

LANNETT CO INC  
Form 10-K  
August 28, 2017  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2017

OR

**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.**

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(Exact name of registrant as specified in its charter)

**State of Delaware**  
State of Incorporation

**23-0787699**  
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  No

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

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

Indicate by check mark 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.

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, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company   
Emerging growth company

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

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

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

Aggregate market value of common stock held by non-affiliates of the registrant, as of December 31, 2016 was \$613,312,878 based on the closing price of the stock on the NYSE.

As of July 31, 2017, there were 37,284,317 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 other 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, 2017. 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 sixteen years. In that time period, total net sales increased from \$12.1 million in fiscal year 2001 to \$633.3 million in fiscal year 2017. This growth has been achieved through filing and receiving approvals for abbreviated new drug applications ( ANDAs ), strategic partnerships and launches of additional manufactured drugs, opportunities resulting from our strong historical record of regulatory compliance, as well as the acquisitions of Silarx Pharmaceuticals, Inc. ( Silarx ) and Kremers Urban Pharmaceuticals Inc. ( KUPI ).

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 2017, 2016 and 2015 accounted for 53%, 57% and 78% of total net sales, respectively.

**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 a limited number of vertically integrated competitors.

*Efficient Development Systems and Manufacturing Expertise for New Products.* We believe that our manufacturing expertise, low overhead expenses, skilled 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. 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 29% of our total net sales in fiscal year 2017.

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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 2018 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 numerous 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 2018. 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.

In 2016, the Company announced 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. 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.

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*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. In January 2017, the Company announced a \$50 million expansion plan in conjunction with Forward Cody, an unrelated non-profit economic development corporation, ( Forward Cody ) to expand our operations in Cody, WY.

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 as well as drugs to treat addiction to opioids, 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.

**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, are the 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 \$174.0 million in fiscal year 2017. 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.

*Fluphenazine Tablets*

Fluphenazine tablets are used for the treatment of antipsychosis. Net sales of Fluphenazine tablets totaled \$54.0 million in fiscal year 2017. Currently, our primary generic competitor for this drug is Mylan.

*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 \$9.5 million in fiscal year 2017. 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 as well as the brand product Lanoxin distributed by Concordia and an authorized generic ( AG ) distributed by Par.

*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 \$18.8 million in fiscal year 2017. Currently, our primary generic competitors for this drug are Heritage and Taro.

*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.

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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. 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 \$19.6 million in fiscal year 2017. 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, Teva 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 \$48.6 million in fiscal year 2017. We compete with generic products from Epic and Mylan, as well as the brand product Actigall distributed by Teva.

*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 \$25.3 million in fiscal year 2017. In distributing this product, we compete primarily with Sandoz, Dr. Reddy's and Zydus.

*Methylphenidate 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 Mylan as well as an AG marketed by Teva. 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 \$32.7 million in fiscal year 2017.

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.

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 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 bioequivalence criteria set forth in draft bioequivalence guidance that 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 bioequivalence studies per the new draft bioequivalence guidance. KUPI submitted the data from those studies to FDA in June 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.

On October 18, 2016, the Company received notice from the FDA that it will seek to withdraw approval of the Company's ANDA for Methylphenidate ER. The FDA's notice includes an opportunity for the Company to request a hearing on this matter. The Company initially had until November 17, 2016 to request the hearing and until December 19, 2016 to submit all data, information and analyses upon which the request for a hearing relies.

On November 30, 2016, the Company announced that the FDA granted a 90-day extension to submit documentation related to the hearing request. On February 22, 2017, the Company announced that the FDA suspended indefinitely the deadline to submit supporting documentation related to the hearing request in order to give the FDA additional time to retrieve documents requested by the Company.

#### *Pain Management Products*

Cocaine Topical® Solution ( C-Topical® ), a vertically integrated product, 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, sinuplasty and in emergency rooms.

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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. 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, which 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 \$26.1 million in fiscal year 2017.

**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 ), a variable interest entity ( VIE ) in which the Company had a 50% ownership interest until November 30, 2016, when the Company acquired the remaining 50% interest.

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 made significant improvements to its facility and equipment. These improvements enabled the facility to increase production from approximately 1.2 billion doses in 2008 to over 2.7 billion doses in 2014. KUPI also completed a 20,000 square foot expansion of the facility which increased capacity to 3.9 billion doses.

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.

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**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:

- 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 are 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.

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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. 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, 2017, we have 9 paragraph IV certifications pending with the FDA. Three 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 Suprep®, Braintree Laboratories, Inc. filed a patent infringement lawsuit against the Company in March 2017. Refer to Note 12 Legal, Regulatory Matters and Contingencies for further information on the current status of the aforementioned P-IV challenges.

**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 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.

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

<b>Name of Product (1)</b>	<b>Medical Indication</b>	<b>Equivalent Brand</b>
1 Acetazolamide Tablets	Glaucoma	Diamox®
2 Atorvastatin Calcium Tablets	Cholesterol	Lipitor®
3 Baclofen Tablets	Muscle Spasm	Lioresal®
4 Butalbital, Acetaminophen and Caffeine Tablets	Migraine	Fioricet®
5 Butalbital, Aspirin and Caffeine Capsules	Migraine	Fiorinal®
6 C-Topical ® Solution	Pain Management	N/A
7 Digoxin Tablets*	Cardiovascular	Lanoxin®
8 Fluphenazine Tablets	Antipsychosis	Prolixin®
9 Glycolax Rx	Gastrointestinal	MiraLAX®
10 Isosorbide Mononitrate CR	Cardiovascular	Imdur®
11 Levothyroxine Sodium Tablets*	Thyroid Deficiency	Levoxyl®/ Synthroid®
12 Methylphenidate HCL CD	Central Nervous System	Metadate® CD
13 Methylphenidate ER	Central Nervous System	Concerta®
14 Nifedipine CR	Cardiovascular	Procardia®
15 Omeprazole DR	Gastrointestinal	Prilosec®
16 Oxbutynin ER	Urinary	Ditropan®
17 Pantoprazole DR	Gastrointestinal	Protonix®
18 Sumatriptan Nasal Spray	Migraine	Imitrex®
19 Terbutaline Sulfate Capsules	Bronchospasms	Brethine®
20 Hydrocodone Polistirex	Respiratory	Tussionex ®
21 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 2017.

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 Application. 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 2017, 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 July 2016, we received a letter from the FDA with approval to market and launch Paroxetine Extended Release Tablets USP, 12.5 mg, 25 mg and 37.5 mg, the therapeutic equivalent to the reference listed drug, Paxil CR Extended-Release Tablets USP, 12.5 mg, 25 mg and 37.5 mg, of

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Apotex Technologies. According to IMS, total U.S. sales in 2015 of Paroxetine Extended Release-Tablets USP, 12.5 mg, 25 mg and 37.5 mg, at Average Wholesale Price ( AWP ) were approximately \$122.0 million.

In September 2016, we received a letter from the FDA with approval to market and launch Buprenorphine and Naloxone Sublingual Tablets, 2 mg/0.5 mg and 8 mg/2 mg, the therapeutic equivalent to the reference listed drug, Suboxone Sublingual Tablets, 2 mg/0.5 mg and 8 mg/2 mg. According to IMS, total U.S. sales in 2015 of Buprenorphine and Naloxone Sublingual Tablets, 2 mg/0.5 mg and 8 mg/2 mg, at AWP were approximately \$270.0 million.

In November 2016, we received a letter from the FDA with approval to market and launch Memantine Hydrochloride Tablets USP, 5 mg and 10 mg, the therapeutic equivalent to the reference listed drug, Namenda Tablets, 5 mg and 10 mg, of Forest Laboratories LLC. According to IMS, total U.S. sales in 2015 of Memantine Hydrochloride Tablets USP, 5 mg and 10 mg, at AWP were approximately \$50.0 million.

In November 2016, we also received a letter from the FDA with approval to market and launch Metaxalone Tablets USP, 800 mg, the therapeutic equivalent to the reference listed drug, Skelaxin® of King Pharmaceuticals, Inc. According to IMS, total U.S. sales for the twelve months ended September 2016 of Metaxalone Tablets USP, 800 mg, at AWP were approximately \$173.0 million.

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In December 2016, we received a letter from the FDA with approval of our Supplemental New Drug Application ( sNDA) for Morphine Sulfate Oral Solution CII, color and flavor added, 20 mg/mL. According to IMS, total U.S. sales for the twelve months ended October 2016 of Morphine Sulfate Oral Solution, at AWP were approximately \$22.0 million.

In December 2016, we also received a letter from the FDA with approval to market and launch Lopinavir and Ritonavir Oral Solution USP, 80 mg/20 mg per mL, the therapeutic equivalent to the reference listed drug, Kaletra® Oral Solution of AbbVie Inc.

In May 2017, we received a letter from the FDA with approval to market and launch Levocetirizine Dihydrochloride Oral Solution, 2.5 mg/5 mL (0.5 mg/mL), the therapeutic equivalent to the reference listed drug, Xyzal® Oral Solution, 2.5 mg/5 mL (0.5 mg/mL), of UCB Inc.

In June 2017, we received a letter from the FDA with approval to market and launch Amantadine Hydrochloride Capsules USP, 100 mg, the therapeutic equivalent to the reference standard drug, Amantadine Hydrochloride Capsules USP, 100 mg, of Sandoz Pharmaceuticals. Previously, the branded version of the product was marketed as Symmetrel® Capsules, 100 mg. For the twelve months ended April 2017, total U.S. sales of Amantadine Hydrochloride Capsules USP, 100 mg, at AWP were approximately \$25.0 million, according to IMS.

In June 2017, we also received approval to market and launch Niacin Extended-Release Tablets USP, 500 mg and 1000 mg, the therapeutic equivalent to the reference listed drug, Niaspan® Extended-Release Tablets, 500 mg and 1000 mg, of AbbVie Inc. For the 12 months ended April 2017, total U.S. sales of Niacin Extended-Release Tablets USP, 500 mg and 1000 mg, at AWP were approximately \$152.0 million, according to IMS.

In June 2017, we also received approval to market and launch Hydrocodone Bitartrate and Acetaminophen Tablets USP, 5 mg/300 mg, 7.5 mg/300 mg and 10 mg/300 mg, the therapeutic equivalent to the reference standard drug, Hydrocodone Bitartrate and Acetaminophen Tablets USP, 5 mg/300 mg, 7.5 mg/300 mg and 10 mg/300 mg, of Mikart, Inc. The product is also marketed under the brand names Vicodin®, Vicodin ES® and Vicodin HP®. For the twelve months ended April 2017, total U.S. sales of Hydrocodone Bitartrate and Acetaminophen Tablets USP, 5 mg/300 mg, 7.5 mg/300 mg and 10 mg/300 mg, at AWP were approximately \$67.1 million, according to IMS.

In June 2017, we also received approval to market and launch Hydrocodone Bitartrate and Acetaminophen Tablets USP, 5 mg/325 mg, 7.5 mg/325 mg and 10 mg/325 mg, the therapeutic equivalent to the reference listed drug, Norco® Tablets, 5 mg/325 mg, 7.5 mg/325 mg, and 10 mg/325 mg, of Allergan Pharmaceuticals International Limited. The product is also marketed under the brand name Lortab® 5 mg/325 mg, 7.5 mg/325 mg, and 10 mg/325 mg. For the twelve months ended April 2017, total U.S. sales of Hydrocodone Bitartrate and Acetaminophen Tablets USP, 5 mg/325 mg, 7.5 mg/325 mg and 10 mg/325 mg, at AWP were approximately \$744.3 million, according to IMS.

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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 parenterals, 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.

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.

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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. As of June 30, 2017, we had 19 ANDAs awaiting review and approval at the FDA.

We recorded R&D expenses of \$42.1 million in fiscal year 2017, \$45.1 million in fiscal year 2016 and \$30.3 million in fiscal year 2015. 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 36% of our inventory purchases in fiscal year 2017, 52% in fiscal year 2016 and 68% in fiscal year 2015. 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 23, 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 represented 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.

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 2018 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 28%, 21% and 6%, respectively, of our total net sales in fiscal year 2017 and 25%, 16% and 7%, respectively, of our total net sales in fiscal year 2016. Our largest chain drug store customer accounted for 5% of total net sales in fiscal year 2017 and fiscal year 2016.

