to the Company s expectation that DSO will be in the 60 to 70 day range based on 60-70 day payment terms for most customers.

- A decrease in accrued payroll and payroll related costs of $2.5 million primarily related to tax withholdings on a restricted stock vesting on June 30, 2014, partially offset by an increase in accrued incentive compensation costs in Fiscal Year 2015 compared to Fiscal Year 2014.

- A decrease in accounts payable of $2.5 million due to the timing of payments at the beginning of Fiscal Year 2015.

- A decrease in income taxes payable of $5.1 million primarily due to the timing of estimated tax payments made during Fiscal 2015 and excess tax benefits on stock options exercised, partially offset by Fiscal 2015 taxable income.

- An increase in rebates payable of $3.0 million due to an increase in rebates accrued resulting from sales qualifying for existing rebates programs.

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Net cash used in investing activities of $959.1 million for the fiscal year ended June 30, 2016 is mainly the result of the acquisition of KUPI totaling $934.2 million (net of cash acquired), purchases of investment securities of $40.5 million and purchases of property, plant and equipment of $24.3 million, partially offset by proceeds from the sale of investment securities of $39.9 million. Net cash used in investing activities of $45.8 million for the year ended June 30, 2015 is mainly the result of the acquisition of Silarx totaling $41.9 million, purchases of investment securities of $47.8 million and purchases of property, plant and equipment of $31.7 million, partially offset by proceeds from the sale of investment securities of $75.8 million.

Net cash provided by financing activities of $848.2 million for the fiscal year ended June 30, 2016 was primarily due to proceeds from the issuance of debt totaling $1.0 billion, short-term borrowings under the revolving credit facility of $125.0 million, proceeds from issuance of stock pursuant to stock compensation plans of $4.1 million and excess tax benefits on stock option exercises of $1.5 million, partially offset by debt repayments of $295.0 million, payments of debt issuance costs totaling $34.7 million and purchases of treasury stock totaling $1.3 million. Net cash provided by financing activities of $12.3 million for the year ended June 30, 2015 was primarily due to proceeds from the issuance of stock pursuant to stock compensation plans of $4.9 million and excess tax benefits on stock options exercises of $8.1 million.

**Credit Facility and Other Indebtedness**

The Company has previously entered into and may enter future agreements with various government agencies and financial institutions to provide additional cash to help finance the Company s various capital investments and potential strategic opportunities. These borrowing arrangements as of June 30, 2016 are as follows:

*Amended Senior Secured Credit Facility*

On November 25, 2015, in connection with its acquisition of KUPI, Lannett entered into a credit and guaranty agreement (the Credit and Guaranty Agreement ) among certain of its wholly-owned domestic subsidiaries, as guarantors, Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent and other lenders providing for a senior secured credit facility (the Senior Secured Credit Facility ). The Senior Secured Credit Facility consisted of Term Loan A in an aggregate principal amount of $275.0 million, Term Loan B in an aggregate principal amount of $635.0 million and a revolving credit facility providing for revolving loans in an aggregate principal amount of up to $125.0 million. On April 8, 2016, the Company drew down the full $125.0 million Revolving Credit Facility for working capital and other general purposes. The entire balance of the Revolving Credit Facility loan is outstanding as of June 30, 2016.

On June 17, 2016, Lannett amended the Senior Secured Credit Facility and the Credit and Guaranty Agreement to raise an incremental term loan in the principal amount of $150.0 million (the Incremental Term Loan ) and amended certain sections of the agreement (the Amended Senior Secured Credit Facility ). The terms of this Incremental Term Loan are substantially the same as those applicable to the Term Loan B. The Company used the proceeds of the Incremental Term Loan and cash on hand to repurchase the outstanding $250.0 million aggregate principal amount of Lannett s 12.0% Senior Notes due 2023 (the Senior Notes ) issued in connection with the KUPI acquisition.

The Term Loan A Facility will mature on November 25, 2020. The Term Loan A Facility amortizes in quarterly installments (a) through December 31, 2017 in amounts equal to 1.25% of the original principal amount of the Term Loan A Facility and (b) from January 1, 2018 through September 30, 2020 in amounts equal to 2.50% of the original principal amount of the Term Loan A Facility, with the balance payable on November 25, 2020. The Term Loan B Facility will mature on November 25, 2022. The Term Loan B Facility amortizes in equal quarterly installments in amounts equal to 1.25% of the original principal amount of the Term Loan B Facility with the balance payable on November 25, 2022. Any outstanding Revolving Loans will mature on November 25, 2020.

The Amended Senior Secured Credit Facility is guaranteed by all of Lannett s significant wholly-owned domestic subsidiaries (the Subsidiary Guarantors ) and is collateralized by substantially all present and future assets of Lannett and the Subsidiary Guarantors. The interest rates applicable to the Amended Term Loan Facility are based on a fluctuating rate of interest of the greater of an adjusted LIBOR and 1.00%, plus a borrowing margin of 4.75% (for Term Loan A Facility) or 5.375% (for Term Loan B Facility). The interest rates applicable to the Revolving Credit Facility is based on a fluctuating rate of interest of an adjusted LIBOR plus a borrowing margin of 4.75%. The interest rate applicable to the unused commitment for the Revolving Credit Facility was initially 0.50%. Beginning March 2016, the interest margins and unused commitment fee on the Revolving Credit Facility are subject to a leveraged based pricing grid.

The Amended Senior Secured Credit Facility contains a number of covenants that, among other things, limit the ability of Lannett and its restricted subsidiaries to: incur more indebtedness; pay dividends; redeem stock or make other distributions of equity; make investments; create restrictions on the ability of Lannett s restricted subsidiaries that are not Subsidiary Guarantors to pay dividends to Lannett or make intercompany transfers; create negative pledges; create liens; transfer or sell assets; merge or consolidate; enter into sale leasebacks; enter into certain transactions with Lannett s affiliates; and prepay or amend the terms of certain indebtedness.

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The Amended Senior Secured Credit Facility contains a financial performance covenant that is triggered when the aggregate principal amount of outstanding Revolving Credit Facility and outstanding letters of credit as of the last day of the most recent fiscal quarter is greater than 30% of the aggregate commitments under the Revolving Credit Facility. The covenant provides that Lannett shall not permit its first lien net senior secured leverage ratio as of the last day of any four consecutive fiscal quarters (i) from and after December 31, 2015, to be greater than 4.25:1.00 (ii) from and after December 31, 2017 to be greater than 3.75:1.00 and (iii) from and after December 31, 2019 to be greater than 3.25:1.00.

The Amended Senior Secured Credit Facility also contains a financial performance covenant for the benefit of the Term Loan A Facility lenders which provides that Lannett shall not permit its net senior secured leverage ratio as of the last day of any four consecutive fiscal quarters (i) prior to December 31, 2017, to be greater than 4.25:1.00, (ii) as of December 31, 2017 and prior to December 31, 2019 to be greater than 3.75:1.00 and (iii) as of December 31, 2019 and thereafter to be greater than 3.25:1.00.

The Amended Senior Secured Credit Facility also contains certain affirmative covenants, including financial and other reporting requirements.

*12.0% Senior Notes due 2023*

On November 25, 2015, Lannett issued $250.0 million aggregate principal amount of its unsecured 12.0% Senior Notes due 2023 under an Indenture. Interest on the Senior Notes accrued at the rate of 12.0% per annum and was payable semi-annually on June 15 and December 15 of each year. The Senior Notes had a maturity date of December 15, 2023. The Senior Notes were guaranteed by each of Lannett s current and future domestic subsidiaries that guarantee Lannett s obligations under the Amended Senior Secured Credit Facility. The Senior Notes may have been redeemed at par, in whole but not in part, at any time prior to October 1, 2016.

On May 26, 2016, the Company repurchased $50.0 million of the $250.0 million aggregate principal amount of the Senior Notes. On June 20, 2016, the Company completed the repurchase of the remaining $200.0 million of Senior Notes. The repurchase of the $250.0 million aggregate principal amount of the Senior Notes resulted in a loss on extinguishment of approximately $3.0 million.

*Cody Mortgage*

The Company is the primary beneficiary of a VIE called Realty. The VIE owns land and a building which is being leased to Cody Labs. A mortgage loan with First National Bank of Cody has been consolidated in the Company s financial statements, along with the related land and building. As of June 30, 2016 and June 30, 2015, the effective rate was 4.5% per annum. The mortgage is collateralized by the land and building with a net book value of $1.5 million. As of June 30, 2016, $874 thousand is outstanding under the mortgage loan, of which $141 thousand is classified as currently due.

**Other Liquidity Matters**

*Material Suppliers*

During the renewal term of the JSP Distribution Agreement, the Company is required to use commercially reasonable efforts to purchase minimum dollar quantities of JSP products. There is no guarantee that the Company will continue to meet the minimum purchase requirement for Fiscal 2017 and thereafter. If the Company does not meet the minimum purchase requirements, JSP s sole remedy is to terminate the agreement.

*Future Acquisitions*

We are continuously evaluating the potential for product and company acquisitions as a part of our future growth strategy. In conjunction with a potential acquisition, the Company may utilize current resources or seek additional sources of capital to finance any such acquisition, which could have an impact on future liquidity.

We, or any of our affiliates may also, from time to time depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to prepay outstanding debt or repurchase our outstanding debt through open market purchases, privately negotiated purchases, or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings.

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**Contractual Obligations**

The following table represents annual contractual obligations as of June 30, 2016:

| (In thousands) | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 Years |
|---|---|---|---|---|---|
| Long-Term Debt | $ 1,161,225 | $ 178,236 | $ 127,117 | $ 285,270 | $ 570,602 |
| Operating Lease Obligations | 12,278 | 1,578 | 2,222 | 2,160 | 6,318 |
| Purchase Obligations | 95,451 | 41,201 | 54,250 | | |
| Contingent Consideration | 35,000 | 35,000 | | | |
| Settlement Agreement | 21,000 | 7,000 | 14,000 | | |
| Interest on Obligations | 351,857 | 70,623 | 130,405 | 103,387 | 47,442 |
| Total | $ 1,676,811 | $ 333,638 | $ 327,994 | $ 390,817 | $ 624,362 |

Long-term debt and interest on obligations amounts above primarily relate to the Company s Amended Senior Secured Credit Facility. Refer to Note 11 Long-Term Debt for additional information.

Interest on obligations was calculated based on interest rates in effect at June 30, 2016.

The purchase obligations above are primarily due to the agreement with Jerome Stevens Pharmaceuticals, Inc. ( JSP ). If the minimum purchase requirement is not met, JSP has the right to terminate the contract within 60 days of Lannett s failure to meet the requirement. If JSP terminates the contract, Lannett does not pay any fee, but could lose its exclusive distribution rights in the United States. If Lannett s management believes that it is not in the Company s best interest to fulfill the minimum purchase requirements, it can also terminate the contract without any penalty. If either party were to terminate the purchase agreement, there would be a significant impact on the financial position, results of operations and operating cash flows of the Company. See Note 21 Material Contracts with Suppliers to our Consolidated Financial Statements for more information on the terms, conditions and financial impact of the JSP Distribution Agreement.

Operating lease obligations primarily relate to a 116,000 square foot leased warehouse in Seymour, Indiana as well as a 25 year lease with Forward Cody, which commenced in April 2015.

Contingent consideration of $35.0 million relates to a 50/50 split of additional tax liabilities UCB will incur associated with the IRS Section 338(H)(1) tax election. Refer to Note 2 Summary of Significant Accounting Policies for additional information.

Settlement agreement relates to a Settlement Agreement Release and Mutual Release with one of the Company s former customers. Refer to Note 22 Settlement Agreement for additional information.

**Research and Development Arrangements**

In the normal course of business, the Company has entered into certain research and development and other arrangements. As part of these arrangements, the Company has agreed to certain contingent payments which generally become due and payable only upon the achievement of certain developmental, regulatory, commercial and/or other milestones. In addition, under certain arrangements, we may be required to make royalty payments based on a percentage of future sales, or other metric, for products currently in development in the event that the Company begins to market and sell the product. Due to the inherent uncertainty related to these developmental, regulatory, commercial and/or other milestones, it is unclear if the Company will ever be required to make such payments. As such, these contingencies are not reflected in the expected cash requirements for Contractual Obligations in the table above.

**Prospects for the Future**

As we enter our new fiscal year, we are a formidable generic drug company. We have earned the respect of our customers by our continuous growth in product offerings and our extraordinary service as a reliable supplier. The lack of regulatory issues and the ability to respond to our customers needs make our Company a desirable supplier. In 2016, we once again won the prestigious Diana Award for Best Generic Manufacturer from the Healthcare Distribution Alliance.

Over the past several years, Lannett continued to experience substantial improvement in many important financial metrics. Each year, our knowledge, staffs skills and talent increase. The Company is strengthening and building momentum to grow within the generic pharmaceutical industry organically and through mergers and acquisitions. The recently completed acquisitions of Silarx and KUPI display our ability to grow through M&A.

One initiative at the core of the Company s long term strategy is our plan to vertically integrate our supply chain. Acquired in 2007 we continue leveraging Cody Labs. In July 2008, the DEA granted Cody Labs a license to directly import concentrated poppy straw for extraction into opioid-based active pharmaceutical ingredients ( APIs ) such as Morphine Base, Hydromorphone, Hydrocodone and Oxycodone, for use in various dosage forms for pain management.

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The value of this license comes from the successful development of patentable processes. Cody Labs has filed and received numerous patents using their expertise in API development and manufacture. Our technical skills allow the Company to perform in a market with high barriers to entry and limited foreign and domestic competition.

Because of this vertical integration, the Company has direct control of those APIs manufactured by Cody. In this fashion we can avoid increased costs, add to the Company s overall margins and avoid supply chain interruptions associated with buying APIs from third-party manufacturers. The Company can also leverage this vertical integration not only for direct supply of opioid-based APIs, but also for the manufacture of non-opioid-based controlled drugs such as Cocaine HCl.

The Company believes that demand for controlled substances and pain management drugs, having grown from $3 billion in 2005 to over $31 billion today, will continue based upon the Baby Boomer demographics. By concentrating additional resources in the development of opioid-based APIs and dosage forms, the Company is well-positioned to take advantage of this opportunity. The Company is currently vertically integrated on three products, with several others in various stages of development.

One product that the Company manufactures is a brand drug for use in surgery. Our C-Topical® Solution brand of cocaine hydrochloride involves the successful patented synthetic process developed by Cody. This product is being manufactured and marketed under the product name C-Topical® Solution. This product is an analgesic topical solution, with vasoconstriction as a side effect, for use primarily by ear, nose and throat physicians during surgical procedures. This product represents the Company s first foray into the brand market. Currently, we have completed the Phase III study and our CRO is assembling the data for our New Drug Application. As the Company continues to invest in and focus on process and manufacturing optimization, Cody Labs will continue to be an important part of our future growth plan.

Selling brand versus generic products require a dedicated sales force to detail and educate physicians on the product. The Company strongly believes that C-Topical®, once FDA has granted approval, will be an important contributor to total revenue, with higher than average profit margins as a result of vertical integration. The Company s strategic goal is to continue investing in controlled substance product development. Revenues from manufactured products derived from controlled substances carry higher-than-average gross margins.

In addition to focusing on the development and manufacture of opioid-based APIs and dosage forms, the Company has made a decision to develop products which require a paragraph four ( P-IV ) certification when filing the ANDA. A P-IV certification is required when an ANDA is submitted for a product for which the innovator s patent has not yet expired. The certification must state whether the patent on the reference listed drug ( RLD ) is being challenged on grounds of it being invalid, or if the patent is being circumvented. This path to product approval represents an opportunity for our Company, because we do not have to wait until a particular patent expires to potentially enter the market. Secondly, if our Company is the first-to-file a P-IV certification on a product and we successfully invalidate or circumvent the patent, the FDA may grant 180 days of market exclusivity. This allows us to be the sole competitor to the brand currently on the market for six months unless the innovator company sells an authorized generic. During this market exclusivity period, we could capture a significant portion of the market from the brand company at reasonably higher prices than our older products.

The Company filed its first ANDA with a P-IV certification in Fiscal 2013. As of June 30, 2016, we have 12 P-IV certifications pending with the FDA, of which five were filed by Lannett, four by Silarx and three by KUPI. Four of the P-IV certifications are currently being challenged. In response to our P-IV certification with respect to the Zomig® nasal spray product, AstraZeneca AB, AstraZeneca UK Limited and Impax Laboratories, Inc. filed two patent infringement complaints against the Company in July 2014. In response to our P-IV certification with respect to Thalomid®, Celgene Corporation and Children s Medical Center Corporation filed a patent infringement lawsuit against the Company in January 2015. In response to our P-IV certification with respect to Dilaudid® Oral Solution, Purdue Pharmaceutical Products L.P, Purdue

Pharma L.P and Purdue Pharma Technologies Inc. filed a patent infringement lawsuit against the Company in August 2015. The Company is in various stages of responding to the patent infringement claims; and in the case of Dilaudid, a settlement has been reached in principle and details are being finalized. Refer to Note 12 Legal and Regulatory Matters for additional information.