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.



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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 2017, 2016 and 2015, 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 wholesale, chain drug and mail-order 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:

<b>Product</b>	<b>Primary Competitors</b>
Acetazolamide Tablets	Heritage and Taro
Butalbital, Acetaminophen and Caffeine Tablets	Mallinckrodt, Mikart, Qualitest, Watson and West-Ward
Butalbital with Aspirin and Caffeine, with and without Codeine Phosphate Capsules	Teva and Breckenridge
C-Topical® Solution	Compounding pharmacies and combining two alternative drugs
Digoxin Tablets	Mylan, Impax, West-Ward, Sun and Par
Fluphenazine Tablets	Mylan
Levothyroxine Sodium Tablets	AbbVie, Pfizer, Mylan and Sandoz
Methylphenidate ER Tablets	Mallinckrodt, Mylan and Teva
Omeprazole Capsules	Sandoz, Dr. Reddy's and Zydus
Ursodiol Capsules	Epic, Mylan and Teva

**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;

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- 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
- 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.

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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. 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, 2017, we have 9 paragraph IV certifications pending with the FDA. Three 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 Suprep®, Braintree Laboratories, Inc. filed a patent infringement lawsuit against the Company in March 2017. Refer to Note 12 Legal, Regulatory Matters and Contingencies for further information on the current status of the aforementioned P-IV challenges.

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.

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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. 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.

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Any one or a combination of FDA regulatory or enforcement actions against the Company could have a material adverse effect on our financial results.

*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 Statute) 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.

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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, knowingly 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 and Fiscal 2016, 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.

*EPA Violation Notice*

On July 13, 2017, the United States Department of Environmental Protection Agency (EPA) sent a Finding of Violation to KUPI alleging several violations of national emissions standards for hazardous air pollutants at KUPI's Seymour, Indiana facility. The EPA is giving the company the opportunity to discuss the matter with the agency before filing a formal complaint or assessing fines with respect to the alleged violations. The Company is conducting an investigation into the matter and cannot reasonably predict the outcome of any potential EPA action at this time.

*Other Applicable Laws*

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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, 2017, we had 1,126 employees.

### **Securities and Exchange Act Reports**

We maintain a website at [www.lannett.com](http://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.

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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.

**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 2017, 30% of our total net sales consists of distributed products manufactured by JSP. Two of these products are Levothyroxine Sodium and Digoxin, which accounted for 27% and 2%, respectively, of our Fiscal 2017 total net sales and 30% and 4%, respectively, of our total net sales for Fiscal 2016. 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 23, 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 or 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. 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. We may compete for certain acquisition targets with companies having greater financial resources than us or other advantages over us that may hinder or prevent us from acquiring a target company or completing another transaction, which could also result in significant diversion of management time, as well as substantial out-of-pocket costs. 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.

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

**We have been and may continue to be adversely affected by increased governmental rebates with respect to matters relating to the pricing of our products and we may experience pricing pressure on the price of certain of our products due to competitive pressure to lower the cost of drugs, which could reduce our revenue and future profitability.**

There has been increased press coverage and increased scrutiny from regulatory and enforcement agencies and legislative bodies with respect to matters relating to the pricing of generic pharmaceuticals, including publicity and pressure resulting from prices charged by our competitors. We have experienced and may continue to experience downward pricing pressure on the price of our products due to competitive pressure to lower the cost of drugs to the ultimate consumer, which could reduce our revenue and future profitability. This increased press coverage and public scrutiny have resulted in, and may continue to result in, investigations, and calls for investigations, by governmental agencies at both the federal and state level and have resulted in, and may continue to result in, claims brought against us by private parties or by regulators taking other measures that could have a negative effect on our business. For a description of current and federal and state investigations and claims by private parties, see Note 12 Legal, Regulatory Matters and Contingencies . Additional actions are possible. It is not possible at this time to predict the ultimate outcome of any such investigations or claims or what other investigations or lawsuits or regulatory responses may result from such assertions, or their impact on our business, financial condition, results of operations, cash flows, and/or ordinary share price. Any such investigation or claim could also result in reputational harm and reduced market acceptance and demand for our products, could harm our ability to market our products in the future, could cause us to incur significant expense, could cause our senior management to be distracted from execution of our business strategy, and could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Accompanying the press and media coverage of pharmaceutical pricing practices and public complaints about the same, there has been increasing U.S. federal and state legislative and enforcement interest with respect to drug pricing. In recent years, both the U.S. House of Representatives and the U.S. Senate have conducted numerous hearings with respect to pharmaceutical drug pricing practices, including in connection with the investigation of specific price increases by pharmaceutical companies. In addition to the effects of any investigations or claims brought against us described above, our revenue and future profitability could also be negatively affected if any such inquiries, of us or of other pharmaceutical companies or the industry more generally, were to result in legislative or regulatory proposals that limit our ability to increase the prices of our products. Any of the events or developments described above could have a material adverse impact on our business, financial condition or results of operations, as well as on our reputation.

**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, regulations and guidances govern or influence the development, testing, manufacturing, packing, labeling, storing, record keeping, safety, approval, advertising, promotion, sale and distribution of our products.

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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 complete all activities necessary to secure 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 therapeutically equivalent to a drug previously approved by the FDA through the drug approval process, known as the reference listed drug ( RLD ) or reference standard drug ( RS ). 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 new bioequivalence studies, 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 withdraw drug approvals previously granted after a hearing and require a firm to remove these products from the market for a variety of reasons, including a failure to comply with applicable regulations or the discovery of previously unknown safety problems with the product.

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 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 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.

In addition, we, as well as our suppliers of distributed products and raw materials and contract manufacturing, laboratory and research organizations, are subject to periodic inspection of facilities by the FDA, the DEA and other authorities to confirm that firms 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 deficiencies noted during the inspection on Form 483. 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. If more serious violations are identified, the FDA may take additional action, such as issuing warning letters, import alerts, etc. 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, import alerts, 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 Grandfathered products, 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.

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**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 Lab'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.

**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;

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- 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 AG, 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 pharmaceutical 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. 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

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- 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, Regulatory Matters and Contingencies. 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.

**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 have and could continue to 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.

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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 Medicare and Medicaid Anti-Kickback Statute (the "Anti-Kickback Statute"), which apply to our sales and marketing practices and our relationships with physicians and other referral sources. 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.

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. Violations of the Anti-Kickback Statute also may result in a finding of civil liability under the federal False Claims Act (as further discussed below) and the potential imposition of additional civil fines and monetary penalties that could be substantial. 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 statute 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.

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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.

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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, although the Company has not used the term AWP since 2000. 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.

Furthermore, under the FDCA, it is illegal for pharmaceutical companies to promote their products for uses that are not approved by the FDA, and companies that market drugs for so-called off-label indications may be subject to civil liability under the federal False Claims Act (as further discussed below), as well as to criminal penalties. Over the past decade, numerous lawsuits have been filed against pharmaceutical companies challenging their off-label promotional activities, and pharmaceutical companies, in the aggregate, have paid billions of dollars to defend and settle these cases.

**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 Federal False Claims Act (FFCA) imposes civil liability 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 substantial civil penalties for each false claim submitted (including civil penalties presently in excess of \$21,000 per claim, plus treble damages, plus liability for attorney's fees) 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 or whistleblower 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 the amounts paid to the federal government in fines or settlement as a result of a successful Qui Tam action, in addition to the recovery of legal fees in bringing such an 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, major retail drug store chains and mail-order pharmacies. 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.

Our three largest customers accounted for 28%, 21% and 6%, respectively, of our total net sales for Fiscal 2017 and 25%, 16% and 7%, respectively, of our total net sales for Fiscal 2016. 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, 2017, 2016 and 2015, our top five products in terms of sales, in the aggregate, represented approximately 53%, 57% and 78%, 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.

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**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.



**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.

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**If our goodwill or other 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 first quarter of Fiscal 2017, we recorded a \$65.1 million impairment charge upon receiving notice from the FDA that it would seek to withdraw approval of the Company's Methylphenidate ER ANDA. In the second quarter of Fiscal 2017, we recorded a \$23.0 million impairment charge related to an abandonment of a project within KUPI's intellectual property research and development ( IPR&D ) portfolio. 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.

**We expend a significant amount of resources on research and development efforts that may not lead to successful product introductions.**

We conduct R&D primarily to enable us to gain approval for, manufacture, and market pharmaceuticals in accordance with applicable laws and regulations. We also partner with third parties to develop products. We cannot be certain that any investment made in developing products will be recovered, even if we are successful in commercialization. To the extent that we expend significant resources on R&D efforts and are not able, ultimately, to introduce successful new and/or complex products as a result of those efforts, there could be a material adverse effect on our business, financial condition, results of operations, cash flows, and/or the price of our common stock.

**Investigations of the calculation of average wholesale prices may adversely affect our business.**

Many government and third-party payers, including Medicare, Medicaid, Health Maintenance Organization and Managed Care Organization, have historically reimbursed doctors, pharmacies and others for the purchase of certain prescription drugs based on a drug's AWP or wholesale acquisition cost ( WAC ). In the past several years, state and federal government agencies have conducted ongoing investigations of manufacturers' reporting practices with respect to AWP and WAC, in which they have suggested that reporting of inflated AWP's or WAC's has led to excessive payments for prescription drugs. For a description of current and federal and state investigations and claims by private parties, see Note 12 Legal, Regulatory Matters and Contingencies. Additional actions are possible. These actions, if successful, could adversely affect us and may have a material adverse effect on our business, results of operations, financial condition and cash flows.

**The market price of our common stock has been volatile and may continue to be volatile in the future, and the value of any investment in our common stock could decline significantly.**

The market price for our shares of common stock listed on the NYSE has fluctuated significantly from time to time, for example, varying between an intra-day high of \$39.99 to an intra-day low of \$16.75 during Fiscal 2017. The market price of our common stock is likely to continue to be volatile and subject to significant price and volume fluctuations in response to market, industry and other factors, including the risks described in this section. Further, the stock market for pharmaceutical companies has recently experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. In particular, recent negative publicity regarding pricing and price increases by pharmaceutical companies has negatively impacted, and may continue to negatively impact, the market for pharmaceutical companies. These broad market and industry factors have negatively impacted, and in the future may seriously negatively impact, the market price of our common stock, regardless of our operating performance. Our stock market price may also be

dependent upon the valuations and recommendations of the analysts who cover our business. If our results do not meet these analysts' forecasts, the expectations of our investors or the financial guidance we provide to investors in any period, the market price of our common stock could decline. In the past, following periods of volatility in the market or significant price decline, securities class-action litigation has often been instituted against companies and we have been subject to one such suit, as further described in Note 12 - Legal, Regulatory Matters and Contingencies. Such suits could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect our business, results of operations and financial condition.

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**Risks Related to our 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. 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.

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.

*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.*

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.

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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 June 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.

On October 18, 2016, the Company received notice from the FDA that it will seek to withdraw approval of the Company's ANDA for Methylphenidate ER. The FDA's notice includes an opportunity for the Company to request a hearing on this matter. The Company initially had until November 17, 2016 to request the hearing and until December 19, 2016 to submit all data, information and analyses upon which the request for a hearing relies.

On November 30, 2016, the Company announced that the FDA granted a 90-day extension to submit documentation related to the hearing request. On February 22, 2017, the Company announced that the FDA suspended indefinitely the deadline to submit supporting documentation related to the hearing request in order to give the FDA additional time to retrieve documents requested by the Company.

The Company intends to continue working to submit data to the FDA to regain the AB rating, or to maintain the drug on the U.S. market with a B-level rating, however, there can be no assurance as to when or if the Company will be permitted to remain on the market.

*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, 2017, we had total indebtedness of \$983.0 million, which primarily consists of an amended term loan facility (the Amended Term Loan Facility ). We also have an undrawn \$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;

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- 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.

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 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. 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).

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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.

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, 2017 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 \$1.2 million change in annual interest expense on our indebtedness under the Amended Senior Secured Credit Facility.

*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.

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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 and development function is 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.

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 made significant improvements to its facility and equipment. These improvements enabled the facility to increase production from approximately 1.2 billion doses in 2008 to over 2.7 billion doses in 2014. KUPI also completed a 20,000 square foot expansion of the facility which increased capacity to 3.9 billion doses.

**ITEM 3. LEGAL PROCEEDINGS**

Information pertaining to legal proceedings can be found in Note 12 Legal, Regulatory Matters and Contingencies 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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The Company's common stock trades on the NYSE. The following table sets forth certain information with respect to the intraday high and intraday low sales prices per share of the Company's common stock during Fiscal 2017 and 2016, as quoted by the NYSE.

**Fiscal Year Ended June 30, 2017**

	<b>High</b>	<b>Low</b>
First quarter	\$ 39.99	\$ 23.78
Second quarter	\$ 28.21	\$ 16.75
Third quarter	\$ 23.95	\$ 18.25
Fourth quarter	\$ 27.90	\$ 17.80

**Fiscal Year Ended June 30, 2016**

	<b>High</b>	<b>Low</b>
First quarter	\$ 62.90	\$ 40.85
Second quarter	\$ 49.44	\$ 33.13
Third quarter	\$ 40.66	\$ 16.91
Fourth quarter	\$ 26.25	\$ 17.05

 **Holders**

As of June 30, 2017, there were 547 holders of record of the Company's common stock.

**Dividends**

The Company did not pay cash dividends in Fiscal 2017 or Fiscal 2016. The Company intends to use available funds for working capital, to pay down outstanding debt, 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**

<b>Period (In thousands)</b>	<b>(a) Total Number of Shares (or Units) Purchased*</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
April 1 to April 30, 2017	1,589	\$ 24.30		\$
May 1 to May 31, 2017	501	27.15		
June 1 to June 30, 2017	330	18.85		
Total	2,420	24.15		

\*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, 2012 and ending June 30, 2017. The graph assumes that \$100 was invested on July 1, 2012 in each of the various indexes.



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The following financial information as of and for the five years ended June 30, 2017, 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.

**Lannett Company, Inc. and Subsidiaries****Financial Highlights****(In thousands, except per share data)****As of and for the Fiscal Year Ended June 30,**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b><i>Operating Highlights</i></b>					
Net sales	\$ 637,341	\$ 566,091	\$ 406,837	\$ 273,771	\$ 151,054
Settlement agreement	\$ (4,000)	\$ (23,598)	\$	\$	\$
Total net sales	\$ 633,341	\$ 542,493	\$ 406,837	\$ 273,771	\$ 151,054
Gross profit	\$ 301,213	\$ 286,493	\$ 306,356	\$ 154,408	\$ 57,420
Operating income	\$ 86,446	\$ 130,758	\$ 226,487	\$ 88,089	\$ 18,757
Net income (loss) attributable to Lannett Company, Inc.	\$ (581)	\$ 44,782	\$ 149,919	\$ 57,101	\$ 13,317
Basic earnings (loss) per common share attributable to Lannett Company, Inc.	\$ (0.02)	\$ 1.23	\$ 4.18	\$ 1.70	\$ 0.47
Diluted earnings (loss) per common share attributable to Lannett Company, Inc.	\$ (0.02)	\$ 1.20	\$ 4.04	\$ 1.62	\$ 0.46
<b><i>Balance Sheet Highlights</i></b>					
Total Assets	\$ 1,603,312	\$ 1,764,018	\$ 508,766	\$ 342,773	\$ 167,752
Total Debt	\$ 903,647	\$ 1,061,848	\$ 1,009	\$ 1,138	\$ 6,514
Long-Term Debt, net	\$ 843,530	\$ 883,612	\$ 874	\$ 1,009	\$ 5,844
Total Stockholders' Equity	\$ 561,122	\$ 554,457	\$ 463,766	\$ 294,765	\$ 128,809

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 and Fiscal 2017 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 significant 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 contains 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 2017 or Fiscal Year 2017 shall mean the fiscal year ended June 30, 2017 and all references to Fiscal 2016 or Fiscal Year 2016 shall mean the fiscal year ended June 30, 2016.

**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**

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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 \$21.0 million in restructuring charges for actions that have been announced or communicated since the 2016 Restructuring Program began. Of this amount, approximately \$12.0 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 currently estimated to generate annualized synergies of approximately \$50.0 million by the end of Fiscal 2018 and 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 2017, net sales increased to \$637.3 million compared to \$566.1 million in the same prior-year period. Total net sales, which included a \$4.0 million adjustment relating to the Fiscal 2016 settlement agreement amount, increased to \$633.3 million compared to \$542.5 million in the prior-year period, which included a \$23.6 million reduction for a settlement agreement. Gross profit, which includes the settlement agreement adjustment in both periods, increased \$14.7 million to \$301.2 million, compared to the prior-year period and gross profit percentage decreased to 48% compared to 53% in Fiscal 2016. Excluding the impact of the settlement agreement, gross profit as a percentage of net sales decreased to 48% from 55% in the prior-year period. R&D expenses decreased 7% to \$42.1 million compared to the prior-year period while SG&A expenses increased 8% to \$73.5 million.

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Acquisition and integration-related expenses decreased to \$4.0 million from \$27.2 million in the prior-year period. Restructuring expenses totaled \$7.2 million in both Fiscal 2017 and 2016. Operating income for Fiscal 2017, which included an \$88.1 million intangible assets impairment charge, was \$86.4 million compared to \$130.8 million in the prior-year period, which included an \$8.0 million intangible asset impairment charge. Net loss attributable to Lannett Company, Inc. for Fiscal 2017 was \$581 thousand, or \$0.02 per diluted share. Comparatively, net income attributable to Lannett Company, Inc. in the prior year, which included a \$3.0 million loss on extinguishment of debt, was \$44.8 million, or \$1.20 per diluted share.

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

**Results of Operations – Fiscal 2017 compared to Fiscal 2016**

Total net sales, which included a \$4.0 million reduction for an adjustment to the Fiscal 2016 Settlement Agreement amount, increased to \$633.3 million from \$542.5 million in the prior-year period, which included a \$23.6 million reduction for the Fiscal 2016 Settlement Agreement. The Fiscal 2016 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 13% to \$637.3 million for the fiscal year ended June 30, 2017. The following table identifies the Company's approximate net product sales by medical indication for the fiscal years ended June 30, 2017 and 2016:

(In thousands) Medical Indication	Fiscal Year Ended June 30,	
	2017	2016
Antibiotic	\$ 16,748	\$ 14,558
Anti-Psychosis	58,625	5,462
Cardiovascular	50,628	53,541
Central Nervous System	39,451	36,291
Gallstone	48,600	67,348
Gastrointestinal	71,887	52,699
Glaucoma	18,763	25,336
Migraine	29,014	21,776
Muscle Relaxant	13,636	5,403
Obesity	3,956	3,809
Pain Management	26,135	29,804
Respiratory	10,516	9,982
Thyroid Deficiency	174,005	162,411
Urinary	14,695	17,398
Other	43,240	38,230
Contract manufacturing revenue	17,442	22,043
Net sales	637,341	566,091
Settlement agreement	(4,000)	(23,598)
Total net sales	\$ 633,341	\$ 542,493

The increase in net sales was primarily driven by additional sales of KUPI products of \$87.9 million due to the timing of the acquisition as well as increased volumes of \$21.5 million, partially offset by decreased average selling price of products of \$38.2 million. Average selling prices

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were impacted by competitive pricing pressure across a number of products, product mix and changes within distribution channels.

Effective January 2017, a provision in the Bipartisan Budget Act of 2015 required drug manufacturers to pay additional rebates to state Medicaid programs if the prices of their generic drugs rise at a rate faster than inflation. The provision negatively impacted the Company's net sales by \$10.2 million in Fiscal 2017.

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

Medical indication	Sales volume change %	Sales price change %	Acquisition change %
Antibiotic	59%	(44)%	
Anti Psychosis	13%	960%	
Cardiovascular	(1)%	(30)%	26%
Central Nervous System	(9)%	(31)%	49%
Gallstone	(16)%	(12)%	
Gastrointestinal	5%	(29)%	60%
Glaucoma	(2)%	(24)%	
Migraine	49%	(16)%	
Muscle Relaxant	339%	(187)%	
Obesity	27%	(23)%	
Pain Management	1%	(13)%	
Respiratory	(16)%	(19)%	40%
Thyroid Deficiency	12%	(5)%	
Urinary	(26)%	(38)%	50%

*Central Nervous System. Methylphenidate Hydrochloride Extended Release Tablets ( Methylphenidate ER )*

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.

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 June 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.

On October 18, 2016, the Company received notice from the FDA that it will seek to withdraw approval of the Company's ANDA for Methylphenidate ER. The FDA's notice includes an opportunity for the Company to request a hearing on this matter. The Company initially had until November 17, 2016 to request the hearing and until December 19, 2016 to submit all data, information and analyses upon which the request for a hearing relies. As a result of the notice, the Company performed an impairment analysis including a review of revised net sales projections for Methylphenidate ER. This analysis resulted in the Company recording a \$65.1 million impairment charge in the first quarter of Fiscal 2017.



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On November 30, 2016, the Company announced that the FDA granted a 90-day extension to submit documentation related to the hearing request. On February 22, 2017, the Company announced that the FDA suspended indefinitely the deadline to submit supporting documentation related to the hearing request in order to give the FDA additional time to retrieve documents requested by the Company.

The Company intends to continue working to submit data to the FDA to regain the AB rating, or to maintain the drug on the U.S. market with a B-level rating, however, there can be no assurance as to when or if the Company will be permitted to remain on the market. 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. Such potential contingent payments are set to expire after December 31, 2020.

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

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(In thousands)		
Customer Distribution Channel	June 30, 2017	June 30, 2016
Wholesaler/Distributor	\$ 487,969	\$ 419,375
Retail Chain	82,864	84,614
Mail-Order Pharmacy	49,066	40,059
Contract manufacturing revenue	17,442	22,043
Net sales	637,341	566,091
Settlement agreement	(4,000)	(23,598)
Total net sales	\$ 633,341	\$ 542,493

Net sales to wholesaler/distributor and mail-order pharmacies increased primarily as a result of additional net sales related to the KUPI acquisition. Net sales to retail chain decreased as a result of strategic partnerships within the industry, in which certain retailers have begun to submit orders through the wholesalers.

**Cost of Sales, including amortization of intangibles.** Cost of sales, including amortization of intangibles, for Fiscal 2017 increased \$76.1 million to \$332.1 million. The increase was primarily attributable to additional cost of sales from KUPI due to the timing of the acquisition, partially offset by the effects of purchase accounting related to the amortization of inventory step-up of \$17.0 million in Fiscal 2016. Product royalties expense included in cost of sales totaled \$19.0 million for Fiscal 2017 and \$17.0 million for Fiscal 2016. Amortization expense included in cost of sales totaled \$32.1 million for Fiscal 2017 and \$18.6 million for Fiscal 2016. The increase primarily reflected additional amortization of the acquired intangibles from the acquisition of KUPI.

**Gross Profit.** Gross profit for the fiscal year ended June 30, 2017 increased 5% to \$301.2 million or 48% of total net sales. In comparison, gross profit for the fiscal year ended June 30, 2016 was \$286.5 million or 53% of total net sales. The decrease in gross profit percentage was attributable to the dilutive impact of KUPI products, sales mix, changes within distribution channels, additional amortization of intangibles, as well as amortization of inventory step-up and depreciation of property, plant and equipment related to the acquisition of KUPI.

**Research and Development Expenses.** Research and development expenses decreased 7% to \$42.1 million for the fiscal year ended June 30, 2017 compared to \$45.1 million in the prior-year period. The decrease was primarily due to lower product development and bio-equivalency studies expenses in the current-year period, partially offset by an increase due to the timing of the KUPI acquisition, as well as a \$3.8 million write-off of inventory related to the delay of an anticipated approval.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased 8% to \$73.5 million for the fiscal year ended June 30, 2017 compared with \$68.3 million in the prior-year period. The increase was primarily due to the timing of the KUPI acquisition, which resulted in additional selling, general and administrative expenses. Increased headcount as well as additional legal and consulting costs 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 decreased \$23.2 million to \$4.0 million for the fiscal year ended June 30, 2017 compared with \$27.2 million compared to the prior-year period. The decrease was due to higher costs during Fiscal 2016 associated with the acquisition of KUPI.