The Company has a business development group focused on mergers, acquisitions and other strategic alliances. The Company is party to supply and development agreements with JSP, Summit Bioscience LLC, HEC Pharm Group, Pharma Pass II LLC and various other international and domestic companies. The Company is currently in negotiations of similar agreements with other companies and is actively seeking additional strategic partnerships, through which it will market and distribute products manufactured in-house or by third parties. The Company plans to continue evaluating potential merger and acquisition opportunities as well as product acquisitions that are a strategic fit and accretive to the business.

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After we closed upon the Kremers Urban acquisition, we established a very aggressive integration plan. We are pleased to say that our integration plans are moving swiftly and we will be benefitting from the synergies created through integration.

We are pleased to advise that the FDA will be inspecting our overseas pharmacokinetic subsidiary Darmantest Laboratory as well as Firmplace, a joint venture stability lab this fall. These operations may affect lower cost benefits for stability and bioequivalency studies in the future.

**Critical Accounting Policies**

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States and the rules and regulations of the SEC requires the use of estimates and assumptions. A listing of the Company s significant accounting policies are detailed in Note 2 Summary of Significant Accounting Policies. A subsection of these accounting policies have been identified by management as Critical Accounting Policies. Critical accounting policies are those which require management to make estimates using assumptions that were uncertain at the time the estimates were made and for which the use of different assumptions, which reasonably could have been used, could have a material impact on the financial condition or results of operations.

Management has identified the following as Critical Accounting Policies : Revenue Recognition, Inventories, Income Taxes, Valuation of Long-Lived Assets, including Goodwill and Intangible Assets, In-Process Research and Development and Share-based Compensation.

***Revenue Recognition***

The Company recognizes revenue when title and risk of loss have transferred to the customer and provisions for estimates, including rebates, promotional adjustments, price adjustments, returns, chargebacks and other potential adjustments are reasonably determinable. The Company also considers all other relevant criteria specified in SEC Staff Accounting Bulletin No. 104, Topic No. 13, Revenue Recognition, in determining when to recognize revenue.

When revenue is recognized, a simultaneous adjustment to gross sales is made for chargebacks, rebates, returns, promotional adjustments and other potential adjustments. These provisions are primarily estimated based on historical experience, future expectations, contractual arrangements with wholesalers and indirect customers and other factors known to management at the time of accrual. Accruals for provisions are presented in the Consolidated Financial Statements as a reduction to gross sales with the corresponding reserve presented as a reduction of accounts receivable or included as rebates payable. The reserves presented as a reduction of accounts receivable totaled $176.1 million and $69.4 million at June 30, 2016 and June 30, 2015, respectively. Rebates payable at June 30, 2016 and June 30, 2015 included $21.9 million and $7.6 million, respectively, for certain rebate programs, primarily related to Medicare Part D and Medicaid and certain sales allowances and other adjustments paid to indirect customers.

The following table identifies the activity and ending balances of each major category of revenue reserve for fiscal years 2016, 2015 and 2014:

| Reserve Category (In thousands) | Chargebacks | Rebates | Returns | Other | Total |
|---|---|---|---|---|---|
| Balance at June 30, 2013 | $ 7,267 | $ 3,581 | $ 6,689 | $ 1,000 | $ 18,537 |
| Current period provision | 144,578 | 56,346 | 6,632 | 21,462 | 229,018 |
| Credits issued during the period | (121,525) | (44,836) | (3,980) | (20,675) | (191,016) |
| Balance at June 30, 2014 | 30,320 | 15,091 | 9,341 | 1,787 | 56,539 |
| Additions related to the Silarx acquisition | 1,042 | 1,176 | 712 | | 2,930 |
| Current period provision | 338,668 | 83,364 | 17,707 | 30,661 | 470,400 |
| Credits issued during the period | (334,229) | (79,133) | (8,551) | (30,920) | (452,833) |
| Balance at June 30, 2015 | 35,801 | 20,498 | 19,209 | 1,528 | 77,036 |
| Additions related to the KUPI acquisition | 49,333 | 38,471 | 20,498 | 6,455 | 114,757 |
| Current period provision | 646,926 | 189,210 | 21,298 | 49,976 | 907,410 |
| Credits issued during the period | (645,565) | (194,095) | (20,412) | (41,108) | (901,180) |
| Balance at June 30, 2016 | $ 86,495 | $ 54,084 | $ 40,593 | $ 16,851 | $ 198,023 |

For the fiscal years ended June 30, 2016, 2015 and 2014, as a percentage of gross sales the provision for chargebacks was 44.6%, 38.6% and 28.8%, respectively, the provision for rebates was 13.0%, 9.5% and 11.2%, respectively, the provision for returns was 1.5%, 2.0% and 1.3%, respectively and the provision for other adjustments was 3.4%, 3.5% and 4.3%, respectively.

The increase in total reserves from June 30, 2015 to June 30, 2016 was due to increases in all reserve categories primarily as a result of reserves acquired in connection with the acquisition of KUPI. The activity in the Other category includes shelf-stock, shipping and other sales adjustments including prompt payment discounts. Historically, we have not recorded any material amounts in the current period related to reversals or additions of prior period reserves.

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If the Company were to record a material reversal or addition of any prior period reserve amount, it would be separately disclosed.

Provisions for chargebacks, rebates, returns and other adjustments require varying degrees of subjectivity. While rebates generally are based on contractual terms and require minimal estimation, chargebacks and returns require management to make more subjective assumptions. Each major category is discussed in detail below:

***Chargebacks***

The provision for chargebacks is the most significant and complex estimate used in the recognition of revenue. The Company sells its products directly to wholesale distributors, generic distributors, retail pharmacy chains and mail-order pharmacies. The Company also sells its products indirectly to independent pharmacies, managed care organizations, hospitals, nursing homes and group purchasing organizations, collectively referred to as indirect customers. The Company enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select a wholesaler from which to purchase the products. If the price paid by the indirect customers is lower than the price paid by the wholesaler, the Company will provide a credit, called a chargeback, to the wholesaler for the difference between the contractual price with the indirect customers and the wholesaler purchase price. The provision for chargebacks is based on expected sell-through levels by the Company s wholesale customers to the indirect customers and estimated wholesaler inventory levels. As sales to the large wholesale customers, such as Cardinal Health, AmerisourceBergen and McKesson increase (decrease), the reserve for chargebacks will also generally increase (decrease). However, the size of the increase (decrease) depends on product mix and the amount of sales made to indirect customers with which the Company has specific chargeback agreements. The Company continually monitors the reserve for chargebacks and makes adjustments when management believes that expected chargebacks may differ from the actual chargeback reserve.

***Rebates***

Rebates are offered to the Company s key chain drug store, distributor and wholesaler customers to promote customer loyalty and increase product sales. These rebate programs provide customers with credits upon attainment of pre-established volumes or attainment of net sales milestones for a specified period. Other promotional programs are incentive programs offered to the customers. Additionally, as a result of the Patient Protection and Affordable Care Act ( PPACA ) enacted in the U.S. in March 2010, the Company participates in a new cost-sharing program for certain Medicare Part D beneficiaries designed primarily for the sale of brand drugs and certain generic drugs if their FDA approval was granted under a New Drug Application ( NDA ) or 505(b) NDA versus an ANDA. Because our drugs used for the treatment of thyroid deficiency and our Morphine Sulfate Oral Solution product were both approved by the FDA as 505(b)(2) NDAs, they are considered brand drugs for purposes of the PPACA. Drugs purchased within the Medicare Part D coverage gap (commonly referred to as the donut hole ) result in additional rebates. The Company estimates the reserve for rebates and other promotional credit programs based on the specific terms in each agreement when revenue is recognized. The reserve for rebates increases (decreases) as sales to certain wholesale and retail customers increase (decrease). However, since these rebate programs are not identical for all customers, the size of the reserve will depend on the mix of sales to customers that are eligible to receive rebates.

***Returns***

Consistent with industry practice, the Company has a product returns policy that allows customers to return product within a specified time period prior to and subsequent to the product s expiration date in exchange for a credit to be applied to future purchases. The Company s policy requires that the customer obtain pre-approval from the Company for any qualifying return. The Company estimates its provision for returns based on historical experience, changes to business practices, credit terms and any extenuating circumstances known to management. While historical experience has allowed for reasonable estimations in the past, future returns may or may not follow historical trends. The Company continually monitors the reserve for returns and makes adjustments when management believes that actual product returns may differ from the established reserve. Generally, the reserve for returns increases as net sales increase.

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***Other Adjustments***

Other adjustments consist primarily of price adjustments, also known as shelf-stock adjustments and price protections, which are both credits issued to reflect increases or decreases in the invoice or contract prices of the Company s products. In the case of a price decrease, a credit is given for product remaining in customer s inventories at the time of the price reduction. Contractual price protection results in a similar credit when the invoice or contract prices of the Company s products increase, effectively allowing customers to purchase products at previous prices for a specified period of time. Amounts recorded for estimated shelf-stock adjustments and price protections are based upon specified terms with direct customers, estimated changes in market prices and estimates of inventory held by customers. The Company regularly monitors these and other factors and evaluates the reserve as additional information becomes available. Other adjustments also include prompt payment discounts.

***Inventories***

Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Inventories are regularly reviewed and provisions for excess and obsolete inventory are recorded based primarily on current inventory levels and estimated sales forecasts. During the fiscal years ended June 30, 2016, 2015 and 2014, the Company recorded provisions for excess and obsolete inventory of $9.4 million, $6.7 million and $2.9 million, respectively.

***Income Taxes***

The Company uses an asset and liability approach to account for income taxes as prescribed by ASC 740, Income Taxes. Deferred taxes are recorded to reflect the tax consequences on future years of events that the Company has already recognized in the financial statement or tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effect of changes in tax law or tax rates in the period during which the new law is enacted. Under ASC 740, Income Taxes, a valuation allowance is required when it is more likely than not that all or some portion of the deferred tax assets will not be realized through generating sufficient future taxable income. Failure to achieve forecasted taxable income in applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in the Company s effective tax rate on future earnings.

The Company may recognize the tax benefit from an uncertain tax position claimed on a tax return only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The benefit from uncertain tax positions recorded in the financial statements was immaterial for all periods presented.

The Company s future effective income tax rate is highly reliant on future projections of taxable income, tax legislation and potential tax planning strategies. A change in any of these factors could materially affect the effective income tax rate of the Company in future periods.

***Business Combinations***

Acquired businesses are accounted for using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective estimated fair values. The fair values and useful lives assigned to each class of assets acquired and liabilities assumed are based on, among other factors, the expected future period of benefit of the asset, the various characteristics of the asset and projected future cash flows. Significant judgment is employed in determining the assumptions utilized as of the acquisition date and for each subsequent measurement period. Accordingly, changes in assumptions described above, could have a material impact on our consolidated results of operations.

***Valuation of Long-Lived Assets, including Goodwill and Intangible Assets***

The Company s long-lived assets primarily consist of property, plant and equipment, definite and indefinite-lived intangible assets and goodwill.

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the assets estimated useful lives, generally for periods ranging from 5 to 39 years. Definite-lived intangible assets are stated at cost less accumulated amortization and are amortized on a straight-line basis over the assets estimated useful lives, generally for periods ranging from 10 to 15 years. The Company continually evaluates the reasonableness of the useful lives of these assets.

Property, plant and equipment and definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances ( triggering events ) indicate that the carrying amount of the asset may not be recoverable.

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The nature and timing of triggering events by their very nature are unpredictable; however, management regularly considers the performance of an asset as compared to its expectations, industry events, industry and economic trends, as well as any other relevant information known to management when determining if a triggering event occurred. If a triggering event is determined to have occurred, the first step in the impairment test is to compare the asset s carrying value to the undiscounted cash flows expected to be generated by the asset. If the carrying value exceeds the undiscounted cash flow of the asset, then an impairment exists. An impairment loss is measured as the excess of the asset s carrying value over its fair value, which in most cases is calculated using a discounted cash flow model. Discounted cash flow models are highly reliant on various assumptions which are considered Level 3 inputs, including estimates of future cash flows (including long-term growth rates), discount rates and the probability of achieving the estimated cash flows. The judgments made in determining the estimated fair value can materially impact our results of operations.

Goodwill and indefinite-lived intangible assets, including in-process research and development, are not amortized. Instead, goodwill and indefinite-lived intangible assets are tested for impairment annually during the fourth quarter of each fiscal year, or more frequently whenever events or changes in circumstances ( triggering events ) indicate that the asset might be impaired. The Company first performs a qualitative assessment to determine if the quantitative impairment test is required. If changes in circumstances indicate an asset may be impaired, the Company performs the quantitative test. The quantitative impairment test consists of a Step I analysis that requires a comparison between the reporting unit s fair value and carrying amount. If the fair value of the reporting unit exceeds its carrying amount, impairment does not exist and no further analysis is required. A Step II analysis would be required if the fair value of the reporting unit is lower than its carrying amount. If the carrying amount of a reporting unit exceeds the fair value, Step II of the quantitative impairment test requires the allocation of the reporting unit fair value to all of its assets and liabilities using the acquisition method prescribed under authoritative guidance for business combinations with any residual fair value being allocated to goodwill or indefinite-lived intangibles. An impairment charge is recognized only when the implied fair value of the reporting unit s goodwill or indefinite-lived intangible is less than its carrying amount. The judgments made in determining the estimated fair value of goodwill and indefinite-lived intangible asset can materially impact our results of operations. The Company s fair value assessments are highly reliant on various assumptions which are considered Level 3 inputs, including estimates of future cash flows (including long-term growth rates), discount rates and the probability of achieving the estimated cash flows. The Company has one reportable segment and one reporting unit, generic pharmaceuticals.

***In-Process Research and Development***

Acquired businesses are accounted for using the acquisition method of accounting. The acquisition purchase price is allocated to the net assets of the acquired business at their respective fair values. Amounts allocated to in-process research and development are recorded at fair value and are considered indefinite-lived intangible assets subject to the impairment testing in accordance with the Company s impairment testing policy for indefinite-lived intangible assets as described above. As products in development are approved for sale, amounts will be allocated to product rights and will be amortized over their estimated useful lives. Definite-lived intangible assets are amortized over the expected life of the asset. The judgments made in determining the estimated fair value of in-process research and development, as well as asset lives, can materially impact our results of operations. The Company s fair value assessments are highly reliant on various assumptions which are considered Level 3 inputs, including estimates of future cash flows (including long-term growth rates), discount rates and the probability of achieving the estimated cash flows. During the fourth quarter of Fiscal 2016, as part of the Company s annual test of goodwill and indefinite-lived intangibles, an impairment charge equal to $8.0 million was recorded. In Fiscal 2015, no impairment charges were recorded.

***Share-based Compensation***

Share-based compensation costs are recognized over the vesting period, using a straight-line method, based on the fair value of the instrument on the date of grant less an estimate for expected forfeitures. The Company uses the Black-Scholes valuation model to determine the fair value of stock options and the market price on the grant date to value restricted stock. The Black-Scholes valuation model includes various assumptions,

including the expected volatility, the expected life of the award, dividend yield and the risk-free interest rate. These assumptions involve inherent uncertainties based on market conditions which are generally outside the Company s control. Changes in these assumptions could have a material impact on share-based compensation costs recognized in the financial statements.

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The following table presents the weighted average assumptions used to estimate fair values of the stock options granted during the years ended June 30 and the estimated annual forfeiture rates used to recognize the associated compensation expense:

| | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|---|---|---|---|
| Risk-free interest rate | 1.7% | 1.7% | 2.1% |
| Expected volatility | 48.3% | 52.1% | 62.8% |
| Expected dividend yield | 0.0% | 0.0% | 0.0% |
| Forfeiture rate | 6.5% | 6.5% | 7.5% |
| Expected term | 5.2 years | 5.5 years | 5.9 years |

Expected volatility is based on the historical volatility of the price of our common shares during the historical period equal to the expected term of the option. The Company uses historical information to estimate the expected term, which represents the period of time that options granted are expected to be outstanding. The risk-free rate for the period equal to the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The forfeiture rate assumption is the estimated annual rate at which unvested awards are expected to be forfeited during the vesting period. This assumption is based on our actual forfeiture rate on historical awards. Periodically, management will assess whether it is necessary to adjust the estimated rate to reflect changes in actual forfeitures or changes in expectations. Additionally, the expected dividend yield is equal to zero, as the Company has not historically issued and has no immediate plans to issue, a dividend.

***Recent Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict 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 authoritative guidance is effective for annual reporting periods beginning after December 15, 2016. In July 2015, the FASB extended the effective date of the guidance by one year to December 15, 2017. The Company is currently in the process of assessing the impact this guidance will have on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. It is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The Company has elected to early adopt ASU 2015-03 as of December 31, 2015.

In July 2015, the FASB issued ASU 2015-11, *Inventory Simplifying the Measurement of Inventory*. ASU 2015-11 requires inventory to be subsequently measured using the lower of cost or net realizable value, thereby eliminating the market value approach. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for reporting periods beginning after December 15, 2016 and is applied prospectively. Early adoption is permitted. The Company is currently in the process of assessing the impact this guidance will have on the consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the

reporting period in which the adjustment amounts are determined. ASU 2015-16 also requires that the acquirer record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 is effective for reporting periods beginning after December 15, 2015 and is applied prospectively. Early adoption is permitted. The Company has elected to early adopt ASU 2015-16 as of March 31, 2016.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes Balance Sheet Classification of Deferred Taxes.* ASU 2015-17 requires all deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The guidance may be applied either prospectively or retrospectively. ASU 2015-17 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company is currently in the process of assessing the impact this guidance will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases.* ASU 2016-02 requires an entity to recognize right-of-use assets and liabilities on its balance sheet for all leases with terms longer than 12 months. Lessees and lessors are required to disclose quantitative and qualitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

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ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and requires a modified retrospective application, with early adoption permitted. The Company is currently in the process of assessing the impact this guidance will have on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 clarifies several aspects of accounting for share-based compensation including the accounting for excess tax benefits and deficiencies, accounting for forfeitures and the classification of excess tax benefits on the cash flow statement. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016 and in interim periods within those fiscal years, with early adoption permitted. The Company is currently in the process of assessing the impact this guidance will have on the consolidated financial statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On November 25, 2015, in connection with the acquisition of KUPI, the Company entered into a Senior Secured Credit Facility, which was subsequently amended in June 2016. Based on the variable-rate debt outstanding at June 30, 2016, each 1/8% increase in interest rates would yield $1.5 million of incremental annual interest expense.

A mortgage loan with First National Bank of Cody has been consolidated in the Company s financial statements, along with the related land and building. The mortgage requires monthly principal and interest payments of $15 thousand. As of June 30, 2016 and June 30, 2015, the effective interest rate was 4.5% per annum. The mortgage is collateralized by the land and building with a net book value of $1.5 million. As of June 30, 2016, $874 thousand is outstanding under the mortgage loan.

The Company invests in equity securities, U.S. government agency securities and corporate bonds, which are exposed to market and interest rate fluctuations. The market value, interest and dividends earned on these investments may vary based on fluctuations in interest rate and market conditions.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and Report of the Independent Registered Public Accounting Firm is set forth in Item 15 of this Annual Report on Form 10-K under the caption Consolidated Financial Statements and incorporated herein by reference.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

*Disclosure Controls and Procedures*

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act ), as amended, for financial reporting as of June 30, 2016. Based on that evaluation, our chief executive officer and chief financial officer concluded that these controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management to allow timely decisions regarding required disclosures. There were no changes in these controls or procedures identified in connection with the evaluation of such controls or procedures that occurred during our last fiscal quarter, or in other factors that have materially affected, or are reasonably likely to materially affect these controls or procedures.

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. These disclosure controls and procedures include, among other things, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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*Management s Report on Internal Control over Financial Reporting*

The report of management of the Company regarding internal control over financial reporting is set forth in Item 15 of this Annual Report on Form 10-K under the caption Consolidated Financial Statements: Management s Report on Internal Control Over Financial Reporting and incorporated herein by reference.

*Attestation Report of Independent Registered Public Accounting Firm*

The attestation report of the Company s independent registered public accounting firm regarding internal control over financial reporting is set forth in Item 15 of this Annual Report on Form 10-K under the caption Consolidated Financial Statements: Report of Independent Registered Public Accounting Firm and incorporated herein by reference.

*Changes in Internal Control over Financial Reporting*

During the quarter ended June 30, 2016, there were no changes in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

**Directors and Executive Officers**

The directors and executive officers of the Company are set forth below:

| | Age | Position |
|---|---|---|
| **Directors:** | | |
| Jeffrey Farber | 55 | Chairman of the Board |
| Arthur P. Bedrosian | 70 | Director |
| David Drabik | 48 | Director |
| Paul Taveira | 56 | Director |
| James M. Maher | 63 | Director |
| Albert Paonessa, III | 56 | Director |
| **Officers:** | | |
| Arthur P. Bedrosian | 70 | Chief Executive Officer |
| Martin P. Galvan | 64 | Vice President of Finance, Chief Financial Officer and Treasurer |
| Kevin R. Smith | 56 | Senior Vice President of Sales and Marketing |
| John M. Abt | 51 | Vice President of Quality |
| Dr. Mahendra Dedhiya | 67 | Chief Scientific Affairs |
| Robert Ehlinger | 58 | Vice President and Chief Information Officer |

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**Jeffrey Farber** was appointed a Director of the Company in May 2006 and was appointed Chairman of the Board of Directors in July 2012. Jeffrey Farber joined the Company in August 2003 as Secretary. Since 1994, Mr. Farber has been President and the owner of Auburn Pharmaceutical ( Auburn ), a national generic pharmaceutical distributor. Prior to starting Auburn, Mr. Farber served in various positions at Major Pharmaceutical ( Major ), where he was employed for over 15 years. At Major, Mr. Farber was involved in sales, purchasing and eventually served as President of the Midwest division. Mr. Farber also spent time working at Major s manufacturing division, Vitarine Pharmaceuticals, where he served on its Board of Directors. Mr. Farber joined the Board of Directors of the Karmanos Cancer Center in June 2015. The Karmanos Cancer Center is a not-for-profit national cancer center in Michigan. Mr. Farber graduated from Western Michigan University with a Bachelors of Science Degree in Business Administration and participated in the Pharmacy Management Graduate Program at Long Island University.

The Governance and Nominating Committee concluded that Mr. Farber is qualified and should continue to serve, due, in part, to his significant experience in the generic drug industry and his ongoing role as the owner of a highly regarded and successful generic drug distributor. His skills include a thorough knowledge of the generic drug marketplace and drug supply chain management.

**David Drabik** was elected a Director of the Company in January 2011. Mr. Drabik is a National Association of Corporate Directors Governance Fellow. Since 2002, Mr. Drabik has been President of Cranbrook & Co., LLC ( Cranbrook ), an advisory firm primarily serving the private equity and venture capital community. At Cranbrook, Mr. Drabik assists and advises its clientele on originating, structuring and executing private equity and venture capital transactions. From 1995 to 2002, Mr. Drabik served in various roles and positions with UBS Capital Americas (and its predecessor UBS Capital LLC), a New York City based private equity and venture capital firm that managed $1.5 billion of capital. From 1992 to 1995, Mr. Drabik was a banker with Union Bank of Switzerland s Corporate and Institutional Banking division in New York City. Mr. Drabik graduated from the University of Michigan with a Bachelors of Business Administration degree.

The Governance and Nominating Committee concluded that Mr. Drabik is well qualified and should be nominated to serve as a Director due, in part, to his understanding and involvement in investment banking. As a global investment bank professional with extensive experience advising senior management, his skills include business analytics, financing and a strong familiarity with SEC documentation. Mr. Drabik is an independent director as defined by the rules of the NYSE.

**Paul Taveira** was appointed a Director of the Company in May 2012. Mr. Taveira has been Chief Executive Officer of the National Response Corporation, an international firm specializing in environmental services, since June 2015. He previously served on the Board of Directors and as the Chief Executive Officer of A&D Environmental Services Inc., an environmental and industrial services company. From 2007 to 2009, Mr. Taveira was a Managing Partner of Precision Source LLC, a manufacturer of precision parts for various industries across the United States. From 1997 to 2007, Mr. Taveira held several positions at PSC Inc., a national provider of environmental services, including President, Vice President and Regional General Manager. From 1987 to 1997, Mr. Taveira held several management positions with Clean Harbors Inc., an international provider of environmental and energy services. Mr. Taveira graduated from Worcester State University with a Bachelor of Science degree in Biology.

The Governance and Nominating Committee concluded that Mr. Taveira is well qualified and should be nominated to serve as a Director due, in part, to his understanding and experience as a Chief Executive Officer and Director of A&D Environmental Services Inc. Additionally, Mr. Taveira has experience as a Managing Partner of Precision Source LLC, a manufacturer of precision parts for various industries across the United States. Mr. Taveira is an independent director as defined by the rules of the NYSE.

**James M. Maher** was appointed as a Director of the Company in June 2013. He spent his entire 37 year professional career with PricewaterhouseCoopers (PwC) LLP, including 27 years as a partner, before retiring in June 2012. Most recently, Maher served as the managing partner of PwC s U.S. assurance practice, comprised of more than 1,100 partners and 12,000 staff. Previously, he served as the regional assurance leader for the metro assurance practice. During his tenure at PwC, Maher worked closely with senior management at several multinational companies, dealing extensively with significant acquisitions, divestitures, initial public offerings and secondary offerings. Maher earned a bachelor s degree in Accounting from LIU Post.

The Governance and Nominating Committee concluded that Mr. Maher is well qualified and should be nominated to serve as a Director, due to his extensive experience at PricewaterhouseCoopers. Additionally, Mr. Maher has significant experience in dealing with acquisitions, divestitures, initial public offerings and secondary offerings. Mr. Maher is an independent director as defined by the rules of the NYSE.

**Albert Paonessa, III** was appointed as a Director of the Company in July 2015. Mr. Paonessa retired from Anda, Inc., the fourth largest distributor of generic drugs in the U.S. in January 2015 after serving as President for the past 10 years. He previously served as Anda s Senior Vice President of Sales and before that as Vice President of IT. Earlier, Mr. Paonessa was Vice President of Operations for VIP Pharmaceuticals, which was acquired by Anda s parent company Andrx, in 2000. Mr. Paonessa earned a Bachelor of Arts degree in Interpersonal Communications from Bowling Green State University.

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The Governance and Nominating Committee concluded that Mr. Paonessa is well qualified and should be nominated to serve as a Director due, in part, to his significant experience in different executive roles within the generic pharmaceutical industry. Additionally, Mr. Paonessa has a strong operational and technical background, especially in the areas of sales, IT, planning and budgeting and business development. Mr. Paonessa is an independent director as defined by the rules of the NYSE.

**Arthur P. Bedrosian, J.D.** was promoted to President of the Company in May 2002 and CEO in January of 2006. Previously, he served as the Company s Vice President of Business Development from January 2002 to April 2002. Mr. Bedrosian was elected as a Director in February 2000 and served to January 2002. Mr. Bedrosian was re-elected a Director in January 2006. Mr. Bedrosian has operated generic drug manufacturing, sales and marketing businesses in the healthcare industry for many years. Prior to joining the Company, from 1999 to 2001, Mr. Bedrosian served as President and Chief Executive Officer of Trinity Laboratories, Inc., a medical device and drug manufacturer. Mr. Bedrosian also operated Pharmaceutical Ventures Ltd, a healthcare consultancy, Pharmeral, Inc. a drug representation company selling generic drugs and Interal Corporation, a computer consultancy to Fortune 100 companies. Mr. Bedrosian holds a Bachelor of Arts Degree in Political Science from Queens College of the City University of New York and a Juris Doctorate from Newport University in California.

The Governance and Nominating Committee concluded that Mr. Bedrosian is qualified to serve as a director, in part, because his experience as our Chief Executive Officer has been instrumental in the Company s growth and provides the board with a compelling understanding of our operations, challenges and opportunities. In addition, his background includes over 40 years in the generic pharmaceutical industry that encompasses a broad background and knowledge in the underlying scientific, sales, marketing and supply chain management which brings special expertise to the board in developing our business strategies. His recent qualification to FINRA s list of arbitrators recognizes his expertise and experience.

**Martin P. Galvan, CPA** was appointed as the Company s Vice President of Finance, Chief Financial Officer and Treasurer in August 2011. Most recently, he was Chief Financial Officer of CardioNet, Inc., a medical technology and service company. From 2001 to 2007, Mr. Galvan was employed by Viasys Healthcare Inc., a healthcare technology company that was acquired by Cardinal Health, Inc. in June 2007. Prior to the acquisition, he served as Executive Vice President, Chief Financial Officer and Director Investor Relations. From 1999 to 2001, Mr. Galvan served as Chief Financial Officer of Rodel, Inc., a precision surface technologies company in the semiconductor industry. From 1979 to 1998, Mr. Galvan held several positions with Rhone-Poulenc Rorer Inc., a pharmaceutical company, including Vice President, Finance The Americas; President & General Manager, RPR Mexico & Central America; Vice President, Finance, Europe/Asia Pacific; and Chief Financial Officer, United Kingdom & Ireland. Mr. Galvan began his career with the international accounting firm Ernst & Young LLP. He earned a Bachelor of Arts degree in economics from Rutgers University and is a member of the American Institute of Certified Public Accountants.

**Kevin R. Smith** joined the Company in January 2002 as Vice President of Sales and Marketing. Prior to this, from 2000 to 2001, he served as Director of National Accounts for Bi-Coastal Pharmaceutical, Inc., a pharmaceutical sales representation company. Prior to this, from 1999 to 2000, he served as National Accounts Manager for Mova Laboratories Inc., a pharmaceutical manufacturer. Prior to this, from 1991 to 1999, Mr. Smith served as National

Sales Manager at Sidmak Laboratories, a pharmaceutical manufacturer. Mr. Smith has extensive experience in the generic sales market and brings to the Company a vast network of customers, including retail chain pharmacies, wholesale distributors, mail-order wholesalers and generic distributors. Mr. Smith has a Bachelor of Science Degree in Business Administration from Gettysburg College.

**John M. Abt** joined the Company in March 2015 as Vice President of Quality. Prior to joining the Company, Mr. Abt held senior level positons in both quality and operations and has extensive knowledge in pharmaceutical manufacturing, quality, strategy, business improvement and site transformation. He most recently served as Teva Pharmaceuticals Vice President Global Quality Strategy, overseeing the development and implementation of strategy and associated initiatives for the global quality organization. Before that, he held a number of leadership positions of increasing responsibility in operations, continuous improvement, quality systems and compliance. He earned his Masters of Administrative Science in Business Management from John Hopkins University and a Bachelor of Science in Biochemistry from Niagara University.

**Dr. Mahendra Dedhiya** joined the Company as Chief Scientific Affairs in June 2015. Prior to joining the Company, Dr. Dedhiya served as Silarx Pharmaceuticals Executive Vice President of Scientific Affairs from 2014 to 2015, overseeing research and development and regulatory affairs among other responsibilities. Before that, he held a number of positions of increasing responsibility for Forest Pharmaceuticals from 2001 to 2014, rising to Executive Director. Prior to his tenure at Forest Pharmaceuticals, Dr. Dedhiya served as Director of Product Development at Roxane Laboratories and held a number of positions at other Pharmaceutical Companies. He earned a Doctor of Philosophy degree from the University of Michigan in Pharmaceutics, a Master of Science degree in Medicinal Chemistry from the University of Rhode Island, a Bachelor of Science from University of Poona and MBA from University of Bridgeport.

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**Robert Ehlinger** joined the Company in July 2006 as Chief Information Officer. In June 2011, Mr. Ehlinger was promoted to Vice President of Logistics and Chief Information Officer. Prior to joining Lannett, Mr. Ehlinger was the Vice President of Information Technology at MedQuist, Inc., a healthcare services provider, where his career spanned 10 years in progressive operational and technology roles. Prior to MedQuist, Mr. Ehlinger was with Kennedy Health Systems as their Corporate Director of Information Technology supporting acute care and ambulatory care health information systems and biomedical support services. Earlier on, Mr. Ehlinger was with Dowty Communications where he held various technical and operational support roles prior to assuming the role of International Distribution Sales Executive managing the Latin America sales distribution channels. Mr. Ehlinger received a Bachelor s of Arts degree in Physics from Gettysburg College in Gettysburg, PA.

To the best of the Company s knowledge, there have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions that are material to the evaluation of the ability or integrity of any director, executive officer, or significant employee during the past ten years.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors, officers and persons who own more than 10% of a registered class of the Company s equity securities to file with the SEC reports of ownership and changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater-than-10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such reports furnished to the Company or written representations that no other reports were required, the Company believes that during Fiscal 2016 all filing requirements applicable to its officers, directors and greater-than-10% beneficial owners under Section 16(a) of the Exchange Act were complied with in a timely manner, except for a Form 4 for Dr. Mahendra Dedhiya related to a purchase of shares on February 5, 2016, a Form 4 for John Abt related to shares withheld by the Company to satisfy tax withholding obligations for a restricted stock vesting on March 30, 2016 and Form 4s for various executive officers related to shares withheld by the Company to satisfy tax withholding obligations for restricted stock vestings on April 24, 2016.