**Restructuring Expenses.** Restructuring expenses were consistent with the prior-year period as a result of an increase in facility closure costs, offset by a decrease in employee separation costs.

**Intangible Assets Impairment Charge.** On October 18, 2016, the Company received notice from the FDA that it will seek to withdraw approval of the Company's ANDA for Methylphenidate ER. As a result of the notice, the Company performed an impairment analysis including a review of revised net sales projections for Methylphenidate ER. This analysis resulted in the Company recording a \$65.1 million impairment charge in the first quarter of Fiscal 2017. Additionally, in the second quarter of Fiscal 2017, the Company abandoned a project within KUPI's in-process research and development portfolio. The value assigned to the project was \$23.0 million. Accordingly, the Company recorded a \$23.0 million impairment charge in the second quarter.

**Other Income (Loss).** Interest expense in Fiscal 2017 totaled \$89.4 million compared to \$65.9 million in the prior-year period. The fiscal year ended June 30, 2016 included approximately seven months of interest expense related to the acquisition of KUPI as compared to the twelve months ended June 30, 2017. The weighted average interest rate for Fiscal 2017 was 8.0%. Investment income in Fiscal 2017 totaled \$3.8 million compared to investment income of \$368 thousand in the prior-year period.

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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, 2017 of \$1.1 million compared to \$17.3 million for the fiscal year ended June 30, 2016. The effective tax rate for the fiscal year ended June 30, 2017 was 199.5%, compared to 27.9% for the prior-year period. The increase in the effective tax rate in the fiscal year ended June 30, 2017 as compared to the fiscal year ended June 30, 2016 was primarily due to the impact of state deferred income tax in Fiscal 2017 relative to pre-tax income.

At June 30, 2017 and 2016, the Company had recognized a net deferred tax asset of \$52.8 million and \$52.4 million, respectively. The net deferred tax assets as of June 30, 2017 and 2016 are reduced by a valuation allowance of \$6.4 million and \$3.9 million, respectively, which are primarily related to the realizability of deferred tax assets for various states, the impairment on the Cody note receivable as well as foreign net operating losses. The Company increased the valuation allowance in Fiscal 2017 primarily related to an increase of state deferred tax assets.

**Net Income (Loss).** For the fiscal year ended June 30, 2017, the Company reported net loss attributable to Lannett Company, Inc. of \$581 thousand, or \$0.02 basic and diluted per share. Comparatively, net income attributable to Lannett Company, Inc. in the prior-year was \$44.8 million, or \$1.23 basic and \$1.20 per diluted share.

**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) Medical Indication	Fiscal Year Ended June 30,	
	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

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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, volume and acquisition 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%

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)	June 30, 2016	June 30, 2015
<b>Customer Distribution Channel</b>		
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.

**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.

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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.



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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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**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, 2017, working capital was \$331.5 million as compared to \$306.1 million at June 30, 2016, an increase of \$25.4 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 \$165.4 million for the fiscal year ended June 30, 2017 reflected net loss of \$547 thousand, adjustments for non-cash items of \$170.7 million, as well as cash used by changes in operating assets and liabilities of \$4.8 million. In comparison, 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.

Significant changes in operating assets and liabilities from June 30, 2016 to June 30, 2017 are comprised of:

- An increase in prepaid income taxes totaling \$17.7 million mainly due to estimated tax payments made during Fiscal 2017 relative to estimated taxable income.
- An increase in inventories of \$7.7 million primarily due to the timing of customer order fulfillment.
- An increase in rebates payable of \$14.4 million due to an increase in rebate-eligible sales to government programs as well as the timing of processed rebates.
- An increase in accounts payable totaling \$5.0 million due to the timing of payments.

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.

Net cash used in investing activities of \$58.7 million for the fiscal year ended June 30, 2017 was primarily due to purchases of investment securities of \$77.9 million and purchases of property, plant and equipment of \$48.7 million, partially offset by proceeds from the sale of investment securities of \$67.8 million. 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 financing activities of \$213.8 million for the fiscal year ended June 30, 2017 was primarily due to debt repayments of \$178.2 million, payment of contingent consideration to UCB of \$35.0 million, purchases of treasury stock totaling \$1.9 million and purchase of the noncontrolling interest in Realty of \$1.5 million, partially offset by proceeds from issuance of stock pursuant to stock compensation plans of \$2.8 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.

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**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, 2017 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. In the third quarter of Fiscal 2017, the Company made voluntary payments totaling \$100.0 million against its outstanding revolving credit facility balance. In the fourth quarter of Fiscal 2017, the Company repaid the remaining \$25.0 million revolving credit facility balance. As of June 30, 2017, there was no balance outstanding under the revolving credit facility.

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%. Since March 2016, the interest margins and unused commitment fee on the Revolving Credit Facility have been 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.

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.

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

Cody Mortgage

Realty owns land and a building which is being leased to Cody Labs. Realty has a mortgage loan with the First National Bank of Cody related to its land and building. As of June 30, 2017 and June 30, 2016, the effective rate was 4.5% per annum. The mortgage is collateralized by the land and building with a net book value of \$1.4 million. As of June 30, 2017, \$735 thousand is outstanding under the mortgage loan, of which \$147 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 2018 and thereafter. If the Company does not meet the minimum purchase requirements, JSP's sole remedy is to terminate the agreement.

*Cody Expansion*

In January 2017, the Company announced a \$50 million expansion plan in conjunction with Forward Cody to expand operations in Cody, WY.

*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 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.



Table of Contents**Contractual Obligations**

The following table represents annual contractual obligations as of June 30, 2017:

(In thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 Years
Long-Term Debt	\$ 982,991	\$ 60,117	\$ 134,005	\$ 257,714	\$ 531,155
Operating Lease Obligations	10,717	1,159	2,160	2,160	5,238
Purchase Obligations	95,821	72,571	23,250		
Interest on Obligations	259,206	60,608	109,202	77,881	11,515
<b>Total</b>	<b>\$ 1,348,735</b>	<b>\$ 194,455</b>	<b>\$ 268,617</b>	<b>\$ 337,755</b>	<b>\$ 547,908</b>

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, 2017.

The purchase obligations above is primarily due to the JSP Distribution Agreement. 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 on April 2015.

**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

Over the last several years, we have grown to be 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 Company's strong regulatory record and the ability to respond to our customers' needs make our Company a desirable supplier. In 2016, we won the prestigious Diana Award for Best Generic Manufacturer from the Healthcare Distribution Alliance.

The Company is strengthening and building momentum to grow within the generic pharmaceutical industry organically and through mergers and acquisitions. The acquisitions of Silarx and KUPI demonstrates 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. 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.

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In January 2017, the Company announced a \$50 million expansion to our Cody Labs facilities.

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, as well as drugs used to treat addiction, 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 nasal 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 that Lannett's regulatory department will use to file 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 requires 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 AG. 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, 2017, we have 9 paragraph IV certifications pending with the FDA. Three 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 Thalamid®, 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 Suprep®, Braintree Laboratories, Inc. filed a patent infringement lawsuit against the Company in March 2017. Refer to Note 12 Legal, Regulatory Matters and Contingencies for further information on the current status of the aforementioned P-IV challenges.

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

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continue evaluating potential merger and acquisition opportunities as well as product acquisitions that are a strategic fit and accretive to the business.

After we closed upon the KUPI acquisition, we established a very aggressive integration plan. Our integration plans are moving swiftly and we will be benefitting from the synergies created through integration.

The FDA inspected our overseas pharmacokinetic subsidiary Darmantest Laboratory as well as Firmplice, a joint-venture stability lab this fall. Both Darmantest and Firmplice passed inspection. These operations may result in lower costs for stability and bioequivalency studies in the future.

Table of Contents**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 U.S. Securities & Exchange Commission 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, Business Combinations, 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 Securities and Exchange Commission 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 \$175.8 million and \$176.1 million at June 30, 2017 and June 30, 2016, respectively. Rebates payable at June 30, 2017 and June 30, 2016 included \$44.6 million and \$21.9 million, respectively, for certain rebate programs, primarily related to Medicare Part D, 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 2017, 2016 and 2015:

<b>Reserve Category (In thousands)</b>	<b>Chargebacks</b>	<b>Rebates</b>	<b>Returns</b>	<b>Other</b>	<b>Total</b>
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

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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
Additions related to the KUPI acquisition		8,329	5,955		14,284
Current period provision	881,283	297,050	25,416	53,398	1,257,147
Credits issued during the period	(888,241)	(271,847)	(29,829)	(59,153)	(1,249,070)
Balance at June 30, 2017	\$ 79,537	\$ 87,616	\$ 42,135	\$ 11,096	\$ 220,384

For the fiscal years ended June 30, 2017, 2016 and 2015, as a percentage of gross sales the provision for chargebacks was 47.0%, 44.6% and 38.6%, respectively, the provision for rebates was 15.8%, 13.0% and 9.5%, respectively, the provision for returns was 1.4%, 1.5% and 2.0%, respectively and the provision for other adjustments was 2.8%, 3.4% and 3.5%, respectively.

The increase in total reserves from June 30, 2016 to June 30, 2017 was mainly due to additional sales incentives as well as an increase in the rebates reserve for potential liabilities related to pre-acquisition KUPI overcharges to a government entity. The activity in the Other category includes shelf-stock, shipping and other sales adjustments including prompt payment discounts. In the first quarter of Fiscal 2017, the Company recorded a \$6.0 million measurement-period adjustment to the Returns reserve acquired in the KUPI acquisition. In the second quarter of Fiscal 2017, the Company recorded a \$8.3 million adjustment to the Rebates reserve for potential overcharges to a government entity related to the KUPI acquisition. The amount is fully indemnified per the Stock Purchase Agreement as discussed in Note 12. Legal, Regulatory Matters and Contingencies. The amount indemnified is recorded as Other assets within the Consolidated Balance Sheet.

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Historically, we have not recorded any material amounts in the current period related to reversals or additions of prior period reserves. 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***

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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 and net realizable value 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, 2017, 2016 and 2015, the Company recorded provisions for excess and obsolete inventory of \$10.4 million, \$9.4 million and \$6.7 million, respectively.

***Income Taxes***

The Company uses the liability method 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. 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.

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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. There can be no assurances as to when, or if, future impairments may occur.

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 impairment test. The Company first determines the fair value of our reporting unit (generic pharmaceuticals). If the net book value of our reporting unit exceeds its fair value, the difference will be recorded as a goodwill impairment, not to exceed the carrying amount of goodwill. 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 judgments made in determining the estimated fair value of goodwill and indefinite-lived intangible asset can materially impact our results of operations. There can be no assurances as to when, or if, future impairments may occur. 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 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 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. There can be no assurances as to when, or if, future impairments may occur.

***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, 2017	June 30, 2016	June 30, 2015
Risk-free interest rate	1.1%	1.7%	1.7%
Expected volatility	55.6%	48.3%	52.1%
Expected dividend yield			
Forfeiture rate	6.5%	6.5%	6.5%
Expected term	5.2 years	5.2 years	5.5 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, 2017. Based on a preliminary review of the contracts representing a substantial portion of our revenues, the Company does not expect the guidance to have a material impact on the timing and recognition of our revenues. The Company is still evaluating the adoption method it will elect upon implementation.

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 and 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. The adoption of ASU 2015-11 did not result in a material impact on the consolidated financial statements.

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 does not believe this guidance will have a material impact 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. 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. The Company has elected to early adopt this ASU in the fourth quarter of Fiscal 2017. As a result of our election to early adopt, all excess tax benefits are now reflected in the provision for income taxes rather than paid-in capital. The Company has also elected to continue to estimate forfeitures related to share-based payment awards at the time of grant. In addition, the Company has elected to apply the presentation requirements for cash flows related to excess tax benefits prospectively. As such, all tax-related cash flows resulting from share-based payments in Fiscal 2017 are reflected as operating activities on the statement of cash flows.