**Code of Ethics**

The Company has adopted the Code of Professional Conduct (the code of ethics ), a code of ethics that applies to the Company s Chief Executive Officer and Chief Financial Officer, as well as all other company personnel. The code of ethics is publicly available on our website at www.lannett.com. If the Company makes any substantive amendments to the code of ethics or grants any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer, or any other executive, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K.

**Audit Committee**

The Audit Committee has responsibility for overseeing the Company s financial reporting process on behalf of the Board. In addition, Audit Committee responsibilities include selection of the Company s independent auditors, conferring with the independent auditors regarding their audit of the Company s consolidated financial statements, pre-approving and reviewing the independent auditors fees and considering whether non-audit services are compatible with maintaining their independence and considering the adequacy of internal financial controls. The Audit Committee operates pursuant to a written charter adopted by the Board, which is available on the Company s website at www.lannett.com. The charter describes the nature and scope of the Audit Committee s responsibilities. The members of the Audit Committee consist of Paul Taveira, David Drabik and James M. Maher. All members of the Audit Committee are independent directors as defined by the rules of the NYSE.

*Financial Expert on Audit Committee:* The Board has determined that James M. Maher, current director and chairman of the audit committee, is the audit committee financial expert as defined in section 3(a)(58) of the Exchange Act and the related rules of the Commission.

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## ITEM 11. EXECUTIVE COMPENSATION

**Compensation Discussion and Analysis**

This Compensation Discussion and Analysis (CD&A) describes our 2016 Executive Compensation Program. It provides an overview of the compensation program for the following Named Executive Officers (NEOs) and how the Compensation Committee of the Board of Directors (the Committee) made its decisions for our 2016 fiscal year (July 1, 2015 June 30, 2016).

| NEO | Title/Role |
|---|---|
| Arthur P. Bedrosian | Chief Executive Officer (CEO) |
| Martin P. Galvan | Vice President of Finance, Chief Financial Officer and Treasurer |
| Kevin Smith | Senior Vice President of Sales and Marketing |
| John M. Abt | Vice President of Quality |
| Robert Ehlinger | Vice President of Logistics and Chief Information Officer |
| Michael Bogda | Former President* |
| William Schreck | Former Chief Operating Officer* |

* Mr. Bogda departed the Company effective June 3, 2016

** Mr. Schreck departed the Company effective September 11, 2015

*Say on Pay Results in 2015*

At our annual shareholders meeting in January 2012, our shareholders supported a triennial cycle for say-on-pay advisory votes relating to our Executive Compensation Program for NEOs. At that time, and again in January 2015, we provided our shareholders with the opportunity to approve, or to vote against, the compensation of our NEOs, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). At our January 2015 meeting, approximately 96% of the shareholders who voted on the say-on-pay proposal supported our program.

Although this vote is non-binding, its outcome, along with shareholder feedback and the competitive business environment, plays an important role in how the Committee makes decisions about the program s structure. To this end, during the past few years, the Committee conducted periodic reviews of the Executive Compensation Program, monitored industry practices and sought feedback from some of our largest investors.

The following pages of this CD&A highlight performance results since Fiscal 2013 that have had a direct impact on the compensation paid to our NEOs over the same period of time. It looks specifically at the performance measures used in the short- and long-term incentive awards

under the Executive Compensation Program that the Committee believes drive shareholder value. It also describes recently approved changes for Fiscal 2017 to further align our Executive Compensation Program with our objectives and best competitive practice.

*A Word About Risk*

The Committee believes that incentive plans, along with the other elements of the Executive Compensation Program, provide appropriate rewards to our NEOs to keep them focused on our goals. The Committee also believes that the program s structure, along with its oversight, continues to provide a setting that does not encourage the NEOs to take excessive risks in their business decisions.

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**Executive Summary**

*Business Highlights*

The Company achieved a number of strategic milestones in Fiscal 2016, including the acquisition of Kremers Urban Pharmaceuticals Inc. ( KUPI ), which significantly increased our product portfolio and scope of operations. After several years of extraordinary performance, our profitability and total shareholder return results were lower in Fiscal 2016, primarily due to some short-term challenges associated with the KUPI acquisition and softness in the generic pharmaceuticals market. The decline in our Fiscal 2016 performance results adversely impacted executive pay levels as discussed further below.

Compared with Fiscal 2015 results, and including the impact of the KUPI acquisition, we increased Total Net Sales in Fiscal 2016 by approximately 33%, while Operating Income declined by 42%, and Diluted Earnings Per Share (EPS) declined by 70%. These results include approximately $166 million in KUPI Total Net Sales between the time of acquisition and fiscal year end, a $24 million reduction in Net Sales related to a customer settlement, $27 million in acquisition-related expenses, and $70 million of interest expense associated with the financing of the KUPI transaction. Excluding the impact of the KUPI acquisition, Total Net Sales declined by 7%, Operating Income decreased by 17%, and Diluted EPS declined by 19%. Our stock price decreased by approximately 60% during the 12-month period ending June 30, 2016 and increased in total by approximately 100% over the past three years.

The KUPI acquisition, which closed in November 2015, further diversified our product portfolio. Since the closing, our leadership team has worked diligently to integrate KUPI into our Company and restore / expand its customer base. In February 2016, we implemented the 2016 Restructuring Plan to further enhance synergies, reduce costs, and strengthen our balance sheet. While Fiscal 2016 profitability was adversely impacted by the KUPI acquisition, we believe this transaction positions the Company for long-term growth and shareholder value creation. During Fiscal 2016, we also completed the integration of Silarx, Inc. ( Silarx ), which was acquired in June 2015 to further enhance our product portfolio. Using Silarx as an example, sales from their facility have doubled in terms of revenue and profits post integration. While we cannot assume a similar outcome for KUPI at this time, the management team is very optimistic that additional value in KUPI can be realized.

In addition, we continued to make important advances in product development and mix, market share, and in our regulatory approval process, allowing us to efficiently and safely place our products that span a variety of categories (e.g., thyroid deficiencies, central nervous system, gastrointestinal, pain management, etc.) on the market. Following the recent acquisitions of KUPI and Silarx, we currently have approximately 100 products available to the market, with an additional 31 Abbreviated New Drug Applications ( ANDAs ) pending regulatory approval. We also have 26 product candidates in development, and continue to capitalize on our strategic partnerships, both domestically and internationally.

Key financial performance highlights, as reported in accordance with U.S. generally accepted accounting principles and including the impact of the KUPI acquisition, include:

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*Peer Group average pertains to the Fiscal 2016 peer group.*

*Comparison of CEO Pay (In Year Earned) Versus Performance*

The following charts compare CEO pay with Company performance, as measured by diluted Earnings Per Share ( EPS ) and indexed Total Shareholder Returns ( TSR ), between fiscal years 2013 and 2016. To more accurately demonstrate the alignment between executive pay and Company performance, comparisons include performance-based annual equity grants in the year earned, as opposed to the year granted. This approach differs from current reporting requirements for the Summary Compensation Table and Grants of Plan-Based Awards Table, which reflect equity award values in the year of grant. While NEO pay is tied to a variety of performance criteria and other factors, we believe these selected charts demonstrate our commitment to aligning executive pay with Company performance.

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*Fiscal 2016 Executive Compensation Program Changes*

As our Company grows, the Committee is committed to the evolution and improvement of our Executive Compensation Program to ensure alignment with our business strategy and shareholder interests, as well as best competitive practices. The Committee made the following adjustments to the program s core compensation elements for 2016:

| What s Changed | How It s Changed | Explanation |
|---|---|---|
| Short-Term Incentives (Annual Bonus) | • Increased Threshold performance hurdles from 80% of Target to 90% of Target, to account for the anticipated lack of growth in Fiscal 2016 performance results.<br>• Increased the target award opportunity for the CEO from 75% of salary to 80% of salary, to improve pay competitiveness. | No changes were made to performance metrics or weightings. Following several years of extraordinary growth, Fiscal 2016 financial performance results were expected to be slightly below Fiscal 2015 levels. As a result, the Committee increased the Threshold performance hurdle, relative to Target, to focus NEOs on achieving Fiscal 2016 performance targets. |
| Long-Term Incentives | • Increased target award opportunities for several NEOs to improve pay competitiveness, with grants for Fiscal 2016 performance to be provided through a value mix of 65% restricted stock and 35% stock options.<br>• Grant levels will continue to be tied to Company performance, and can range from 0% to 150% of target awards based on actual results versus pre-established goals.<br>• Grants under this program occurred in July 2016, following the determination of actual results for Fiscal 2016. | The Committee continued to link equity grant levels to Company performance to strengthen alignment with shareholder interests. The increased emphasis on restricted stock relative to stock options helps manage equity plan share usage and dilution levels, focuses executives on long-term shareholder value creation, and further reinforces the Company s leadership retention strategy. |

*Our Commitment to Sound Corporate Governance*

In order to align our executive compensation program with long-term shareholder interests, we have adopted a variety of sound corporate governance practices, as illustrated in the following table:

| What We Do | What We Don t Do |
|---|---|
| • Emphasize variable incentives to align pay with performance | • Provide multi-year pay guarantees within employment agreements |
| • Tie incentive compensation to multiple performance metrics that reinforce key business objectives | • Allow stock option repricing without shareholder approval |
| • Place primary emphasis on equity compensation to align executive and shareholder interests | • Permit stock hedging or pledging activities |
| • Use stock ownership guidelines for executive officers and non-employee directors | • Provide uncapped incentive awards |
| • Maintain a clawback policy allowing for the recoupment of excess compensation in the event of a material financial restatement and fraud or misconduct | • Pay tax gross-ups on any awards |
| • Engage an independent compensation consultant to advise the Compensation Committee | • Provide excessive executive perquisites |

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**Overview of the Executive Compensation Program**

*Our Philosophy*

A fundamental objective of our Executive Compensation Program is to focus our executives on creating long-term shareholder value all aspects of our program are rooted in this goal and designed around the following guiding principles:

- **Pay for performance:** A significant portion of compensation should be variable and directly linked to corporate and individual performance goals and results.

- **Competitiveness:** Compensation should be sufficiently competitive to attract, motivate and retain an executive team fully capable of driving exceptional performance.

- **Alignment:** The interests of executives should be aligned with those of our shareholders through equity-based compensation and performance measures that help to drive shareholder value over the long term.

To support these guiding principles, our program includes the following compensation elements:

| Pay Element | Form | Purpose |
|---|---|---|
| Base Salary | Cash (Fixed) | Provides a competitive level of compensation that reflects position responsibilities, strategic importance of the position and individual experience. |
| Short-Term Incentives (Annual Bonus) | Cash (Variable) | Provides a cash-based award that recognizes the achievement of corporate goals in support of the annual business plan, as well as specific, qualitative and quantitative individual goals for the most recently completed fiscal year. |
| Long-Term Incentives | Equity (Variable) | Provides incentives for management to execute on financial and strategic goals that drive long-term shareholder value creation and support the Company s retention strategy. |

*Target Compensation Mix*

The charts below show that most of our NEO s target compensation for Fiscal 2016 is variable (74% for our CEO and an average of 62% for our other NEOs). Variable pay includes the target value of short-term cash incentives ( STI ), stock options, and restricted stock.

Based upon Fiscal 2016 compensation as reported in the Summary Compensation Table on page 74 of this Form 10-K, variable pay represents 75% of total pay for our CEO and 66% of average total pay for our other NEOs. This mix reflects below-target annual incentives earned in Fiscal 2016 under the Annual Bonus Plan (shown as STI), above-target equity grants in Fiscal 2016 based on Fiscal 2015 Company performance, and one-time special recognition cash awards for the successful closing of the KUPI transaction and related integration activities during Fiscal 2016. The emphasis on variable pay would be lower if comparisons included equity grants in the year earned, since equity grants in Fiscal 2017 based on Fiscal 2016 performance were well below target levels.

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*How Compensation Decisions Are Made*

- **The Role of the Compensation Committee.** The Committee, composed entirely of independent directors, is responsible for making executive compensation decisions for the NEOs. The Committee works closely with its independent compensation consultant, Pearl Meyer & Partners ( Pearl Meyer ), and management to examine pay and performance matters throughout the year. The Committee s charter, which sets out its objectives and responsibilities, can be found at our website at www.lannett.com under Investor Relations.

The Committee has authority and responsibility to establish and periodically review our Executive Compensation Program and compensation philosophy. Importantly, the Committee also has the sole responsibility for approving the corporate performance goals upon which compensation for the CEO is based, evaluating the CEO s performance and determining and approving the CEO s compensation, including equity-based compensation, based on the achievement of his goals. The Committee also reviews and approves compensation levels for other NEOs, taking into consideration recommendations from the CEO.

In making its determinations, the Committee considers market data and advice from Pearl Meyer, as well as budgets, reports, performance assessments and other information provided by management. It also considers other factors, such as the experience, skill sets, and contributions of each NEO towards our overall success. However, the Committee is ultimately responsible for all compensation-related decisions for the NEOs and may exercise its own business judgment when evaluating performance results and making compensation decisions.

*Timing of Committee Meetings and Grants; Option and Share Pricing*

The Committee meets as necessary to fulfill its responsibilities, and the timing of these meetings is established during the year. The Committee holds special meetings from time to time as its workload requires. Annual equity grants typically occur after finalizing fiscal year end performance results. Historically, annual grants of equity awards were typically approved at a meeting of the Committee in August/September of each year to reward prior year performance. Beginning with grants made in Fiscal 2015, equity grants occur in the July/August time frame, reflecting the Company s status change to a large accelerated filer (with an expedited filing date requirement) as a result of our strong growth and significant increase in equity market capitalization. Individual grants (for example, associated with the timing of a new NEO or promotion to an NEO position) may occur at any time of year. The exercise price of each stock option and fair value of restricted stock awarded to our NEOs is the closing price of our common stock on the date of grant.

- **The Role of the CEO.** The CEO does not play any role in the Committee s determination of his own compensation. However, he presents the Committee with recommendations for each element of compensation including base salaries and short- and long-term incentive awards for the other NEOs, as well as non-executive employees who are eligible for equity grants. The CEO bases these recommendations upon his assessment of each individual s performance, as well as market practice. The Committee has full discretion to modify the recommendations of the CEO in the course of its approvals.

- **The Role of the Independent Consultant.** The Committee consults, as needed, with an outside compensation consulting firm. As it makes decisions about executive compensation, the Committee reviews data and advice from its consultant about current compensation practices and trends among publicly-traded companies in general and comparable generic pharmaceutical companies in particular.

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The Committee also reviews recommendations from its outside consultant and makes recommendations to the Board about the compensation for non-employee directors.

In Fiscal 2015**,** Pearl Meyer was retained by the Committee, as its independent consultant, to review the competitiveness of the Executive Compensation Program. Pearl Meyer provided the Committee with compensation data with respect to similarly sized biopharmaceutical and life sciences companies and consulted with the Committee about a variety of issues related to competitive compensation practices and incentive plan designs. Pearl Meyer was also retained by the Committee in Fiscal 2016 to review the competitiveness of the Executive Compensation Program and to provide ongoing advice relating to the Executive Compensation Program. The Committee assessed the independence of Pearl Meyer pursuant to the SEC rules and concluded that no conflict of interest exists that would prevent Pearl Meyer from independently advising the Committee.

*Peer Group & Benchmarking*

The Committee evaluates industry-specific and general market compensation practices and trends to ensure the Executive Compensation Program is appropriately competitive. When making decisions about the program for Fiscal 2016, the Committee considered publicly-available data, as well as a market study conducted by Pearl Meyer in July 2015. The Pearl Meyer study developed market values using a blend of peer group proxy pay data for the companies shown below as well as published survey data for the broader life sciences industry. Using this information, the Committee compared our program to the compensation practices of other companies which the Committee believes are comparable to the Company in terms of size, scope and business complexity (the peer group). As shown below, the Company ranked in the upper half of the peer group in terms of revenues and profitability and slightly below the 50th percentile for equity market capitalization.

| Company Name | Fiscal Year End # of Employees | Equity Market Cap. 6/30/2016 ($mm) | Fiscal Year End Operating Income ($mm) | Fiscal Year End Sales ($mm) | Cumulative 3 YR TSR 6/30/2016 |
|---|---|---|---|---|---|
| Aceto Corp. | 270 | $ 648 | $ 54 | $ 547 | 57% |
| Akorn, Inc. | 1,644 | $ 3,402 | $ 150 | $ 593 | 111% |
| Albany Molecular Research Inc. | 2,220 | $ 466 | $ 23 | $ 402 | 13% |
| Amphastar Pharmaceuticals, Inc. | 1,460 | $ 723 | $ (3) | $ 252 | N/A |
| Cambrex Corporation. | 1,228 | $ 1,654 | $ 107 | $ 434 | 270% |
| Depomed, Inc. | 494 | $ 1,199 | $ 1 | $ 343 | 249% |
| Impax Laboratories Inc. | 1,290 | $ 2,127 | $ 97 | $ 860 | 45% |
| INSYS Therapeutics, Inc. | 510 | $ 926 | $ 102 | $ 331 | 180% |
| The Medicines Company | 614 | $ 2,340 | $ (257) | $ 309 | 9% |
| Pernix Therapeutics Holdings, Inc. | 274 | $ 27 | $ (71) | $ 176 | -88% |
| Sagent Pharmaceuticals, Inc. | 440 | $ 492 | $ 9 | $ 318 | -29% |
| *Lannett Company, Inc.* | *1,149* | *$ 874* | *$ 131* | *$ 542* | *100%* |
| *% Rank* | *55%* | *45%* | *91%* | *73%* | *60%* |

Following the KUPI acquisition, and based on recommendations from Pearl Meyer, the Committee approved changes to the peer group for Fiscal 2017 to account for the Company s significant increase in size. The Committee approved the exclusion of former peers Albany Molecular Research Inc., Pernix Therapeutics Holdings Inc., and Sagent Pharmaceuticals Inc., on the basis of size and business focus. The Committee also approved the addition of Horizon Pharma plc, Jazz Pharmaceuticals plc, Prestige Brand Holdings Inc., and United Therapeutics Corporation. These additional companies compete with us for business and executive talent, and were added to the peer group to round out the sample size.

Compared with the revised peer group, the Company is near the 50th percentile in terms of net sales and between the 50th and 75th percentiles in terms of operating income.

The Committee uses external market data as a reference point to ensure the Company s executive compensation program is sufficiently competitive to attract, retain, and motivate highly experienced and talented NEOs. The Committee generally seeks to position target total direct compensation for NEOs at or near 50th percentile market values for comparable positions, but does not utilize a purely formulaic benchmarking approach. Based on the July 2015 Pearl Meyer study, target total direct compensation, including the sum of base salary plus target short-term and long-term incentives, was within a competitive range (defined as +/- 10%) of 50th percentile market values for then-current NEOs except for Messrs. Bedrosian and Galvan, who were below the competitive range, and Mr. Abt, who was recently recruited to the Company and was above the competitive range. Excluding Mr. Bedrosian, whose target pay was below the 25th percentile, aggregate target total direct compensation was equal to 96% of the 50th percentile. As previously noted, when evaluating our executive compensation program, the Committee considers a variety of other factors in addition to external market data, such as Company and individual performance, and each NEO s qualifications, skill sets, and past and expected future contributions towards our success.

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**2016 Executive Compensation Program Decisions**

*Base Salary*

We attribute much of our success to our highly-experienced executive management team, and the strength of their leadership has been clearly demonstrated by our exceptional long-term performance results and growth. In order to remain competitive among our industry peers, the Committee believes it must set compensation at market-competitive levels that reflect the executive s experience, role and responsibilities. In Fiscal 2016, the Committee approved base salary increases to Messrs. Bedrosian, Galvan, and Smith to bring them to the 50th percentile of comparable organizations, as reported in Pearl Meyer s July 2015 market pay analysis, and modest merit increases for Messrs. Ehlinger and Abt. No base salary increases were provided for Messrs. Bogda and Schreck, both of whom departed from the Company during Fiscal 2016.

| NEO | 2015 Base Salary | 2016 Base Salary | % Change |
|---|---|---|---|
| Arthur P. Bedrosian | $ 555,170 | $ 615,129 | 11% |
| Martin P. Galvan | $ 326,510 | $ 354,916 | 9% |
| Kevin Smith | $ 286,340 | $ 314,974 | 10% |
| Robert Ehlinger | $ 236,900 | $ 242,823 | 3% |
| John Abt* | $ 286,000 | $ 289,632 | 1% |

** Mr. Abt was hired during Fiscal 2015*

*Short-Term Incentives (Annual Bonus)*

The Company s NEOs participate in an annual bonus program, which is designed to reinforce the annual business plan and budgeted goals and to recognize yearly performance achievements focused primarily on financial and operating results. Actual payouts can range from 0% (below threshold) to 200% (superior performance) of target awards and are paid in cash. The Committee sets each NEO s threshold, target and superior bonus opportunity as a percentage of base salary, as follows:

| | Annual Bonus Opportunity As a % of Salary | | |
|---|---|---|---|
| NEO | Threshold (25% of Target) | Target (100% of Target) | Superior (200% of Target) |
| Arthur P. Bedrosian | 20% | 80% | 160% |
| Martin P. Galvan | | | |
| Kevin Smith | | | |
| John Abt | 15% | 60% | 120% |
| Robert Ehlinger | 12.5% | 50% | 100% |

In Fiscal 2016, Mr. Bedrosian s target award opportunity was increased from 75% of salary to 80% of salary to align more closely with 50th percentile market values. Expressed as percentages of salary, Fiscal 2016 award opportunities for all other NEOs were the same as those established in Fiscal 2015.

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The overall annual bonus plan for Fiscal 2016 is comprised of two components:

- **Corporate Financial & Operational Goals: 90% (95% for the CEO) of the total target award opportunity** is tied to operating results versus targets established by the Committee to promote a focus on Company-wide profitable growth and collaboration:

| | Weighting (Out of 100%) | |
|---|---|---|
| **Performance Metric** | **CEO** | **Other NEOs** |
| Adjusted Operating Income | 50% | 50% |
| Adjusted Earnings Per Share (EPS) | 25% | 20% |
| Adjusted Net Sales | 20% | 20% |
| Individual Objectives | 5% | 10% |

Fiscal 2016 performance metrics and weightings were the same as those established in Fiscal 2015. Adjusted Operating Income is defined as operating income excluding bonus and stock-based compensation expense, as further adjusted for certain non-recurring items. Adjusted EPS is defined as diluted EPS excluding bonus and stock-based compensation expense, as further adjusted for certain non-recurring items. Adjusted Net Sales is defined as Net Sales excluding the impact of a customer settlement charge. Any adjustments are reviewed and approved by the Committee.

- **Individual Objectives: 10% (5% for the CEO) of the total target award opportunity** is based on the achievement of pre-established quantitative and qualitative individual goals, to promote individual accountability and line of sight. Fiscal 2016 goals were tied to various strategic, financial and operational objectives, taking into consideration each NEO s job function and responsibilities. For competitive harm reasons, the Company does not disclose specific details on individual goals and strategic objectives, although major accomplishments in Fiscal 2016 for each NEO are listed on page 69.

*2016 Short-Term Incentives (Annual Bonus): Results and Payouts*

- **Corporate Financial & Operational Results (Collectively Weighted 90% to 95% of Target Award).** Following several years of extraordinary growth, Fiscal 2016 performance results were expected to be at or below Fiscal 2015 levels. Fiscal 2016 Target goals for Adjusted Operating Income and Adjusted EPS were set at Fiscal 2015 actual levels, and the Adjusted Net Sales Target was set slightly above Fiscal 2015 actual results. These goals were established prior to the KUPI acquisition, and therefore, all Fiscal 2016 performance goals and actual results exclude the KUPI transaction. Based on the established Target goals, the Committee increased the hurdle for Fiscal 2016 Threshold performance goals from 80% of Target to 90% of Target goals. The Committee viewed these performance hurdles as very challenging in light of then-current internal forecasts and economic conditions. For Fiscal 2016, the Committee established financial performance goals ranging from 90% of Target (Threshold) to 120% of Target (Superior):

| Performance Metric | Weighting (Out of 100%) | Performance Goals (Excluding KUPI Transaction) Threshold | Target | Superior | Actual |
|---|---|---|---|---|---|
| Adjusted Operating Income ($ millions) | 50% | $ 220.7 | $ 245.2 | $ 294.2 | $ 207.1 |
| Adjusted Earnings Per Share (EPS) | 20% (25% for CEO) | $ 3.93 | $ 4.37 | $ 5.24 | $ 3.79 |
| Adjusted Net Sales ($ millions) | 20% | $ 393.3 | $ 437.0 | $ 524.4 | $ 400.4 |

Excluding the impact of the KUPI acquisition, actual Fiscal 2016 performance results were below Threshold levels for Adjusted Operating Income and Adjusted EPS, and between Threshold and Target levels for Adjusted Net Sales. Actual Adjusted Operating Income for Fiscal 2016 excluded pre-tax items totaling $76 million, including acquisition-related expenditures, purchase accounting-related expenses due to the KUPI acquisition, and other non-recurring one-time items.

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Actual Adjusted EPS excluded the same $76 million in pre-tax items that were excluded from Adjusted Operating Income plus $70 million in interest expense and the tax effects for all of these items. The Adjusted Net Sales performance metric excluded items totaling $142 million, including KUPI sales of approximately $166 million between the date of acquisition and fiscal year end and $24 million related to a customer settlement.

- **Individual Results (Collectively Weighted 5% of Target Award for the CEO and 10% for other Current NEOs).**

| NEO | Performance Highlights |
|---|---|
| Arthur P. Bedrosian | • Doubled the size of the Company through acquisitions<br>• Reduced product concentrations<br>• Restored relations with major KUPI customer<br>• Refinanced $250 million 12% Senior Note within six months of closing the Acquisition<br>• Led and managed C-Suite leadership/succession planning with Human Resources |
| Martin P. Galvan | • Delivered accurate financial reports on a required monthly, quarterly and annual basis as an accelerated filer with the SEC while integrating the two M&A transactions<br>• Worked with CEO to refinance $250 million Senior Note<br>• Contributed to the integration of Silarx and KUPI<br>• Assembled and mentored an executive M&A and banking team |
| Kevin Smith | • Doubled sales of Silarx products and integrated KUPI acquisition and reorganized sales team<br>• Introduced Silarx and KUPI products and increased market share on Lannett products<br>• Transitioned CSO into in-house sales team for C-Topical brand sales |
| John Abt | • Introduced new quality initiatives at all sites in systemic Quality procedures<br>• Headed the Integration Management Office to integrate the two M&A transactions |
| Robert Ehlinger | • Assembled team to upgrade SAP at Lannett<br>• Introduced SAP at both Silarx and Cody Labs sites<br>• Assembled and headed the separation and eventual integration of SAP from UCB to Lannett<br>• Made IT software compatible with internal SOX compliance initiatives |

Individual goals are not shown for Messrs. Bogda and Schreck, both of whom departed from the Company during Fiscal 2016 and did not receive a bonus.

**Total Annual Bonus**

Based on our performance results and individual contributions, the NEOs earned below-Target awards for the corporate operational component and awards between Threshold and Target levels for the individual component under the Annual Bonus Plan. Overall awards for current NEOs were equal to approximately 11.3% (9.3% for the CEO) of target amounts. Total awards for each of the NEOs were as follows:

| NEO | Operational Results Portion of the Bonus (90% to 95%) | Individual Results Portion of the Bonus (5% to 10%) | Total Actual Bonus |
|---|---|---|---|
| Arthur P. Bedrosian | $ 36,734 | $ 9,183 | $ 45,917 |
| Martin P. Galvan | $ 19,870 | $ 3,974 | $ 23,844 |
| Kevin Smith | $ 17,634 | $ 3,527 | $ 21,161 |
| John Abt | $ 16,215 | $ 3,243 | $ 19,458 |
| Robert Ehlinger | $ 11,329 | $ 2,266 | $ 13,595 |

Short-term incentive awards earned in Fiscal 2016 were well-below awards earned in Fiscal 2015, reflecting below-target performance results in Fiscal 2016 as compared with near-superior performance in Fiscal 2015.

*Special Recognition Awards for KUPI Transaction*

To recognize the successful closing of the KUPI acquisition and related integration activities during Fiscal 2016, the Committee approved one-time cash awards to our NEOs and other key employees who were actively involved with the transaction. The Committee approved an aggregate award pool equal to approximately $2.7 million, with approximately 66% allocated to our NEOs. Special recognition awards to our NEOs were as follows:

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| NEO | Percentage of Total Special Recognition Award Pool | Special Recognition Transaction Incentive |
|---|---|---|
| Arthur P. Bedrosian | 27.9% | $ 811,484 |
| Martin P. Galvan | 15.8% | $ 492,928 |
| Kevin Smith | 7.0% | $ 178,840 |
| John Abt | 6.1% | $ 154,321 |
| Robert Ehlinger | 9.0% | $ 229,228 |

In approving these awards, the Committee considered the efforts and contributions of each executive towards the KUPI transaction, which nearly doubled the size of the Company and greatly expanded the product portfolio, and the significant progress achieved in terms of integration activities during Fiscal 2016.

*Long-Term Incentives*

In Fiscal 2015, the Committee approved a new long-term incentive program that ties equity grant levels to Company performance, using the same financial and operational metrics as under the Annual Bonus Plan. Each NEO had a target award opportunity equal to 100% of base salary, provided through an equally weighted value mix of stock options and restricted stock. Actual grants can range from 0% (for below threshold results) to 150% (for superior performance) of target award levels:

| Fiscal 2015 Performance Result | Percentage of Target Equity Grants Earned (as % of Target Grant) |
|---|---|
| Below Threshold | 0% (subject to Committee discretion) |
| Threshold (80% of Budget) | 50% |
| Target (100% of Budget) | 100% |
| Superior (120% of Budget) | 150% |

**Grants Made in Fiscal 2016 (Based on Fiscal 2015 Performance)**

In Fiscal 2015, the Company achieved above-target financial performance results and NEOs exceeded individual performance goals. As a result, the Committee approved the following grants to NEO in Fiscal 2016, effective as of July 22, 2015:

| NEO | Equity Grants Earned Based on Fiscal 2015 Performance # of Stock Options | # of Restricted Shares |
|---|---|---|
| Arthur P. Bedrosian | 15,280 | 6,880 |
| Martin P. Galvan | 8,990 | 4,040 |
| Kevin Smith | 7,880 | 3,550 |
| John Abt | 1,970 | 880 |
| Robert Ehlinger | 6,300 | 2,830 |
| Michael Bogda* | 7,710 | 3,470 |
| William Schreck* | 9,810 | 4,410 |

* Messrs. Bogda and Schreck departed from the Company during Fiscal 2016. Per the terms of their Separation Agreements, Messrs. Bogda s and Schreck s awards fully vested upon their departure.

These stock options vest in three equal annual increments, beginning on the first anniversary of grant and expire on the tenth anniversary from the date of grant. Each stock option has an exercise price of $59.20, equal to our closing stock price on the date of grant. Restricted stock also vests in three equal annual increments, beginning on the first anniversary of grant. These grants are included in the Summary Compensation Table and Grants of Plan-Based Awards Table in the Form 10-K and proxy filings for Fiscal 2016, per current SEC reporting requirements. Mr. Bedrosian also received a grant of 4,223 common shares on July 22, 2015, along with all other members of our Board of Directors, to recognize Fiscal 2015 board service.

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**Grants Made in Fiscal 2017 (Based on Fiscal 2016 Performance)**

In Fiscal 2016, the Committee increased target long-term incentive award opportunities to 200% of salary for Mr. Bedrosian and 125% of salary for Messrs. Galvan and Smith to more closely align with 50th percentile market values. Expressed as percentages of salary, no changes were made to target award opportunities for Messrs. Abt, and Ehlinger. Consistent with the change made to the Fiscal 2016 Annual Bonus Plan, the Committee also increased Threshold hurdles for Fiscal 2016 performance goals from 80% of Target to 90% of Target. The Committee also modified the mix for any earned awards, with 65% of the grant value provided in the form of restricted stock and 35% in the form of stock options. This change was made to help manage equity plan share usage and dilution levels and to enhance executive retention. Actual grants could range from 0% (for below threshold results) to 150% (for superior performance) of target award levels:

| Fiscal 2016 Performance Result | Percentage of Target Equity Grants Earned (as % of Target Grant) |
|---|---|
| Below Threshold | 0% (subject to Committee discretion) |
| Threshold (90% of Target) | 50% |
| Target (100% of Target) | 100% |
| Superior (120% of Target) | 150% |

In Fiscal 2016, and excluding the KUPI acquisition, the Company achieved financial performance results between Threshold and Target levels for Adjusted Net Sales and below Threshold levels for profitability. Based on Company financial and individual performance results, the Committee approved the following grants to NEO in Fiscal 2017, with grant date values ranging from approximately 15% to 18% of target award levels, and effective as of July 27, 2016:

| | Equity Grants Earned Based on Fiscal 2016 Performance | |
|---|---|---|
| NEO | # of Stock Options | # of Restricted Shares |
| Arthur P. Bedrosian | 4,088 | 3,718 |
| Martin P. Galvan | 1,769 | 1,609 |
| Kevin Smith | 1,570 | 1,428 |
| John Abt | 1,155 | 1,050 |
| Robert Ehlinger | 968 | 881 |

These stock options vest in three equal annual increments, beginning on the first anniversary of grant and expire on the tenth anniversary from the date of grant. Each stock option has an exercise price of $31.30, equal to our closing stock price on the date of grant. Restricted stock also vests in three equal annual increments, beginning on the first anniversary of grant. These grants will be included in the Summary Compensation Table and Grants of Plan-Based Awards Table in the Form 10-K and proxy filings for Fiscal 2017, per current SEC reporting requirements.