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In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company is currently in the process of assessing the impact this guidance will have on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other – Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test which previously required measurement of any goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; without exceeding the total amount of goodwill allocated to that reporting unit. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company has elected to early adopt this guidance in the fourth quarter of Fiscal 2017 and will apply it on a prospective basis. The Company does not believe that the adoption will have a material impact on its 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, 2017, each 1/8% increase in interest rates would yield \$1.2 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, 2017 and June 30, 2016, the effective interest rate was 4.5% per annum. The mortgage is collateralized by the land and building with a net book value of \$1.4 million. As of June 30, 2017, \$735 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, 2017. 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.

During the third quarter of Fiscal 2017, the Company completed the carve-out of data and software systems supporting the operations of KUPI from the hosted environment of UCB. The integration of the Company's entities into a single consolidated system is planned in phases and is expected to be completed in Fiscal 2018. As such, internal controls have changed and will change in various functional areas within the Company.

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However, management has taken steps to ensure that any changes to the design and implementation of internal controls continue to function appropriately.

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, 2017, 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:

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	Age	Position
<b><u>Directors:</u></b>		
Jeffrey Farber	56	Chairman of the Board
Arthur P. Bedrosian	71	Director
David Drabik	49	Director
Paul Taveira	57	Director
James M. Maher	64	Director
Albert Paonessa, III	57	Director
Patrick G. LePore	62	Director
<b><u>Officers:</u></b>		
Arthur P. Bedrosian	71	Chief Executive Officer
Martin P. Galvan	65	Vice President of Finance, Chief Financial Officer and Treasurer
Kevin R. Smith	57	Senior Vice President of Sales and Marketing
John M. Abt	52	Vice President of Quality
Robert Ehlinger	58	Vice President and Chief Information Officer
Samuel H. Israel	55	General Counsel and Chief Legal 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 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 various companies. 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 in the public accounting profession. 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. In May 2017, Mr. Paonessa was appointed the CEO of KeySource Medical, a generic distributor ( KeySource ). Prior to that, Mr. Paonessa served as the President of Anda, Inc., the fourth largest distributor of generic drugs in the U.S., for over 10 years until January 2015. 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.

**Patrick G. LePore** was appointed as a Director of the Company in July 2017. Mr. LePore served as chairman, CEO and president of Par Pharmaceuticals, Inc., until the company's acquisition by private equity investor TPG in 2012. He remained as chairman of the new company where he led the sale of the company to Endo Pharmaceuticals. LePore began his career with Hoffmann LaRoche. Later, he founded Boron LePore and Associates, a medical communications company, which he took public and was eventually sold to Cardinal Health. He is a member of the board of directors of PharMerica and Innoviva, and is a trustee of Villanova University. LePore earned his bachelor's degree from Villanova University and Master of Business Administration from Fairleigh Dickinson University.

The Governance and Nominating Committee concluded that Mr. LePore 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 highly regarded companies within the pharmaceutical industry. Mr. LePore 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 Interl 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 positions 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.

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He earned his Doctorate in Business Administration from Temple University, Masters of Administrative Science in Business Management from Johns Hopkins University and a Bachelor of Science in Biochemistry from Niagara University.

**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.

**Samuel H. Israel** joined in the Company in July 2017 as General Counsel and Chief Legal Officer. Prior to joining Lannett, Mr. Israel was a partner with Fox Rothschild LLP, a national, full-service law firm, with 22 offices that provide services in more than 60 practice areas, since 1998. He served as chair of the firm's Pharmaceutical and Biotechnology Practice and handled a variety of commercial litigation matters. Mr. Israel earned a bachelor of science degree in chemical engineering from the University of Pennsylvania and a juris doctor degree with honors from Rutgers University School of Law.

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 2017 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.

**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](http://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](http://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.



Table of Contents**ITEM 11. EXECUTIVE COMPENSATION****Compensation Discussion and Analysis**

This Compensation Discussion and Analysis ( CD&A ) describes our 2017 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 2017 fiscal year.

NEO	Title/Role
Arthur P. Bedrosian	President and 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
Robert Ehlinger	Vice President of Logistics and Chief Information Officer
John M. Abt	Vice President of Quality

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 ). The next say on pay vote will occur in January 2018, at which time our shareholders will also be asked to vote on the frequency of future say on pay proposals. 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 2014 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 2018 to further align our Executive Compensation Program with our objectives and best competitive practice.

*A Word About Risk*

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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 2017, including the ongoing success related to the integration of the Kremers Urban Pharmaceuticals Inc. ( KUPI ) acquisition, which closed in November 2015 and significantly increased our product portfolio and scope of operations. We also continued to execute on our management restructuring plan which resulted in the realization of transaction-related synergies. In addition, we reduced debt to strengthen our balance sheet. After several years of extraordinary performance through Fiscal 2015, our profitability and total shareholder return results were lower in Fiscal 2016 and 2017, primarily due to competitive pressures in the generic pharmaceutical market from consolidation among the largest chains and wholesalers into consortium purchasing groups, which resulted in lower average selling prices for our products. The decline in our Fiscal 2017 performance results adversely impacted executive pay levels as discussed further below.

Compared with Fiscal 2016 results, and based on GAAP, we increased Total Net Sales in Fiscal 2017 by approximately 17%, while Operating Income declined by 34%, and Diluted Loss Per Share declined to \$(0.02). Year over year comparisons were impacted by a variety of factors, such as the inclusion of a full year of KUPI revenues in Fiscal 2017, the introduction of Medicaid's Inflation-Adjusted Rebate program that became effective January 1, 2017 which resulted in additional rebate costs, and higher cost of sales, operating expenses, and interest expense. Fiscal 2017 results include approximately \$88.1 million in impairment charges, a \$4.0 million adjustment to the Fiscal 2016 Settlement Agreement with a former customer, \$11.1 million in acquisition-related and restructuring expenses, and certain other non-recurring costs. Excluding these items, and on a non-GAAP basis, Adjusted Operating Income declined by approximately 6% and Adjusted earnings per diluted share declined by approximately 16% compared with Fiscal 2016 results. In addition, our stock price has been negatively impacted by short-sellers who currently represent more than half of the Company's public float. As a result, our stock price decreased by approximately 15% during the 12-month period ending June 30, 2017 and by a total of approximately 60% over the past three years.

Our acquisitions of KUPI and Silarx, Inc. (which closed in June 2015) further diversified our product portfolio and expanded our customer base. Our leadership team has worked diligently to integrate KUPI into our Company and expects to achieve annualized synergies of \$50 million by the end of Fiscal 2018 and \$65 million by the end of Fiscal 2020. We also reduced debt by \$178.2 million in Fiscal 2017, which will help lower future interest expense. While Fiscal 2017 profitability was unfavorably impacted by the KUPI acquisition, we continue to believe this transaction positions the Company for long-term growth and shareholder value creation.

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 on the market. As of June 30, 2017, we had 99 products available to the market, with an additional 19 Abbreviated New Drug Applications ( ANDAs ) pending regulatory approval. We also continue to capitalize on our strategic partnerships, both domestically and internationally.

Key financial performance highlights, as reported in accordance with GAAP requirements and including the impact of the KUPI acquisition, include:



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*Peer Group average pertains to the Fiscal 2017 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 (Loss) Per Share and indexed Total Shareholder Returns (TSR), between fiscal years 2014 and 2017. To more accurately demonstrate the alignment between executive pay and Company performance, comparisons include 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. Except for a modest equity grant to recognize the ongoing success related to the integration of KUPI, no short-term or long-term incentive awards were earned by our CEO or other NEOs in Fiscal 2017, with pro forma total compensation for our CEO declining by approximately 54% as compared with Fiscal 2016. 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 2017 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 2017:

What's Changed	How It's Changed	Explanation
Short-Term Incentives ( Annual Bonus )	<ul style="list-style-type: none"> <li>Increased the target award opportunity for the CEO from 80% of salary to 90% of salary, to improve pay competitiveness.</li> </ul>	No changes were made to performance metrics or weightings. Mr. Bedrosian's target award opportunity was increased to position target annual cash compensation more in line with 50th percentile market values.
Long-Term Incentives	<ul style="list-style-type: none"> <li>Increased target award opportunities for several NEOs to improve pay competitiveness, with grants for Fiscal 2017 performance to be provided through a value mix of 45% restricted stock, 30% stock options, and 25% performance-based restricted stock.</li> <li>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.</li> </ul>	The Committee continued to link equity grant levels to Company performance to strengthen alignment with shareholder interests. A performance-based restricted stock component tied to relative total shareholder return was introduced to further align executive and shareholder interests.

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
<ul style="list-style-type: none"> <li>Emphasize variable incentives to align pay with performance</li> <li>Tie incentive compensation to multiple performance metrics that reinforce key business objectives</li> <li>Place primary emphasis on equity compensation to align executive and shareholder interests</li> </ul>	<ul style="list-style-type: none"> <li>Provide multi-year pay guarantees within employment agreements</li> <li>Allow stock option repricing without shareholder approval</li> <li>Permit stock hedging or pledging activities</li> </ul>

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- Use stock ownership guidelines for executive officers and non-employee directors
- Maintain a clawback policy allowing for the recoupment of excess compensation in the event of a material financial restatement and fraud or misconduct
- Engage an independent compensation consultant to advise the Compensation Committee
- Provide uncapped incentive awards
- Pay tax gross-ups on any awards
- 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 2017 is variable (79% for our CEO and an average of 67% for our other NEOs). Variable pay includes the target value of short-term cash incentives (STI), stock options, and restricted stock.

Based upon Fiscal 2017 compensation as reported in the Summary Compensation Table on page 76 of this Form 10-K, variable pay represents 25% of total pay for our CEO and average total pay for our other NEOs. This mix reflects no annual incentives earned in Fiscal 2017 under the Annual Bonus Plan (shown as STI), below-target equity grants in Fiscal 2017 based on Fiscal 2016 Company performance, and one-time special recognition restricted stock awards for the ongoing integration of KUPI granted in Fiscal 2017.

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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](http://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, annual 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) and special recognition awards 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.

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

In Fiscal 2016, 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 2017 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 2017, the Committee considered publicly-available data, as well as a market study conducted by Pearl Meyer in May 2016. 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 employee headcount, at the 50<sup>th</sup> percentile for net sales and profitability, and between the 25<sup>th</sup> and 50<sup>th</sup> percentiles for enterprise value.

Company Name	Fiscal Year End # of Employees (000s)	Enterprise Value 6/30/2017 (\$mm)	Fiscal Year End Operating Income (\$mm)	Fiscal Year End Sales (\$mm)	Cumulative 3 YR TSR 6/30/2017	Cumulative 5 YR TSR 6/30/2017
Aceto Corp.	270	\$ 771	\$ 58	\$ 559	-11.7%	83.5%
Akorn, Inc.	2,325	\$ 4,687	\$ 372	\$ 1,117	0.9%	112.7%
Albany Molecular Research Inc.	3,085	\$ 1,529	\$ 8	\$ 570	7.9%	751.0%
Cambrex Corporation.	1,295	\$ 1,847	\$ 130	\$ 489	188.6%	535.0%
Depomed, Inc.	490	\$ 1,198	\$ 24	\$ 456	-22.7%	88.8%
Horizon Pharma plc	1,050	\$ 3,217	\$ 48	\$ 981	-25.0%	66.5%
Impax Laboratories Inc.	1,495	\$ 1,812	\$ 91	\$ 824	-46.3%	-20.6%
INSYS Therapeutics, Inc.	423	\$ 757	\$ 11	\$ 242	-19.0%	253.0%
Jazz Pharmaceuticals plc	1,040	\$ 10,813	\$ 637	\$ 1,488	5.8%	245.5%
Prestige Brands Holdings, Inc.	525	\$ 4,948	\$ 279	\$ 881	55.8%	234.0%
The Medicines Company	410	\$ 2,990	\$ (338)	\$ 168	30.8%	65.7%
	750	\$ 4,690	\$ 1,062	\$ 1,599	46.6%	162.7%

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United Therapeutics  
Corporation

<i>Lannett Company, Inc.</i>	1126	\$	1,542	\$	86	\$	633	-58.9%	381.1%
<i>% Rank</i>	67%		33%		50%		50%		83%

For purposes of a subsequent market pay analysis conducted by Pearl Meyer in April 2017, the Committee maintained the same peer group as shown above, other than to exclude The Medicines Company on the basis of size. 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 May 2016 Pearl Meyer study, target total direct compensation, including the sum of base salary plus target short-term and long-term incentives, was below the competitive range (defined as +/- 10%) of 50th percentile market values for Messrs. Bedrosian, Galvan and Smith, within the range for Mr. Ehlinger, and above the range for Mr. Abt. Excluding Mr. Bedrosian, whose target pay was just slightly above the 25th percentile, aggregate target total direct compensation was equal to 84% of the 50th percentile. Pay competitiveness comparisons reflected the impact of the KUPI acquisition, which significantly increased the size of our Company and corresponding executive market values. 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.