*Other Policies, Programs and Guidelines*

The Company currently maintains a clawback policy under the Sarbanes-Oxley Act, with incentive awards for the CEO and CFO subject to recoupment in the event of a material financial restatement triggered by fraud or misconduct. Additionally, any employee who violates the provisions of the Company s Code of Business Conduct and Ethics is subject to disciplinary penalties that may include termination of

employment. The Committee intends to comply with any regulatory requirements pertaining to clawback provisions under the Dodd-Frank Act once rules are finalized by the SEC and New York Stock Exchange.

NEOs, like all other employees, have retirement programs and other benefits as part of their overall compensation package. The Committee believes that these programs and benefits support our compensation philosophy, part of which is to provide compensation that is sufficiently competitive to attract, motivate and retain an executive team fully capable of driving exceptional performance. The Committee periodically reviews these programs to validate that they are reasonable and consistent with market practice. Attributed costs of the personal benefits available to the NEOs are included in column (i) of the Summary Compensation Table on page 74.

- **Retirement Benefits.** Each of our NEOs is eligible to participate in a 401(k) plan that is available to all employees. The Company provides matching contributions on a $0.50 basis up to 8% of the contributing employee s base salary, subject to limitations of the 401(k) plan and applicable law.

- **Other Benefits.** Our NEOs are eligible to participate in the same health benefits available to all other employees there are no special medical plans for our NEOs. Lannett provides life insurance for NEOs which would, in the event of death, pay $115,000 to designated beneficiaries. Premiums paid for coverage above $50,000 are treated as imputed income. Lannett also provides short- and long-term disability insurance which would, in the event of disability, pay the NEO 60% of his base salary up to the plan limits of $2,000 per week for short-term disability and $15,000 per month for long-term disability.

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The NEOs are also provided with car allowances.

- **Post-Termination Pay.** The Committee believes that reasonable severance and change-in-control benefits are necessary in order to recruit and retain qualified senior executives and are generally required by the competitive recruiting environment within our industry and the marketplace in general. These severance benefits reflect the fact that it may be difficult for our NEOs to find comparable employment within a short period of time, and are designed to alleviate concerns about the loss of his or her position without cause. The Committee also believes that a change-in-control arrangement will provide security that will likely reduce the reluctance of an NEO to pursue a change in control transaction that could be in the best interest of our shareholders. Lannett s severance plan is designed to pay severance benefits to a NEO for a qualifying separation. For the CEO, the severance plan provides for payment of three times base salary, plus a pro-rated annual cash bonus for the current year calculated as if all targets and goals are achieved. For the other NEOs, the severance plan provides for a payment of 18-months of base salary, plus a pro-rated annual cash bonus for the current year calculated as if all targets and goals are achieved.

- **Tax and Accounting Implications.** Section 162(m) of the Internal Revenue Code of 1986, as amended, precludes the deductibility of a NEO s compensation that exceeds $1,000,000 per year unless the compensation is paid under a performance-based plan that has been approved by shareholders. The Committee believes that it is generally preferable to comply with the requirements of 162(m) through, for example, the use of certain types of equity grants under our 2014 Long-Term Incentive Plan. However, to maintain flexibility in compensating NEOs in a manner consistent with our compensation philosophy, the Committee may elect to provide compensation outside those requirements when it deems appropriate. The Committee believes that shareholder interests are best served by not restricting the Committee s discretion in this regard, even though such compensation may result in non-deductible compensation expenses to the Company.

*Looking Ahead: Executive Compensation Program Changes for Fiscal 2017*

For Fiscal 2017, the Committee decided to increase base salaries for certain NEOs, modify the short-term incentive (Annual Bonus) design, and modify the long-term incentive plan design, as shown below:

- **Base Salaries.** For Fiscal 2017, the Committee approved the following market adjustments to position base salaries for our NEOs at or near 50th percentile market values, which increased significantly for most executives following the KUPI transaction and the doubling in Company size:

| NEO | 2016 Base Salary | 2017 Annual Base Salary | % Change |
|---|---|---|---|
| Arthur P. Bedrosian | $ 615,129 | $ 735,000 | 19% |
| Martin P. Galvan | $ 354,916 | $ 415,000 | 17% |
| Kevin Smith | $ 314,974 | $ 370,000 | 17% |

| | | | | |
|---|---|---|---|---|
| Robert Ehlinger | $ | 242,823 | $ 280,000 | 15% |
| John Abt | $ | 289,632 | $ 289,632 | % |

- **Short-Term Incentives (Annual Bonus)**. For Fiscal 2017, performance metrics and weightings are the same as those for Fiscal 2016. The target annual bonus opportunity for Mr. Bedrosian increased to 90% of base salary. For other NEOs, target annual bonus opportunities, expressed as percentages of base salary, are the same as in Fiscal 2016. Based on established Target performance goals for Fiscal 2017, the Committee chose to maintain Threshold performance levels at 90% of Target and Superior performance levels at 120% of Target.

- **Long-Term Incentives.** Equity grant levels will be based on the Company s Fiscal 2017 financial performance using the same metrics as under the Annual Bonus Plan. Based on established Target performance goals for Fiscal 2017, and consistent with the Fiscal 2017 Annual Bonus Plan design, the Committee established Threshold performance at 90% of Target levels and Superior performance at 120% of Target levels. Expressed as percentages of base salary, target long-term incentive award opportunities will equal 300% for Mr. Bedrosian, 200% for Mr. Galvan, 150% for Mr. Smith, and 100% for Messrs. Abt and Ehlinger. Actual grant levels will range from 0% to 150% of target levels, based on Fiscal 2017 performance, as follows:

| Fiscal 2017 Performance Result | Percentage of Target Award Opportunity Earned |
|---|---|
| Below Threshold | 0% (subject to Committee discretion) |
| Threshold (90% of Target) | 50% |
| Target (100% of Target) | 100% |
| Superior (120% of Target) | 150% |

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For any award values earned, the Company is considering the following equity award mix: 45% will be provided in the form of restricted stock that vests based on continued service, 30% stock options, and 25% will be provided in the form of performance-based restricted stock tied to our 3-year total shareholder return (TSR) relative to industry peers. Grants, if any, will occur following the end of Fiscal 2017, with stock options and time-based restricted stock vesting in three equal annual increments based on continued service with the Company, and performance-based restricted shares only vesting if our 3-year TSR is at or above the 50th percentile of companies included in our 2016 industry peer group. This expected change in award mix was made to further align executive and shareholder interests.

- **Financial Planning Allowance**. Beginning in Fiscal 2017, the Committee approved an annual financial planning allowance of up to $15,000 per NEO. The executive is responsible for any tax liability associated with the financial planning benefit.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed, discussed and approved the CD&A as set forth above with management. Taking this review and discussion into account, the undersigned Committee members recommend to the Board of Directors that the CD&A be included in the annual report on Form 10-K.

*Paul Taveira, Chairman*
*David Drabik*
*James Maher*
*Albert Paonessa III*

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COMPENSATION OF EXECUTIVE OFFICERS

**Overview**

The tables and narratives set forth below provide specified information concerning the compensation of our Named Executive Officers (NEOs) for the fiscal year ended June 30, 2016.

*Summary Compensation Table*

This table summarizes all compensation paid to or earned by our NEOs for fiscal years 2016, 2015 and 2014.

| Name and Principal Position (a) | Fiscal Year (b) | Salary (c) | Bonus (d) | Stock Awards (e) | Options Awards (f) | Non-equity incentive plan compensation (g) | All Other Compensation (i) | Total (j) |
|---|---|---|---|---|---|---|---|---|
| Arthur P. Bedrosian | 2016 | $ 615,129 | $ 811,484 | $ 657,298 | $ 400,977 | $ 45,917 | $ 78,382 | $ 2,609,187 |
| Chief Executive Officer | 2015 | 555,170 | | 620,494 | 1,613,437 | 802,576 | 70,102 | 3,661,780 |
| | 2014 | 539,000 | | 995,450 | 726,825 | 808,500 | 64,286 | 3,134,061 |
| Michael Bogda | 2016 | $ 477,354 | $ | $ 205,424 | $ 202,325 | $ | $ 528,907 | $ 1,414,010 |
| Former President | 2015 | 280,000 | | | 1,681,088 | 323,823 | 19,597 | 2,304,509 |
| | 2014 | | | | | | | |
| Martin P. Galvan | 2016 | $ 354,916 | $ 492,928 | $ 239,168 | $ 235,915 | $ 23,844 | $ 28,917 | $ 1,375,688 |
| Vice President of Finance and | 2015 | 326,510 | | 275,775 | 504,199 | 377,613 | 38,377 | 1,522,475 |
| Chief Financial Officer | 2014 | 317,000 | | 637,450 | 403,792 | 380,400 | 20,645 | 1,759,287 |
| William Schreck | 2016 | $ 89,095 | $ | $ 261,072 | $ 257,434 | $ | $ 651,699 | $ 1,259,300 |
| Former Chief Operating Officer | 2015 | 356,380 | | 135,130 | 487,393 | 412,158 | 55,344 | 1,446,404 |
| | 2014 | 346,000 | | 287,259 | 363,413 | 367,622 | 36,107 | 1,400,400 |
| Kevin Smith | 2016 | $ 314,974 | $ 178,840 | $ 210,160 | $ 206,787 | $ 21,160 | $ 24,869 | $ 956,790 |
| Senior Vice President of Sales | 2015 | 286,340 | | 330,930 | 436,973 | 331,156 | 35,786 | 1,421,185 |
| and Marketing | 2014 | 278,000 | | 350,004 | 363,413 | 333,600 | 23,399 | 1,348,416 |
| Robert Ehlinger | 2016 | $ 242,823 | $ 229,228 | $ 167,536 | $ 165,324 | $ 13,595 | $ 36,400 | $ 854,906 |
| Vice President of Logistics and | 2015 | 236,900 | | | 168,066 | 216,470 | 29,261 | 650,698 |
| Chief Information Officer | 2014 | 230,000 | | 171,360 | 282,654 | 161,000 | 28,054 | 873,068 |
| John Abt | 2016 | $ 289,632 | $ 154,321 | $ 52,688 | $ 51,697 | $ 19,458 | $ 16,341 | $ 584,137 |
| Vice President of Quality | 2015 | 71,500 | | 152,685 | | 69,427 | 2,285 | 295,897 |
| | 2014 | | | | | | | |

(1) Mr. Bogda joined the Company as President in December 2014 and departed from the Company effective June 3, 2016

(2) Mr. Schreck retired from the Company effective September 11, 2015

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*All Other Compensation*

The following summarizes the components of column (i) of the Summary Compensation Table above:

| Name and Principal Position | Fiscal Year | Company Match Contributions 401(k) Plan | Auto Allowance | Pay in Lieu of Vacation | Separation Payments | Excess Life Insurance | Total |
|---|---|---|---|---|---|---|---|
| Arthur P. Bedrosian | 2016 | $ 8,000 | $ 13,500 | $ 55,598 | $ | $ 1,284 | $ 78,382 |
| Chief Executive Officer | 2015 | 10,715 | 13,500 | 44,841 | | 1,046 | 70,102 |
| | 2014 | 9,438 | 13,500 | 40,425 | | 923 | 64,286 |
| Michael Bogda | 2016 | $ 9,292 | $ 12,981 | $ 18,078 | $ 488,352 | $ 204 | $ 528,907 |
| Former President | 2015 | 6,000 | 13,555 | | | 42 | 19,597 |
| | 2014 | | | | | | |
| Martin P. Galvan | 2016 | $ 10,197 | $ 10,800 | $ 7,508 | $ | $ 412 | $ 28,917 |
| Vice President of Finance, Chief | 2015 | 8,893 | 10,800 | 18,288 | | 396 | 38,377 |
| Financial Officer and Treasurer | 2014 | 9,380 | 10,800 | | | 465 | 20,645 |
| William Schreck | 2016 | $ 2,626 | $ 2,492 | $ 31,355 | $ 614,992 | $ 234 | $ 651,699 |
| Former Chief Operating Officer | 2015 | 9,514 | 10,800 | 34,267 | | 762 | 55,344 |
| | 2014 | 10,411 | 10,800 | 13,973 | | 923 | 36,107 |
| Kevin Smith | 2016 | $ 8,678 | $ 13,500 | $ 2,423 | $ | $ 268 | $ 24,869 |
| Senior Vice President of Sales and | 2015 | 9,423 | 13,500 | 12,665 | | 198 | 35,786 |
| Marketing | 2014 | 9,737 | 13,500 | | | 162 | 23,399 |
| Robert Ehlinger | 2016 | $ 8,030 | $ 10,800 | $ 17,312 | $ | $ 258 | $ 36,400 |
| Vice President of Logistics and | 2015 | 8,030 | 10,800 | 10,173 | | 258 | 29,261 |
| Chief Information Officer | 2014 | 8,160 | 10,800 | 8,747 | | 347 | 28,054 |
| John Abt | 2016 | $ 5,403 | $ 10,800 | $ | $ | $ 138 | $ 16,341 |
| Vice President of Quality | 2015 | | 2,285 | | | | 2,285 |
| | 2014 | | | | | | |

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*Grants of Plan-Based Awards in Fiscal 2016*

| Name | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | All Other Stock Awards: Number of Shares of Stocks or Units (2) | All Other Option Awards: Number of Securities Underlying Options (2) | Exercise or Base Price of Option Awards (3) | Grant Date Fair Value of Stock and Options Awards (4) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Threshold ($) | Target ($) | Maximum ($) | Threshold (#) | Target (#) | Maximum (#) | (#) | (#) | ($/sh) | ($) |
| Arthur P. Bedrosian (1) Chief Executive Officer | 7/22/2015 | | | | | | | 11,103 | | | $ 657,298 |
| | 7/22/2015 | | | | | | | | 15,280 | $ 59.20 | $ 400,977 |
| Michael Bogda Former President | 7/22/2015 | | | | | | | 3,470 | | | $ 205,424 |
| | 7/22/2015 | | | | | | | | 7,710 | $ 59.20 | $ 202,325 |
| Martin P. Galvan Vice President of Finance and Chief Financial Officer | 7/22/2015 | | | | | | | 4,040 | | | $ 239,168 |
| | 7/22/2015 | | | | | | | | 8,990 | $ 59.20 | $ 235,915 |
| William Schreck Former Chief Operating Officer | 7/22/2015 | | | | | | | 4,410 | | | $ 261,072 |
| | 7/22/2015 | | | | | | | | 9,810 | $ 59.20 | $ 257,434 |
| Kevin Smith Senior Vice President of Sales and Marketing | 7/22/2015 | | | | | | | 3,550 | | | $ 210,160 |
| | 7/22/2015 | | | | | | | | 7,880 | $ 59.20 | $ 206,787 |
| Robert Ehlinger Vice President of Logistics and Chief Information Officer | 7/22/2015 | | | | | | | 2,830 | | | $ 167,536 |
| | 7/22/2015 | | | | | | | | 6,300 | $ 59.20 | $ 165,324 |
| John Abt Vice President of Quality | 7/22/2015 | | | | | | | 890 | | | $ 52,688 |
| | 7/22/2015 | | | | | | | | 1,970 | $ 59.20 | $ 51,697 |

(1) Includes 4,223 shares granted to all directors for Board service during Fiscal 2015.

(2) Reflects stock options and restricted stock granted to NEOs during Fiscal 2016 to recognize the Company s Fiscal 2015 performance, which vest in three equal annual increments.

(3) The exercise price was equal to the Company s closing stock price on the date of grant.

(4) Stock options were valued using the Black-Scholes option pricing model. The assumptions used in fair value calculations are described in Note 17, Share-Based Compensation, in the Form 10-K. The grant date fair value for other stock grants reflects the number of shares multiplied by the Company s closing stock price on the applicable date of grant.

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*Outstanding Equity Awards at 2016 Fiscal Year End*

The following table sets forth information concerning the outstanding stock awards held at June 30, 2016 by each of the NEOs. The options were granted ten years prior to the option expiration date and vest over three years from that grant date. Restricted shares vest three years from the date of grant.

| | Option Awards | | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested ($) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) |
| Arthur P. Bedrosian Chief Executive Officer | 20,325 | | | $ 6.89 | 11/27/2016 | | | | |
| | 75,000 | | | $ 4.03 | 9/17/2017 | | | | |
| | 30,000 | | | $ 2.80 | 9/18/2018 | | | | |
| | 75,000 | | | $ 6.94 | 10/29/2019 | | | | |
| | 89,500 | | | $ 3.55 | 8/25/2021 | | | | |
| | 64,000 | | | $ 4.16 | 10/25/2022 | | | | |
| | 60,000 | 30,000 | | $ 13.86 | 9/4/2023 | | | | |
| | 32,000 | 64,000 | | $ 34.77 | 8/11/2024 | | | | |
| | | 15,280 | | $ 59.20 | 7/21/2025 | | | | |
| | | | | | | 18,547 | $ 441,233 | | |
| Michael Bogda Former President | 75,000 | | | $ 46.34 | 11/30/2024 | | | | |
| | 7,710 | | | $ 59.20 | 7/21/2025 | | | | |
| | | | | | | 3,470 | $ 82,551 | | |
| Martin P. Galvan Vice President of Finance and Chief Financial Officer | 40,000 | | | $ 4.73 | 7/15/2021 | | | | |
| | 32,000 | | | $ 4.16 | 10/25/2022 | | | | |
| | 33,333 | 16,667 | | $ 13.86 | 9/4/2023 | | | | |
| | 10,000 | 20,000 | | $ 34.77 | 8/11/2024 | | | | |
| | | 8,990 | | $ 59.20 | 7/21/2025 | | | | |
| | | | | | | 9,874 | $ 234,902 | | |
| William Schreck Former Chief Operating Officer | | | | $ | | | | | |
| | | | | $ | | | $ | | |
| Kevin Smith Senior Vice President of | | | | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Sales and Marketing | | | | | | |
| | 11,667 | | $ 4.16 | 10/25/2022 | | |
| | 15,000 | 15,000 | $ 13.86 | 9/4/2023 | | |
| | 8,666 | 17,334 | $ 34.77 | 8/11/2024 | | |
| | | 7,880 | $ 59.20 | 7/21/2025 | | |
| | | | | | 10,550 | $ 250,985 |
| Robert Ehlinger Vice President of Logistics and Chief Information Officer | | 11,667 | $ 13.86 | 9/4/2023 | | |
| | 3,333 | 6,667 | $ 34.77 | 8/11/2024 | | |
| | | 6,300 | $ 59.20 | 7/21/2025 | | |
| | | | | | 2,830 | $ 67,326 |
| John Abt Vice President of Quality | | 1,970 | $ 59.20 | 7/21/2025 | | |
| | | | | | 2,390 | $ 56,858 |

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*Options Exercised and Stock Vested During the Fiscal Year Ended June 30, 2016*

The following table sets forth information concerning stock options exercised and stock awards that vested during Fiscal 2016 for each of the NEOs.

| | | | | | | |
|---|---|---|---|---|---|---|
| Arthur P. Bedrosian<br>Chief Executive Officer | 16,667 | $ | 461,176 | 10,890 | $ | 574,908 |
| Michael Bogda<br>Former President | | $ | | 3,470 | $ | 85,397 |
| Martin P. Galvan<br>Vice President of Finance and Chief Financial Officer | | $ | | 3,333 | $ | 162,443 |
| William Schreck<br>Former Chief Operating Officer | 70,667 | $ | 1,383,552 | 8,902 | $ | 509,947 |
| Kevin Smith<br>Senior Vice President of Sales and Marketing | | $ | | 4,000 | $ | 194,940 |
| Robert Ehlinger<br>Vice President of Logistics and Chief Information Officer | 65,090 | $ | 1,159,625 | | $ | |
| John Abt<br>Vice President of Quality | | $ | | 750 | $ | 13,268 |

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*Employment and Separation Agreements*

The Company has entered into employment agreements with its current NEOs. Each of the agreements provides for an annual base salary and eligibility to receive a bonus. The salary and bonus amounts of these executives are determined by the review and approval of the Compensation Committee in accordance with the Committee s charter as approved by the Board of Directors. Additionally, these executives are eligible to receive stock options and restricted stock awards. Under the agreements, these executive employees may be terminated at any time with or without cause, or by reason of death or disability. In certain termination situations, the Company is liable to pay these executives severance compensation as discussed in the table below. The Company previously maintained employment agreements with Messrs. Bogda and Schreck, which expired upon their termination of employment.

Effective September 11, 2015, the Company entered into a Separation Agreement and General Release with Mr. Schreck, our former Chief Operating Officer, upon his termination of employment. The agreement provides for a lump sum separation payment of $614,992, equal to eighteen months of Mr. Schreck s final base salary, pro-rated cash bonus, continued medical benefits coverage for eighteen months, and immediate vesting of all unvested stock options and restricted stock awards. In exchange for these benefits, Mr. Schreck agreed to release the Company from any claims and to cooperate in the resolution of any issues pertaining to filings, investigations, or claims relating to events that occurred during his tenure with the Company. He also agreed to various restrictive covenants during the eighteen month period following his separation from service.

Effective June 3, 2016, the Company entered into a Separation Agreement and General Release with Mr. Bogda, our former President, upon his termination of employment. The agreement provides for a lump sum separation payment of $488,352, equal to twelve months of Mr. Bogda s final base salary, continued medical benefits coverage for twelve months, and immediate vesting of all unvested stock options and restricted stock awards. In exchange for these benefits, Mr. Bogda agreed to release the Company from any claims and to cooperate in the resolution of any issues pertaining to filings, investigations, or claims relating to events that occurred during his tenure with the Company. He also agreed to various restrictive covenants during the twelve month period following his resignation.

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*Potential Payments upon Termination or Change in Control*

The following table assumes that the relevant triggering event occurred on June 30, 2016. The fair market values of share-based compensation (i.e. Stock Options and Restricted Stock) were calculated using the closing price of Lannett Company, Inc. stock ($23.79) on June 30, 2016, which was the last trading day of Fiscal 2016. The spread, the difference between the fair market value of Lannett Company s stock on June 30, 2016, and the option exercise price, was used for valuing stock options.

| Name | Base Salary Continuation | Annual Cash Bonus | Acceleration and Exercisability of Unvested Stock Options | Acceleration of Unvested Restricted Stock | Insurance Benefit Continuation | Other Benefits | Total |
|---|---|---|---|---|---|---|---|
| **Arthur P. Bedrosian** | | | | | | | |
| Without Cause/With Good Reason (1) (2) | $ 1,845,386 | $ 45,917 | $ 297,900 | $ 441,233 | $ 38,016 | $ 7,124 | $ 2,675,576 |
| For Cause (3) (4) | | 45,917 | | | | 7,124 | 53,041 |
| Retirement / Death / Disability (3) | | 45,917 | | | | 7,124 | 53,041 |
| Change in Control (5) | 1,845,386 | 45,917 | 297,900 | 441,233 | 38,016 | 7,124 | 2,675,576 |
| **Michael Bogda** | | | | | | | |
| Without Cause/With Good Reason (1) (2) | $ | $ | $ | $ | $ | $ | $ |
| For Cause (3) (4) | | | | | | | |
| Retirement / Death / Disability (3) | | | | | | | |
| Change in Control (5) | | | | | | | |
| **Martin P. Galvan** | | | | | | | |
| Without Cause/With Good Reason (1) (2) | $ 532,375 | $ 23,844 | $ 165,503 | $ 234,902 | $ 30,214 | $ 4,492 | $ 991,330 |
| For Cause (3) (4) | | 23,844 | | | | 4,492 | 28,336 |
| Retirement / Death / Disability (3) | | 23,844 | | | | 4,492 | 28,336 |
| Change in Control (5) | 532,375 | 23,844 | 165,503 | 234,902 | 30,214 | 4,492 | 991,330 |
| **William F. Schreck** | | | | | | | |
| Without Cause/With Good Reason (1) (2) | $ | $ | $ | $ | $ | $ | $ |
| For Cause (3) (4) | | | | | | | |
| Retirement / Death / Disability (3) | | | | | | | |
| Change in Control (5) | | | | | | | |
| **Kevin R. Smith** | | | | | | | |
| Without Cause/With Good Reason (1) (2) | $ 472,461 | $ 21,160 | $ 148,950 | $ 250,985 | $ 37,560 | $ 5,088 | $ 936,205 |
| For Cause (3) (4) | | 21,160 | | | | 5,088 | 26,248 |
| Retirement / Death / Disability (3) | | 21,160 | | | | 5,088 | 26,248 |
| Change in Control (5) | 472,461 | 21,160 | 148,950 | 250,985 | 37,560 | 5,088 | 936,205 |
| **Robert Ehlinger** | | | | | | | |
| Without Cause/With Good Reason (1) (2) | $ 364,234 | $ 13,595 | $ 115,853 | $ 67,326 | $ 2,548 | $ 5,392 | $ 568,948 |
| For Cause (3) (4) | | 13,595 | | | | 5,392 | 18,987 |
| Retirement / Death / Disability (3) | | 13,595 | | | | 5,392 | 18,987 |
| Change in Control (5) | 364,234 | 13,595 | 115,853 | 67,326 | 2,548 | 5,392 | 568,948 |
| **John Abt** | | | | | | | |
| Without Cause/With Good Reason (1) (2) | $ 434,448 | $ 19,458 | $ | $ 56,858 | $ 37,047 | $ 2,344 | $ 550,156 |
| For Cause (3) (4) | | 19,458 | | | | 2,344 | 21,802 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Retirement / Death / Disability (3) | | 19,458 | | | 2,344 | 21,802 |
| Change in Control (5) | 434,448 | 19,458 | 56,858 | 37,047 | 2,344 | 550,156 |

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(1) Each employment agreement ranges from 1-3 years and is automatically renewed unless notice is given by either party. Any non-renewal of the existing employment agreements by the Company and any resignation of the Executive with Good Reason both constitute a termination without Cause. Under the existing employment agreements base salary continuation for a period of 18-36 months, pro-rated cash bonus as if all targets and goals were achieved subject to any applicable cap on cash payments, acceleration of exercisability of unvested stock option awards, acceleration of unvested restricted stock, and insurance benefit continuation for a period of 18 months (collectively Severance Compensation ) will only be made if the Executive executes and delivers to the Company, in a form prepared by the Company, a release of all claims against the Company and other appropriate parties, excluding the Company s performance obligation to pay Severance Compensation and the Executive s vested rights under the Company sponsored retirement plans, 401(k) plans and stock ownership plans ( General Release ). Severance Compensation is paid in equal monthly installments over a 12 month period to commence on the 90th day following the Termination Date provided the Executive has not revoked the General Release prior to that date. Earned but unpaid base salary, accrued but unpaid annual bonus (if the Executive otherwise meets the eligibility requirements) and accrued but unpaid paid time off and other miscellaneous items are to be paid in a single lump sum in cash no later than the earlier of: (1) the date required under applicable law; or (2) 60 days following the Termination Date.

(2) Under the existing employment agreements, Good Reason is defined as giving written notice of his resignation within thirty (30) days after Executive has actual knowledge of the occurrence, without the written consent of Executive, of one of the following events: (A) the assignment to Executive of duties materially and adversely inconsistent with Executive s position or a material and adverse alteration in the nature of his duties, responsibilities and/or reporting obligations, (B) a reduction in Executive s Base Salary or a failure to pay any such amounts when due; or (C) the relocation of Company headquarters more than 100 miles from its current location. Good Reason is also defined to include any other reason provided the Executive gives at least thirty (30) days prior written notice to Company.

(3) Under the existing employment agreements, if the Executive is terminated For Cause; by death; by disability; resigns without Good Reason; or retires; earned but unpaid base salary, accrued but unpaid annual bonus (if the Executive otherwise meets the eligibility requirements) and accrued but unpaid paid time off and other miscellaneous items are to be paid in a single lump sum in cash no later than the earlier of: (1) the date required under applicable law; or (2) 60 days following the Termination Date.

(4) For Cause generally means Executive s willful commission of an act constituting fraud, embezzlement, breach of fiduciary duty, material dishonesty with respect to the Company, gross negligence or willful misconduct in performance of Executive duties, willful violation of any law, rule or regulation relating to the operation of the Company, abuse of illegal drugs or other controlled substances or habitual intoxication, willful violation of published business conduct guidelines, code of ethics, conflict of interest or other similar policies, and Executive becoming under investigation by or subject to any disciplinary charges by any regulatory agency having jurisdiction over the Company (including but not limited to the Drug Enforcement Administration (DEA), Food and Drug Administration (FDA) or the Securities and Exchange Commission (SEC)) or if any complaint is filed against the Executive by any such regulatory agency.

(5) Under the existing employment agreements a Change in Control is defined as a change in ownership of the Company, a change in effective control of the Company, or a change in ownership of a substantial portion of the Company s assets. If the Executive is terminated by the Company without Cause or resigns with Good Reason within 24 months of a Change in Control event, the Executive shall be entitled to earned but unpaid base salary, accrued but unpaid annual bonus (if the Executive otherwise meets the eligibility requirements) and accrued but unpaid paid time off and other miscellaneous items. These items are to be paid in a single lump sum in cash no later than the earlier of: (1) the date required under applicable law; or (2) 60 days following the Termination Date. Additionally, the Executive shall be entitled to Severance Compensation to be paid in equal monthly installments over a 12 month period to commence on the 90th day following the Termination Date provided the Executive has not revoked the General Release prior to that date. A written notice that the Executive s employment term is not extended within the 24-month period after a Change in Control shall be deemed a termination without Cause, unless the Executive and the Company execute a new employment agreement.

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COMPENSATION OF DIRECTORS

Our Board of Directors is actively involved in providing strategic direction and fiduciary oversight to the Company. During Fiscal 2016 we had a total of six Board members, which resulted in a significant workload for our directors, with our four independent directors serving on an average of three committees each. Our Board of Directors held numerous meetings and teleconferences in Fiscal 2016 in carrying out its responsibilities. One of the important roles the Board plays is in the area of mergers and acquisitions ( M&A ). The Company has been involved with a significant amount of M&A activity over the past several years, including the KUPI acquisition in Fiscal 2016 and the acquisition of Silarx Pharmaceuticals, Inc. in Fiscal 2015. The Board is actively involved in transactional due diligence as well as on-going reviews of business development activities.

For Fiscal 2016, our non-employee directors received a cash retainer of $90,000, payable in monthly increments of $7,500, for Board and committee service. For serving as Lead Independent Director, Mr. Drabik also received an additional retainer of $1,000 per month, beginning in January 2016. No other cash retainers or meeting fees were provided.

Board members receive annual equity grants to recognize their service during the prior fiscal year. Grant levels may vary from year to year based on Company performance. Given the Company s strong performance and the significant efforts and contributions of our directors in Fiscal 2015, in July 2015, each Board member serving in Fiscal 2015 received an award of 4,223 common shares with a grant date value of $250,002, immediately vested at grant. These grants are shown in the table below, since they occurred in Fiscal 2016. Based on the Company s performance and the significant efforts and contributions of our directors in Fiscal 2016, in July 2016, each non-employee Board member received an award of 4,075 common shares with a grant date value of $124,980, immediately vested at grant. Grant date values for this grant will be reported in the director compensation table for Fiscal 2017, since the grant occurred after the end of Fiscal 2016. As an executive director, Mr. Bedrosian did not receive an additional grant for Fiscal 2016 board service.

Effective in July 2014, the Board of Directors approved stock ownership guidelines for non-employee directors equal to three times their cash retainer. Non-employee directors must meet required ownership levels within five years of first becoming subject to the guidelines. All directors other than Mr. Paonessa, who joined the board in Fiscal 2016, currently meet required ownership levels.

We maintain policies that prohibit Directors from pledging Lannett stock or engaging in activity considered hedging of our common stock, and none of our Directors has pledged Lannett stock as collateral for a personal loan or other obligations.

The following table shows compensation information for Fiscal 2016 for non-employee members of our Board of Directors.

| Name | Fees Earned ($) | Stock Awards (1) ($) | Options Awards ($) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value and Nonqualified Deferred Compensation ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|

| | | | |
|---|---|---|---|
| **Jeffrey Farber** | $ 90,000 | $ 250,002 | $ 340,002 |
| **David Drabik** | 96,000 | 250,002 | 346,002 |
| **Paul Taveira** | 90,000 | 250,002 | 340,002 |
| **James Maher** | 90,000 | 250,002 | 340,002 |
| **Albert Paonessa III** | 90,000 | 31,085 | 121,085 |

(1) Reflects grant date award value for equity grants received in Fiscal 2016 to recognize Board service in 2015.