Table of Contents**2017 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 should set compensation at market-competitive levels that reflect the executive's experience, role and responsibilities. In Fiscal 2017, the Committee approved base salary increases to Messrs. Bedrosian, Galvan, Smith and Ehlinger to bring them to the 50th percentile of comparable organizations, as reported in Pearl Meyer's May 2016 market pay analysis. Prior to these market adjustments, salaries for these executives were well below 50th percentile market values, which increased considerably following the KUPI acquisition. No increase was provided for Mr. Abt, whose base salary was already near the 50th percentile.

NEO	2016 Base Salary	2017 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)

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:

NEO	Annual Bonus Opportunity As a % of Salary		
	Threshold (25% of Target)	Target (100% of Target)	Superior (200% of Target)
Arthur P. Bedrosian	22.5%	90%	180%
Martin P. Galvan Kevin Smith John Abt	15%	60%	120%
Robert Ehlinger	12.5%	50%	100%

In Fiscal 2017, Mr. Bedrosian's target award opportunity was increased from 80% of salary to 90% of salary to align more closely with 50th percentile market values. Expressed as percentages of salary, Fiscal 2017 award opportunities for all other NEOs were the same as those established in Fiscal 2016.

The overall annual bonus plan for Fiscal 2017 was 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:

Performance Metric	Weighting (Out of 100%)	
	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 2017 performance metrics and weightings were the same as those established in Fiscal 2016. Adjusted Operating Income is defined as operating income excluding bonus and stock-based compensation expense, as further adjusted for certain non-recurring items.



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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 2017 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.

2017 Short-Term Incentives (Annual Bonus): Results and Payouts

- **Corporate Financial & Operational Results (Collectively Weighted 90% to 95% of Target Award).** Fiscal 2017 Target goals for Adjusted Operating Income, Adjusted EPS, and Adjusted Net Sales were set well above Fiscal 2016 actual levels, taking into consideration the impact of the KUPI acquisition. The Committee maintained the hurdle for Fiscal 2017 Threshold performance goals at 90% of Target goals and Superior goals at 120% of Target. The Committee viewed these performance hurdles as very challenging in light of then-current internal forecasts and economic conditions. Fiscal 2017 financial performance goals and actual results are shown in the following table:

Performance Metric	Weighting (Out of 100%)	Threshold	Performance Goals		
			Target	Superior	Actual
Adjusted Operating Income (\$ millions)	50%	\$ 283.0	\$ 314.4	\$ 377.3	\$ 238.0
Adjusted EPS	20% (25% for CEO)	\$ 3.75	\$ 4.17	\$ 5.00	\$ 3.00
Adjusted Net Sales (\$ millions)	20%	\$ 653.1	\$ 725.7	\$ 870.8	\$ 637.3

Actual Fiscal 2017 performance results were below Threshold levels for all three financial metrics. Actual Adjusted Operating Income for Fiscal 2017 excluded pre-tax items totaling approximately \$143.8 million, including acquisition-related expenditures, impairments, purchase accounting-related expenses due to the KUPI acquisition, and other non-recurring items. Actual Adjusted EPS excluded the same \$143.8 million in pre-tax items plus \$20.7 million in non-cash interest expense as well as the related tax effects for all of these items. The Adjusted Net Sales performance metric excluded \$4.0 million related to an adjustment to the Fiscal 2016 Settlement Agreement with a former customer.

Total Annual Bonus

Based on our below-threshold financial performance results and individual contributions, no payouts were earned by the NEOs under the Annual Bonus Plan.

Long-Term Incentives

In Fiscal 2015, the Committee approved a 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. Actual grants could range from 0% (for below threshold results) to 150% (for superior performance) of target award levels. Award funding levels for 2016 and 2017 performance cycles were as follows:

<b>Performance Result</b>	<b>Percentage of Target Equity Grants Earned (as % of Target Grant)</b>
Below Threshold	0% (subject to Committee discretion)
Threshold (90% of Target)	50%
Target (100% of Target)	100%
Superior (120% of Target)	150%

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

Expressed as percentages of base salary, Fiscal 2016 target award opportunities were equal to 200% for Mr. Bedrosian, 125% for Mr. Galvan, and 100% for all other NEOs. Any earned awards would be provided based on a value mix of 65% restricted stock and 35% stock options.

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In Fiscal 2016, 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:

NEO	Equity Grants Earned Based on Fiscal 2016 Performance	
	# 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
Robert Ehlinger	968	881
John Abt	1,155	1,050

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.

**Special Recognition Restricted Stock Grants in Fiscal 2017 for KUPI Integration**

To recognize the ongoing success related to the integration of KUPI, the Committee approved one-time restricted stock grants to our NEOs in November 2016 as follows:

NEO	Special Recognition Restricted Stock Grant (# of Shares)
Arthur P. Bedrosian	3,351
Martin P. Galvan	2,681
Kevin Smith	2,681
Robert Ehlinger	2,681
John Abt	2,681

In approving these awards, the Committee considered the efforts and contributions of each executive towards the successful integration of KUPI, the maintenance and expansion of customer relationships, and significant progress made towards achieving targeted cost synergies. Grants were made on November 9, 2016 and vest in three annual increments, beginning on the first anniversary of grant.

**Grants Made in Fiscal 2018 (Based on Fiscal 2017 Performance)**

Expressed as percentages of salary, target award opportunities for Messrs. Bedrosian, Galvan, and Smith were increased to position target total direct compensation more in line with 50th percentile market values for comparable organizations, while no changes were made for Messrs. Abt and Ehlinger. Mr. Bedrosian's target award opportunity was increased to 300% of salary,

Mr. Galvan's target award opportunity was increased to 200% of salary, and Mr. Smith's target award opportunity was increased to 150% of salary. The Committee also modified the mix for any earned awards, with 45% of the grant value provided in the form of restricted stock, 30% in the form of stock options, and 25% in the form of performance-based restricted stock based on our three-year TSR relative to industry peers.

Based on below-threshold Company and individual performance results in Fiscal 2017, no equity grants were earned by NEOs. If Fiscal 2017 performance goals had been achieved, equity grants would have occurred in July 2017 and been included in the Summary Compensation Table and Grants of Plan-Based Awards Table in the Form 10-K and proxy filings for Fiscal 2018, 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.

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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 (h) of the Summary Compensation Table on page 76.

- **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 up to \$500,000 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 70% 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. 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 2018

For Fiscal 2018, the Committee decided to not increase base salaries for NEOs, to modify the short-term incentive (Annual Bonus) design, and to modify the long-term incentive plan design, as shown below:

- **Short-Term Incentives (Annual Bonus).** For Fiscal 2018, performance metrics are similar to those for Fiscal 2017, with a revised mix that places increased emphasis on the strategic / individual objectives component to further reinforce line of sight and key strategic initiatives such as product development and launches:

Performance Metrics	Weighting (Out of 100%)
Adjusted Operating Income	40%
Adjusted EPS	20%
Adjusted Net Sales	20%
Strategic / Individual Objectives	20%

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The target annual bonus opportunity for Mr. Bedrosian increased to 100% of base salary, to more closely align annual cash compensation with 50th percentile market values. For other NEOs, target annual bonus opportunities, expressed as percentages of base salary, are the same as in Fiscal 2017. Based on established Target performance goals for Fiscal 2018, the Committee chose to set Threshold performance levels at 85% of Target and Superior performance levels at 120% of Target.

- **Long-Term Incentives.** Expressed as percentages of base salary, target long-term incentive award opportunities for all NEOs are the same as those for Fiscal 2017. The target value mix for equity grants is the same as in Fiscal 2017 and is summarized below:

Award Vehicle	Weighting (Out of 100%)	Performance Criteria
Restricted Stock	45%	Grant levels based on Fiscal 2018 Company performance
Stock Options	30%	
Performance Shares	25%	3-year relative TSR

Equity grant levels for the stock option and restricted stock components will be based on the Company's Fiscal 2018 financial performance using the same corporate metrics as under the Annual Bonus Plan. Based on established Target performance goals for Fiscal 2018, and consistent with performance ranges within the Fiscal 2018 Annual Bonus Plan design, the Committee set award levels as follows:

Fiscal 2018 Performance Result	Percentage of Target Award Opportunity Earned
Below Threshold	(subject to Committee discretion)
Threshold (85% of Target)	50%
Target (100% of Target)	100%
Superior (120% of Target)	150%

Stock option and restricted stock grants, if any, will occur following the end of Fiscal 2018, with earned awards vesting in three equal annual increments based on continued service.

For the performance share component, award opportunities can range from 0% to 200% of target levels, based on our three-year TSR relative to companies in the S&P Pharmaceuticals Select Industry Index, as follows:

Lannett Three-Year Relative TSR vs. S&P Pharmaceuticals Select Index	Percentage of Target Award Opportunity Earned
Below 40th Percentile	
40th Percentile	50%
50th Percentile	100%
80th Percentile or Higher	200%

Because they are tied to prospective goals, performance share grants will occur during the first 90 days of each three-year cycle.

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, 2017.

Summary Compensation Table

This table summarizes all compensation paid to or earned by our NEOs for fiscal years 2017, 2016 and 2015.

Name and Principal Position (a)	Fiscal Year (b)	Salary (c)	Bonus (d)	Restricted Stock Awards (e)	Options Awards (f)	Non-equity incentive plan compensation (g)	All Other Compensation (h)	Total (i)
Arthur P. Bedrosian Chief Executive Officer	2017	\$ 735,000	\$	\$ 184,399	\$ 62,669	\$	\$ 99,477	\$ 1,081,544
	2016	615,129	811,484	657,298	400,977	45,917	78,382	2,609,187
	2015	555,170		620,494	1,613,437	802,576	70,102	3,661,780
Martin P. Galvan Vice President of Finance and Chief Financial Officer	2017	\$ 415,000	\$	\$ 104,786	\$ 27,119	\$	\$ 21,842	\$ 568,746
	2016	354,916	492,928	239,168	235,915	23,844	28,917	1,375,688
	2015	326,510		275,775	504,199	377,613	38,377	1,522,475
Kevin Smith Senior Vice President of Sales and Marketing	2017	\$ 370,000	\$	\$ 99,121	\$ 24,068	\$	\$ 21,967	\$ 515,156
	2016	314,974	178,840	210,160	206,787	21,160	24,869	956,790
	2015	286,340		330,930	436,973	331,156	35,786	1,421,185
Robert Ehlinger Vice President of Logistics and Chief Information Officer	2017	\$ 280,000	\$	\$ 82,000	\$ 14,839	\$	\$ 29,578	\$ 406,417
	2016	242,823	229,228	167,536	165,324	13,595	36,400	854,906
	2015	236,900			168,066	216,470	29,261	650,698
John Abt Vice President of Quality	2017	\$ 289,632	\$	\$ 87,289	\$ 17,706	\$	\$ 20,218	\$ 414,845
	2016	289,632	154,321	52,688	51,697	19,458	16,341	584,137
	2015	71,500		152,685		69,427	2,285	295,897

Table of ContentsAll Other Compensation

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

Name and Principal Position	Fiscal Year	Company Match Contributions		Auto Allowance	Pay in Lieu of Vacation	Excess Life Insurance	Total				
		401(k) Plan									
Arthur P. Bedrosian Chief Executive Officer	2017	\$	8,152	\$	13,500	\$	76,327	\$	1,498	\$	99,477
	2016		8,000		13,500		55,598		1,284		78,382
	2015		10,715		13,500		44,841		1,046		70,102
Martin P. Galvan Vice President of Finance, Chief Financial Officer and Treasurer	2017	\$	10,447	\$	10,800	\$		\$	594	\$	21,842
	2016		10,197		10,800		7,508		411		28,917
	2015		8,893		10,800		18,288		396		38,377
Kevin Smith Senior Vice President of Sales and Marketing	2017	\$	8,199	\$	13,500	\$		\$	268	\$	21,967
	2016		8,678		13,500		2,423		268		24,869
	2015		9,423		13,500		12,665		198		35,786
Robert Ehlinger Vice President of Logistics and Chief Information Officer	2017	\$	6,757	\$	10,800	\$	11,674	\$	347	\$	29,578
	2016		8,030		10,800		17,312		258		36,400
	2015		8,030		10,800		10,173		258		29,261
John Abt Vice President of Quality	2017	\$	9,275	\$	10,800	\$		\$	143	\$	20,218
	2016		5,403		10,800				138		16,341
	2015				2,285						2,285