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## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of July 31, 2016, information regarding the security ownership of the directors and certain executive officers of the Company and persons known to the Company to be beneficial owners of more than five (5%) percent of the Company s common stock. Although grants of restricted stock under the Company s 2006, 2011 and 2014 Long Term Incentive Plans ( LTIPs ) generally vest equally over a three year period from the grant date, the restricted shares are included below because the voting rights with respect to such restricted stock are acquired immediately upon grant.

| Name and Address of Beneficial Owner / Director / Executive Officer | Office | Excluding Options (*) | | | | Including Options (**) | |
|---|---|---|---|---|---|---|---|
| | | Shares Held Directly | Shares Held Indirectly | Total Shares | Percent of Class | Number of Shares | Percent of Class |
| John M. Abt<br>13200 Townsend Road<br>Philadelphia, PA 19154 | VP of Quality | **6,110** | | **6,110(1)** | **0.02%** | **6,766(1),(2)** | **0.02%** |
| Arthur P. Bedrosian<br>13200 Townsend Road<br>Philadelphia, PA 19154 | Chief Executive Officer | **618,165** | **36,500** | **654,665(3)** | **1.77%** | **1,167,583(3),(4)** | **3.12%** |
| Mahendra Dedhiya<br>13200 Townsend Road<br>Philadelphia, PA 19154 | Chief Scientific Affairs | **2,976** | | **2,976(5)** | **0.01%** | **3,725(5),(6)** | **0.01%** |
| David Drabik<br>13200 Townsend Road<br>Philadelphia, PA 19154 | Director | **24,575** | | **24,575** | **0.07%** | **24,575** | **0.07%** |
| Robert Ehlinger<br>13200 Townsend Road<br>Philadelphia, PA 19154 | VP and Chief Information Officer | **19,861** | | **19,861(7)** | **0.05%** | **28,627(7),(8)** | **0.08%** |
| Jeffrey Farber<br>13200 Townsend Road<br>Philadelphia, PA 19154 | Chairman of the Board, Director | **2,433,826** | **2,260,327** | **4,694,153(9)** | **12.72%** | **4,699,153(9),(10)** | **12.74%** |
| David Farber<br>13200 Townsend Road<br>Philadelphia, PA 19154 | | **1,940,870** | **2,432,455** | **4,373,325(11)** | **11.85%** | **4,373,325(11)** | **11.85%** |
| Jeffrey and Jennifer Farber Family Foundation<br>2354 Bellingham Drive<br>Troy, MI 48083 | | **1,603,498** | | **1,603,498(12)** | **4.35%** | **1,603,498(12)** | **4.35%** |
| David and Nancy Farber Family Foundation<br>2354 Bellingham Drive | | **1,583,499** | | **1,583,499(13)** | **4.29%** | **1,583,499(13)** | **4.29%** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Troy, MI 48083 | | | | | | | |
| Farber Family LLC<br>2354 Bellingham Drive<br>Troy, MI 48083 | | **528,142** | | **528,142(14)** | **1.43%** | **528,142(14)** | **1.43%** |
| Farber Investment LLC<br>2354 Bellingham Drive<br>Troy, MI 48083 | | **38,000** | | **38,000(15)** | **0.10%** | **38,000(15)** | **0.10%** |
| Martin Galvan<br>13200 Townsend Road<br>Philadelphia, PA 19154 | Chief Financial Officer | **38,370** | | **38,370(16)** | **0.10%** | **183,366(16),(17)** | **0.50%** |
| James M. Maher<br>13200 Townsend Road<br>Philadelphia, PA 19154 | Director | **21,798** | | **21,798** | **0.06%** | **21,798** | **0.06%** |
| Albert Paonessa, III<br>13200 Townsend Road<br>Philadelphia, PA 19154 | Director | **7,105** | | **7,105** | **0.02%** | **7,105** | **0.02%** |
| Kevin R. Smith<br>13200 Townsend Road<br>Philadelphia, PA 19154 | SVP of Sales and Marketing | **16,498** | | **16,498(18)** | **0.04%** | **78,124(18),(19)** | **0.21%** |
| Paul Taveira<br>13200 Townsend Road<br>Philadelphia, PA 19154 | Director | **24,798** | | **24,798** | **0.07%** | **24,798** | **0.07%** |
| All directors and executive officers as a group (11 persons) | | **3,214,082** | **2,296,827** | **5,510,909** | **14.94%** | **6,245,620** | **16.60%** |

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(1) Includes 3,144 unvested shares received pursuant to restricted stock awards granted in March 2015, July 2015 and July 2016.

(2) Includes 656 vested options to purchase common stock at an exercise price of $59.20 per share.

(3) Includes 36,500 shares owned by Arthur P. Bedrosian s wife and daughter. Mr. Bedrosian disclaims beneficial ownership of these shares. Includes 14,972 unvested shares received pursuant to restricted stock awards granted in April 2014, July 2014, July 2015 and July 2016.

(4) Includes 20,325 vested options to purchase common stock at an exercise price of $6.89 per share, 75,000 vested options to purchase common stock at an exercise price of $4.03 per share, 30,000 vested options to purchase common stock at an exercise price of $2.80 per share, 75,000 vested options to purchase common stock at an exercise price of $6.94 per share, 89,500 vested options to purchase common stock at an exercise price of $3.55 per share, 64,000 vested options to purchase common stock at an exercise price of $4.16 per share, 90,000 vested options to purchase common stock at an exercise price of $13.86 per share, 64,000 vested options to purchase common stock at an exercise price of $34.77 per share and 5,093 vested options to purchase common stock at an exercise price of $59.20 per share.

(5) Includes 870 unvested shares received pursuant to restricted stock awards granted in July 2016.

(6) Includes 749 vested options to purchase common stock at an exercise price of $55.59 per share.

(7) Includes 2,768 unvested shares received pursuant to restricted stock awards granted in July 2015 and July 2016.

(8) Includes 6,666 vested options to purchase common stock at an exercise price of $34.77 per share and 2,100 vested options to purchase common stock at an exercise price of $59.20 per share.

(9) Includes 1,603,498 shares held by the Jeffrey Farber Family Foundation which is managed by Jeffrey Farber. Jeffrey Farber disclaims beneficial ownership of these shares. Includes 528,142 shares held by Farber Family LLC ( FFLLC ) which is managed by Jeffrey and David Farber. David Farber and Jeffrey Farber each disclaim beneficial ownership of these shares. Includes 73,408 shares held by Jeffrey Farber as custodian for his children, 17,279 shares held as joint custodian with David Farber for a relative and also includes 38,000 shares held by Farber Investment Company ( FIC ). Jeffrey Farber and David Farber each beneficially own 25% of FIC and each disclaim beneficial ownership of all but 9,500 shares held by FIC.

(10) Includes 5,000 vested options to purchase common stock at an exercise price of $6.89 per share.

(11) Includes 1,583,499 shares held by the David and Nancy Family Foundation. David Farber disclaims beneficial ownership of these shares. Includes 528,142 shares held by FFLLC which is managed by Jeffrey and David Farber. David Farber and Jeffrey Farber each disclaim beneficial ownership of these shares. Includes 265,535 shares held by David Farber as custodian for his children and 17,279 shares held as joint custodian with Jeffrey Farber for a relative. Also includes 38,000 shares held by FIC. Jeffrey Farber and David Farber each beneficially own 25% of FIC and each disclaim beneficial ownership of all but 9,500 shares held by FIC.

(12) Jeffrey and Jennifer Farber Family Foundation is managed by Jeffrey Farber.

(13) David and Nancy Farber Family Foundation is managed by David and Nancy Farber.

(14) Farber Family LLC is managed by Jeffrey Farber and David Farber.

(15) Farber Investment LLC is beneficially owned 25% each by Jeffrey and David Farber and 50% by Larry Farber.

(16) Includes 7,637 unvested shares received pursuant to restricted stock awards granted in April 2014, July 2014, July 2015 and July 2016.

(17) Includes 40,000 vested options to purchase common stock at an exercise price of $4.73 per share, 32,000 vested options to purchase common stock at an exercise price of $4.16 per share, 50,000 vested options to purchase common stock at an exercise price of $13.86 per share, 20,000 vested options to purchase common stock at an exercise price of $34.77 per share and 2,996 vested options to purchase common stock at an exercise price of $59.20 per share.

(18) Includes 7,795 unvested shares received pursuant to restricted stock awards granted in April 2014, July 2014, July 2015 and July 2016.

(19) Includes 11,667 vested options to purchase common stock at an exercise price of $4.16 per share, 30,000 vested options to purchase common stock at an exercise price of $13.86 per share, 17,333 vested options to purchase common stock at an exercise price of $34.77 per share and 2,626 vested options to purchase common stock at an exercise price of $59.20 per share.

* Percent of class calculation is based on 36,892,377 outstanding shares of common stock at July 31, 2016.

** Assumes that all options exercisable within sixty days have been exercised.

The following table sets forth, as of July 31, 2016, information regarding the names and addresses of the shareholders known to the Company to be beneficial owners of more than five (5%) percent of the Company s common stock.

| Name and Address of Beneficial Owner | Number of Shares | Percent of Class |
|---|---|---|
| BlackRock, Inc.<br>55 East 52nd Street<br>New York, NY 10055 | **2,876,155(1)** | **7.80%** |
| The Vanguard Group<br>100 Vanguard Blvd<br>Malvern, PA 19355 | **2,439,551(2)** | **6.61%** |

(1) Based on Schedule 13G/A filed by BlackRock, Inc. with the SEC on January 26, 2016. BlackRock, Inc. has sole voting power over 2,811,893 shares, shared voting power over 0 shares, sole dispositive power over 2,876,155 shares and shared dispositive power over 0 shares.

(2) Based on Schedule 13G/A filed by The Vanguard Group with the SEC on February 10, 2016. The Vanguard Group has sole voting power over 59,111 shares, shared voting power over 1,800 shares, sole dispositive power over 2,380,540 shares and shared dispositive power over 59,011 shares.

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**Equity Compensation Plan Information**

The following table summarizes the equity compensation plans as of June 30, 2016:

| (In thousands, except for weighted average exercise price) Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity Compensation plans approved by security holders | 1,730 | $ 16.77 | 2,365 |
| Equity Compensation plans not approved by security holders | | | |
| Total | 1,730 | $ 16.77 | 2,365 |

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

**Review and Approval of Transactions with Related Persons**

The responsibility for the review of transactions with related persons (as defined below) has been assigned to the Audit Committee of the Board of Directors, which is comprised of three independent directors. Related persons are defined as directors and executive officers or their immediate family members or stockholders owning more than five percent of the Company s common stock. The Audit Committee annually reviews related party transactions with any related person in which the amount exceeds $120,000.

The Company had total net sales of $3.1 million, $1.9 million and $2.3 million during the fiscal years ended June 30, 2016, 2015 and 2014, respectively, to a generic distributor, Auburn Pharmaceutical Company ( Auburn ). Jeffrey Farber, Chairman of the Board, is the owner of Auburn. Accounts receivable includes amounts due from Auburn of $682 thousand and $733 thousand at June 30, 2016 and 2015, respectively.

As part of its review, the Audit Committee noted that the amount of total net sales to Auburn approximated 0.6%, 0.5% and 1.5% of total net sales during the fiscal years ended June 30, 2016, 2015 and 2014, respectively.

The Audit Committee reviewed an analysis of sales prices charged to Auburn, which compared the average sales prices by product for Auburn sales to the average sales prices by product to other Lannett customers during the same period. As a result of this analysis, the Audit Committee ratified the net sales made to Auburn during the fiscal years ended June 30, 2016 and noted that the aggregate impact of the difference in sales prices charged to Auburn compared to other customers was not significant.

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

Grant Thornton LLP served as the independent auditors of the Company during Fiscal 2016, 2015 and 2014. No relationship exists, other than the usual relationship between independent public accountant and client. The following table identifies the fees incurred for services rendered by Grant Thornton LLP in Fiscal 2016, 2015 and 2014.

| (In thousands) | Audit Fees | Audit-Related | Tax Fees (1) | All Other Fees (2) | Total Fees |
|---|---|---|---|---|---|
| Fiscal 2016: | $ 1,482 | $ | $ 154 | $ | $ 1,636 |
| Fiscal 2015: | $ 499 | $ | $ 104 | $ 10 | $ 613 |
| Fiscal 2014: | $ 444 | $ | $ 69 | $ | $ 513 |

(1) Tax fees include fees paid for preparation of annual federal, state and local income tax returns, quarterly estimated income tax payments and various tax planning services.

(2) Other fees include fees paid for review of various correspondences, miscellaneous studies, etc.

The non-audit services provided to the Company by Grant Thornton LLP were pre-approved by the Company s Audit Committee. Prior to engaging its auditor to perform non-audit services, the Company s Audit Committee reviews the particular service to be provided and the fee to be paid by the Company for such service and assesses the impact of the service on the auditor s independence.

**PART IV**

**ITEM 15.** **EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

1. *Consolidated Financial Statements:*

See accompanying Index to Consolidated Financial Statements.

2. *Consolidated Financial Statement Schedules:*

**Lannett Company, Inc.**

**Schedule II -** Valuation and Qualifying Accounts

**For the years ended June 30:**

| Description (In thousands) | Balance at Beginning of Fiscal Year | Charged to (Reduction of) Expense | Deductions | Balance at End of Fiscal Year |
|---|---|---|---|---|
| Allowance for Doubtful Accounts | | | | |
| 2016 | $ 374 | $ 236 | $ | $ 610 |
| 2015 | 115 | 259 | | 374 |
| 2014 | 41 | 74 | | 115 |
| | | | | |
| Inventory Valuation | | | | |
| 2016 | $ 4,957 | $ 9,354 | $ 7,387 | $ 6,924 |
| 2015 | 2,384 | 6,700 | 4,127 | 4,957 |
| 2014 | 2,002 | 2,918 | 2,536 | 2,384 |
| | | | | |
| Deferred Tax Asset Valuation Allowance | | | | |
| 2016 | $ 2,326 | $ 1,601 | $ | $ 3,927 |
| 2015 | 2,289 | 37 | | 2,326 |
| 2014 | 2,140 | 149 | | 2,289 |

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3. *Exhibits:*

Those exhibits marked with a (*) refer to management contracts or compensatory plans or arrangements.

| Exhibit Number | Description | Method of Filing |
|---|---|---|
| 2.1 | Stock Purchase Agreement by and among Lannett Company, Inc., Rohit Desai, the RD Nevada Trust, Silarx Pharmaceuticals, Inc. and Stoneleigh Realty, LLC, dated as of May 15, 2015 | Incorporated by reference to Exhibit 2.1 on Form 8-K dated May 18, 2015 |
| 2.2 | Stock Purchase Agreement among UCB S.A., UCB Manufacturing, Inc. and Lannett Company, Inc. dated as of September 2, 2015 | Incorporated by reference to Exhibit 2.2 on Form 8-K dated September 4, 2015 |
| 2.3 | Amendment No. 2 to Stock Purchase Agreement | Incorporated by reference to Exhibit 2.3 on Form 8-K dated December 2, 2015 |
| 3.1 | Certificate of Incorporation | Incorporated by reference to the Proxy Statement filed with respect to the Annual Meeting of Shareholders held on December 6, 1991 (the 1991 Proxy Statement ). |
| 3.2 | By-Laws, as amended | Incorporated by reference to the 1991 Proxy Statement. |
| 3.3 | Amendment No. 1 to Amended and Restated By-Laws | Incorporated by reference to Exhibit 3.3 on Form 8-K dated January 16, 2014 |
| 3.4 | Amendment No. 2 to Amended and Restated By-Laws | Incorporated by reference to Exhibit 3.4 on Form 8-K dated July 17, 2014 |
| 3.5 | Updated and Amended Certificate of Incorporation | Incorporated by reference to Exhibit 3.5 to the Annual Report on 2014 Form 10-K |
| 3.6 | Updated and Amended By-Laws | Incorporated by reference to Exhibit 3.6 to the Annual Report on 2014 Form 10-K |
| 3.7 | Amended and Restated Bylaws of Lannett Company Inc., as amended through January 21, 2015. | Incorporated by reference to Exhibit 3.7 on Form 8-K dated April 3, 2015 |
| 3.8 | Amended and Restated Bylaws of Lannett Company Inc., as amended through July 6, 2015. | Incorporated by reference to Exhibit 3.8 on Form 8-K dated July 9, 2015 |
| 4 | Specimen Certificate for Common Stock | Incorporated by reference to Exhibit 4(a) to Form 8 dated April 23, 1993 (Amendment No. 3 to Form 10-KSB for Fiscal 1992) ( Form 8 ) |
| 4.1 | Lannett Company, Inc. Indenture. Wilmington Trust, National Association, Providing for the Issuance of Notes in Series | Incorporated by reference to Exhibit 4.1 on Form 8-K dated December 2, 2015 |
| 4.2 | First Supplemental Indenture dated as of November 25, 2015 | |

| | | |
|---|---|---|
| | | Incorporated by reference to Exhibit 4.2 on Form 8-K dated December 2, 2015 |
| 4.3 | Supplemental Indenture in Respect of Subsidiary Guarantee | Incorporated by reference to Exhibit 4.3 on Form 8-K dated December 2, 2015 |
| 10.1 | Line of Credit Note dated March 11, 1999 between the Company and First Union National Bank | Incorporated by reference to Exhibit 10(ad) to the Annual Report on 1999 Form 10-KSB |
| 10.2 | | |