Table of ContentsGrants of Plan-Based Awards in Fiscal 2017

Name (a)	Grant Date (b)	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	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Price Base Price of Option Awards	Grant Date Fair Value of Stock and Options
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (\$) (f)	Target (\$) (g)	Maximum (\$) (h)	(#) (1) (2) (i)	(#) (1) (j)	(\$/sh) (3)	Awards (4) (i)
Arthur P. Bedrosian Chief Executive Officer	7/27/2016							3,718			\$ 116,373
	11/9/2016							3,351			\$ 68,025
	7/27/2016								4,088	\$ 31.30	\$ 62,669
Martin P. Galvan Vice President of Finance and Chief Financial Officer	7/27/2016							1,609			\$ 50,362
	11/9/2016							2,681			\$ 54,424
	7/27/2016								1,769	\$ 31.30	\$ 27,119
Kevin Smith Senior Vice President of Sales and Marketing	7/27/2016							1,428			\$ 44,696
	11/9/2016							2,681			\$ 54,424
	7/27/2016								1,570	\$ 31.30	\$ 24,068
Robert Ehlinger Vice President of Logistics and Chief Information Officer	7/27/2016							881			\$ 27,575
	11/9/2016							2,681			\$ 54,424
	7/27/2016								968	\$ 31.30	\$ 14,839
John Abt Vice President of Quality	7/27/2016							1,050			\$ 32,865
	11/9/2016							2,681			\$ 54,424
	7/27/2016								1,155	\$ 31.30	\$ 17,706

(1) Stock options and restricted stock granted to NEOs on 7/27/16 were awarded to recognize the Company's Fiscal 2016 performance, and vest in three equal annual increments.

(2) Restricted stock grants on 11/9/16 were awarded to recognize the successful ongoing integration of KUPI, and 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 2017 Fiscal Year End

The following table sets forth information concerning the outstanding stock awards held at June 30, 2017 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.

Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards:	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)	Equity Incentive Plan Awards:	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards:
			Number of Securities Underlying Unexercised Options (#) (d)					Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)		
Arthur P. Bedrosian Chief Executive Officer	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					
	90,000			\$ 13.86	9/4/2023					
	64,000	32,000		\$ 34.77	8/11/2024					
	5,093	10,187		\$ 59.20	7/21/2025					
		4,088	\$ 31.30	7/26/2026						
						16,656	\$ 339,782			
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					
	50,000			\$ 13.86	9/4/2023					
	20,000	10,000		\$ 34.77	8/11/2024					
	2,996	5,994		\$ 59.20	7/21/2025					
		1,769		\$ 31.30	7/26/2026					
						9,484	\$ 193,474			
Kevin Smith Senior Vice President of Sales and Marketing	11,667			\$ 4.16	10/25/2022					
	30,000			\$ 13.86	9/4/2023					
	17,333	8,667		\$ 34.77	8/11/2024					
	2,626	5,254		\$ 59.20	7/21/2025					
		1,570		\$ 31.30	7/27/2026					
						9,476	\$ 193,310			
Robert Ehlinger Vice President of Logistics and Chief Information Officer	11,667			13.86	9/4/2023					
	6,666	3,334		34.77	8/11/2024					
	2,100	4,200		59.20	7/21/2025					
		968		31.30	7/26/2026					
						5,449	\$ 111,160			
John Abt Vice President of Quality	656	1,314		\$ 59.20	7/21/2025					
		1,155		\$ 31.30	7/26/2026					
						5,075	\$ 103,530			



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The following table sets forth information concerning stock options exercised and stock awards that vested during Fiscal 2017 for each of the NEOs.

Name and Principal Position (a)	Options		Stock Awards	
	Number of Shares Acquired On Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Arthur P. Bedrosian Chief Executive Officer	95,325	\$ 1,802,682	8,960	\$ 264,184
Martin P. Galvan Vice President of Finance and Chief Financial Officer		\$	4,680	\$ 138,223
Kevin Smith Senior Vice President of Sales and Marketing		\$	5,183	\$ 152,593
Robert Ehlinger Vice President of Logistics and Chief Information Officer		\$	943	\$ 28,922
John Abt Vice President of Quality		\$	1,046	\$ 25,953

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.

Table of ContentsPotential Payments upon Termination or Change in Control

The following table assumes that the relevant triggering event occurred on June 30, 2017. 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 (\$20.40) on June 30, 2017, which was the last trading day of Fiscal 2017. The spread, the difference between the fair market value of Lannett Company's stock on June 30, 2017, and the option exercise price, was used for valuing stock options.

Name	Base Salary Continuation	Annual Cash Bonus	Acceleration and Exercisability Of Unvested Stock Option Awards	Acceleration Of Unvested Restricted Stock	Insurance Benefit Continuation	Other Benefits	Total
<b>Arthur P. Bedrosian</b>							
Without Cause/With Good Reason (1) (2)	2,205,000			339,782	46,735	7,484	2,599,001
For Cause (3) (4)						7,484	7,484
Retirement / Death / Disability (3)						7,484	7,484
Change in Control (5)	2,205,000			339,782	46,735	7,484	2,599,001
<b>Martin P. Galvan</b>							
Without Cause/With Good Reason (1) (2)	622,500			193,474	36,933	6,056	858,963
For Cause (3) (4)						6,056	6,056
Retirement / Death / Disability (3)						6,056	6,056
Change in Control (5)	622,500			193,474	36,933	6,056	858,963
<b>Kevin R. Smith</b>							
Without Cause/With Good Reason (1) (2)	555,000			193,310	47,410	6,004	801,724
For Cause (3) (4)						6,004	6,004
Retirement / Death / Disability (3)						6,004	6,004
Change in Control (5)	555,000			193,310	47,410	6,004	801,724
<b>Robert Ehlinger</b>							
Without Cause/With Good Reason (1) (2)	420,000			111,160	3,645	6,708	541,512
For Cause (3) (4)						6,708	6,708
Retirement / Death / Disability (3)						6,708	6,708
Change in Control (5)	420,000			111,160	3,645	6,708	541,512
<b>John Abt</b>							
Without Cause/With Good Reason (1) (2)	434,448			103,530	38,181	2,456	578,615
For Cause (3) (4)						2,456	2,456
Retirement / Death / Disability (3)						2,456	2,456
Change in Control (5)	434,448			103,530	38,181	2,456	578,615

(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 2017 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 2017 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 2017, 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 receives an additional retainer of \$1,000 per month. Our independent directors also received additional cash fees ranging from \$2,000 to \$4,000 for participating in Special Committee meetings during Fiscal 2017. 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. 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. These grants are shown in the table below, since they occurred in Fiscal 2017. Based on the Company's performance and the significant efforts and contributions of our directors in Fiscal 2017, in July 2017, each non-employee Board member received an award of 6,977 common shares with a grant date value of \$150,006. Grant date values for this grant will be reported in the director compensation table for Fiscal 2018, since the grant occurred after the end of Fiscal 2017. As an executive director, Mr. Bedrosian does not receive an additional grant for 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, and Mr. Patrick LePore, who joined the board in Fiscal 2018, 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.

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The following table shows compensation information for Fiscal 2017 for non-employee members of our Board of Directors.

<b>Name</b>	<b>Fees Earned</b>	<b>Stock Awards (1)</b>	<b>Options Awards</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation</b>	<b>All Other Compensation</b>	<b>Total</b>
<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)</b>	<b>(f)</b>	<b>(g)</b>	<b>(h)</b>
Jeffrey Farber	90,000	\$ 124,980					214,980
David Drabik	105,500	\$ 124,980					230,480
Paul Taveira	93,000	\$ 124,980					217,980
James Maher	94,000	\$ 124,980					218,980
Albert Paonessa III	92,000	\$ 124,980					216,980

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(1) Reflects grant date award value for equity grants received in Fiscal 2017 to recognize Board service in 2016.

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

The following table sets forth, as of July 31, 2017, 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	Shares Held Directly	Excluding Options (*)		Percent of Class	Including Options (**)	
			Shares Held Indirectly	Total Shares		Number of Shares	Percent of Class
John M. Abt 13200 Townsend Road Philadelphia, PA 19154	VP of Quality	8,519	0	8,519(1)	0.02%	10,217(1),(2)	0.03%
Arthur P. Bedrosian 13200 Townsend Road Philadelphia, PA 19154	Chief Executive Officer	686,423	53,000	739,423(3)	1.98%	1,195,471(3),(4)	3.15%
David Drabik 13200 Townsend Road Philadelphia, PA 19154	Director	31,552	0	31,552	0.08%	31,552	0.08%
Robert Ehlinger 13200 Townsend Road Philadelphia, PA 19154	VP and Chief Information Officer	22,971	0	22,971(5)	0.06%	49,160(5),(6)	0.13%
Jeffrey Farber 13200 Townsend Road Philadelphia, PA 19154	Chairman of the Board, Director	2,059,859	2,512,327	4,572,186(7)	12.26%	4,572,186(7)	12.03%
David Farber 13200 Townsend Road Philadelphia, PA 19154		1,930,870	2,280,399	4,211,269(8)	11.30%	4,211,269(8)	11.08%
Jeffrey and Jennifer Farber Family Foundation 2354		1,455,498	0	1,455,498(9)	3.90%	1,455,498(9)	3.83%

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Bellingham Drive							
Troy, MI 48083							
David and Nancy Farber Family Foundation		1,431,443	0	1,431,443(10)	3.84%	1,431,443(10)	3.77%
2354 Bellingham Drive							
Troy, MI 48083							
Farber Family LLC		528,142	0	528,142(11)	1.42%	528,142(11)	1.39%
2354 Bellingham Drive							
Troy, MI 48083							
Farber Investment LLC		38,000	0	38,000(12)	0.10%	38,000(12)	0.10%
2354 Bellingham Drive							
Troy, MI 48083							
Martin Galvan	Chief Financial Officer	39,232	0	39,232(13)	0.11%	197,814(13),(14)	0.52%
13200 Townsend Road Philadelphia, PA 19154							
Samuel H. Israel	Chief Legal Officer, General Counsel	18,223	0	18,223(15)	0.05%	18,223(15)	0.05%
13200 Townsend Road Philadelphia, PA 19154							
Patrick G. LePore	Director	1,700	0	1,700	0.00%	1,700	0.00%
13200 Townsend Road Philadelphia, PA 19154							
James M. Maher	Director	27,297	0	27,297	0.07%	27,297	0.07%
13200 Townsend Road Philadelphia, PA 19154							
Albert Paonessa, III	Director	14,082	0	14,082	0.04%	14,082	0.04%
13200 Townsend Road Philadelphia, PA 19154							
Kevin R. Smith	SVP of Sales and Marketing	18,601	0	18,601(16)	0.05%	92,044(16),(17)	0.24%
13200 Townsend Road Philadelphia, PA 19154							

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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
Paul Taveira 13200 Townsend Road Philadelphia, PA 19154	Director	31,775	0	31,775	0.09%	31,775	0.08%
All directors and executive officers as a group (12 persons)		2,960,234	2,565,327	5,525,561	14.82%	6,241,521	16.42%

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- (1) Includes 4,428 unvested shares received pursuant to restricted stock awards granted in March 2015, July 2015 and July 2016.
- (2) Includes 1,313 vested options to purchase common stock at an exercise price of \$59.20 per share and 385 vested options to purchase common stock at an exercise price of \$31.30 per share.
- (3) Includes 53,000 shares owned by Arthur P. Bedrosian's wife and daughter. Mr. Bedrosian disclaims beneficial ownership of these shares. Includes 8,124 unvested shares received pursuant to restricted stock awards granted in July 2015, July 2016 and November 2016.
- (4) Includes 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, 96,000 vested options to purchase common stock at an exercise price of \$34.77 per share, 10,186 vested options to purchase common stock at an exercise price of \$59.20 per share and 1,362 vested options to purchase common stock at an exercise price of \$31.30 per share.
- (5) Includes 4,213 unvested shares received pursuant to restricted stock awards granted in July 2015, July 2016 and November 2016.
- (6) Includes 11,667 vested options to purchase common stock at an exercise price of \$13.86 per share, 10,000 vested options to purchase common stock at an exercise price of \$34.77 per share, 4,200 vested options to purchase common stock at an exercise price of \$59.20 per share, and 322 vested options to purchase common stock at an exercise price of \$31.30 per share.
- (7) Includes 1,455,498 shares held by the Jeffrey and Jennifer 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 Includes 400,000 shares held by a Grantor Retained Annuity Trust, in which Jeffrey Farber is the trustee.

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- (8) Includes 1,431,443 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.
- (9) Jeffrey and Jennifer Farber Family Foundation is managed by Jeffrey Farber.
- (10) David and Nancy Farber Family Foundation is managed by David and Nancy Farber.
- (11) Farber Family LLC is managed by Jeffrey Farber and David Farber.
- (12) Farber Investment LLC is beneficially owned 25% each by Jeffrey and David Farber and 50% by Larry Farber.
- (13) Includes 5,101 unvested shares received pursuant to restricted stock awards granted in July 2015, July 2016 and November 2016.
- (14) 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, 30,000 vested options to purchase common stock at an exercise price of \$34.77 per share and 5,993 vested options to purchase common stock at an exercise price of \$59.20 per share, and 589 vested options to purchase common stock at an exercise price of \$31.30 per share.
- (15) Relates to unvested shares received pursuant to restricted stock awards granted in July 2017.
- (16) Includes 4,817 unvested shares received pursuant to restricted stock awards granted in July 2015, July 2016 and November 2016.
- (17) 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, 26,000 vested options to purchase common stock at an exercise price of \$34.77 per share, 5,253 vested options to purchase common stock at an exercise price of \$59.20 per share and 523 vested options to purchase common stock at an exercise price of \$31.30 per share.

\* Percent of class calculation is based on 37,284,317 outstanding shares of common stock at July 31, 2017.

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





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The following table sets forth, as of July 31, 2017, 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
Invesco Ltd. 1555 Peachtree Street NE, Suite 1800 Atlanta, GA 30309	1,898,649(1)	5.09%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	3,764,500(2)	10.10%
Snow Capital Management, L.P. 2000 Georgetown Drive, Suite 200 Sewickley, PA 15143	2,526,240(3)	6.78%
Deerfield Management Company, L.P. 780 Third Avenue, 37th Floor New York, NY 10017	1,853,896(4)	4.97%
The Vanguard Group 100 Vanguard Blvd Malvern, PA 19355	2,573,978(5)	6.90%

(1) Based on Schedule 13G filed by Invesco Ltd. with the SEC on February 14, 2017, Invesco Ltd. has sole voting power over 1,898,649 shares, shared voting power over 0 shares, sole dispositive power over 1,898,649 shares and shared dispositive power over 0 shares.

(2) Based on Schedule 13G/A filed by Blackrock, Inc. with the SEC on January 25, 2017, Blackrock, Inc. has sole voting power over 3,705,233 shares, shared voting power over 0 shares, sole dispositive power over 3,764,500 shares and shared dispositive power over 0 shares.

(3) Based on Schedule 13G filed by Snow Capital Management, L.P. with the SEC on February 6, 2017, Snow Capital Management, L.P. has sole voting power over 2,404,017 shares, shared voting power over 0 shares, sole dispositive power over 2,526,240 shares and shared dispositive power over 0 shares.

(4) Based on Schedule 13G filed by Deerfield Management Company, L.P. with the SEC on February 10, 2017, Deerfield Management Company, L.P. has sole voting power over 0 shares, shared voting power over 1,853,896 shares, sole dispositive power over 0 shares and shared dispositive power over 1,853,896 shares.

(5) Based on Schedule 13G filed by The Vanguard Group with the SEC on February 10, 2017, The Vanguard Group has sole voting power over 3,298 shares, shared voting power over 3,298 shares, sole dispositive power over 2,573,978 shares and shared dispositive power over 35,692 shares.

Table of Contents**Equity Compensation Plan Information**

The following table summarizes the equity compensation plans as of June 30, 2017:

(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	1,475	\$ 18.02	2,130
Equity Compensation plans not approved by security holders			
<b>Total</b>	<b>1,475</b>	<b>\$ 18.02</b>	<b>2,130</b>

**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 net sales of \$3.7 million, \$3.1 million and \$1.9 million during the fiscal years ended June 30, 2017, 2016 and 2015, 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 \$751 thousand and \$682 thousand at June 30, 2017 and 2016, respectively.

The Company also had net sales of \$1.7 million during the fiscal year ended June 30, 2017 to a generic distributor, KeySource Medical (KeySource). Albert Paonessa, a current board member, was appointed the CEO of KeySource in May 2017. Accounts receivable includes amounts due from KeySource of \$606 thousand as of June 30, 2017.

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As part of its review, the Audit Committee noted that the amount of net sales to Auburn approximated 0.6%, 0.6% and 0.5% of total net sales during the fiscal years ended June 30, 2017, 2016 and 2015, respectively. The Audit Committee also noted that the amount of net sales to KeySource approximated 0.3% of total net sales during the fiscal year ended June 30, 2017.

The Audit Committee reviewed an analysis of sales prices charged to Auburn and KeySource, which compared the average sales prices by product for Auburn and KeySource 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 and KeySource during the fiscal year ended June 30, 2017 and 2016.

Table of Contents**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Grant Thornton LLP served as the independent auditors of the Company during Fiscal 2017, 2016 and 2015. 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 2017, 2016 and 2015.

(In thousands)	Audit Fees	Audit-Related	Tax Fees (1)	All Other Fees (2)	Total Fees
Fiscal 2017:	\$ 1,502	\$	\$ 167	\$	\$ 1,669
Fiscal 2016:	\$ 1,482	\$	\$ 154	\$	\$ 1,636
Fiscal 2015:	\$ 499	\$	\$ 104	\$ 10	\$ 613

(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
<b>Allowance for Doubtful Accounts</b>				
2017	\$ 610	\$ 186	\$	\$ 796
2016	374	236		610
2015	115	259		374
<b>Inventory Valuation</b>				
2017	\$ 6,924	\$ 10,429	\$ 12,840	\$ 4,513
2016	4,957	9,354	7,387	6,924
2015	2,384	6,700	4,127	4,957
<b>Deferred Tax Asset Valuation Allowance</b>				
2017	\$ 3,927	\$ 2,464	\$	\$ 6,391
2016	2,326	1,601		3,927
2015	2,289	37		2,326

Table of Contents3. *Exhibits:*

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

<b>Exhibit Number</b>	<b>Description</b>	<b>Method of Filing</b>
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

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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	Philadelphia Authority for Industrial Development Taxable Variable Rate Demand/Fixed Rate Revenue Bonds, Series of 1999	Incorporated by reference to Exhibit 10(ae) to the Annual Report on 1999 Form 10-KSB
10.3	Philadelphia Authority for Industrial Development Tax-Exempt Variable Rate Demand/Fixed Revenue Bonds (Lannett Company, Inc. Project) Series of 1999	Incorporated by reference to Exhibit 10(af) to the Annual Report on 1999 Form 10-KSB



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Exhibit Number	Description	Method of Filing
10.4	Letter of Credit and Agreements supporting bond issues between the Company and First Union National Bank	Incorporated by reference to Exhibit 10(ag) to the Annual Report on 1999 Form 10-KSB
10.5*	2003 Stock Option Plan	Incorporated by reference to the Proxy Statement for Fiscal Year Ending June 30, 2002
10.6*	Employment Agreement with Kevin Smith	Incorporated by reference to Exhibit 10.6 to the Annual Report on 2003 Form 10-KSB
10.7*	Employment Agreement with Arthur Bedrosian	Incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q dated May 12, 2004.
10.9	Agreement between Lannett Company, Inc and Siegfried (USA), Inc.	Incorporated by reference to Exhibit 10.9 to the Annual Report on 2003 Form 10-KSB
10.10	Agreement between Lannett Company, Inc and Jerome Stevens, Pharmaceutical, Inc.	Incorporated by reference to Exhibit 2.1 to Form 8-K dated April 20, 2004
10.11*	Terms of Employment Agreement with Stephen J. Kovary	Incorporated by reference to Exhibit 10.11 to the Annual Report on 2009 Form 10-K
10.12	Agreement of Sale Between Anvil Construction Company, Inc. and Lannett Company, Inc.	Incorporated by reference to Exhibit 10.12 to the Annual Report on 2009 Form 10-K
10.13*	2006 Long Term Incentive Plan	Incorporated by reference to the Proxy Statement dated January 5, 2007
10.15*	2011 Long Term Incentive Plan	Incorporated by reference to the Proxy Statement dated January 19, 2011
10.16*	Terms of Employment Agreement with Martin P. Galvan	Incorporated by reference to Exhibit 10.1 on Form 8-K dated August 8, 2011
10.17	Amended and Restated Loan Agreement dated April 29, 2011 between the Company and Wells Fargo Bank, N. A.	Incorporated by reference to Exhibit 10.17 to the Annual Report on 2011 Form 10-K
10.18	Loan Agreement dated May 26, 2011 between the Company, the Pennsylvania Industrial Development Authority ( PIDA ) and PIDC Financing Corporation	Incorporated by reference to Exhibit 10.18 to the Annual Report on 2011 Form 10-K
10.19*	Second Amended and Restated Employment Agreement of Arthur P. Bedrosian	Incorporated by reference to Exhibit 10.19 on Form 8-K dated January 3, 2013
10.20*	Amended and Restated Employment Agreement of Martin P. Galvan	Incorporated by reference to Exhibit 10.20 on Form 8-K dated January 3, 2013
10.21*	Amended and Restated Employment Agreement of William F. Schreck	Incorporated by reference to Exhibit 10.21 on Form 8-K dated January 3, 2013
10.22*	Amended and Restated Employment Agreement of Kevin Smith	Incorporated by reference to Exhibit 10.22 on Form 8-K dated January 3, 2013
10.23*	Amended and Restated Employment Agreement of Ernest J. Sabo	Incorporated by reference to Exhibit 10.23 on Form 8-K dated January 3, 2013

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10.24*	Amended and Restated Employment Agreement of Robert Ehlinger	Incorporated by reference to Exhibit 10.24 on Form 8-K dated January 3, 2013
10.25	Amendment to Agreement dated March 23, 2004 by and between Lannett Company, Inc. and Jerome Stevens Pharmaceuticals, Inc.	Incorporated by reference to Exhibit 10.25 on Form 8-K dated August 19, 2013
10.26	Credit Agreement dated as of December 18, 2013 among Lannett Company Inc., as the Borrower, Certain Financial Institutions as the Lenders and Citibank, N.A., as Administrative Agent	Incorporated by reference to Exhibit 10.26 on Form 8-K dated December 19, 2013
10.27	Guaranty and Security Agreement dated as of December 18, 2013, among Lannett Company, Inc., the Subsidiaries of Lannett Company, Inc. identified therein and Citibank, N.A., as Administrative Agent	Incorporated by reference to Exhibit 10.27 on Form 8-K dated December 19, 2013

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Exhibit Number	Description	Method of Filing
10.28*	Employment Agreement of Michael Bogda dated December 1, 2014	Incorporated by reference to Exhibit 10.28 on Form 8-K dated December 5, 2014
10.29	Lender Joinder and First Amendment to Credit Agreement dated as of April 21, 2015 among Lannett Company, Inc., as the Borrower, Certain Financial Institutions as the Lenders and Citibank, N.A., as Administrative Agent	Incorporated by reference to Exhibit 10.29 on Form 8-K dated April 24, 2015
10.30*	Employment Agreement of John Abt	Incorporated by reference to Exhibit 10.30 on Form 10-Q dated May 8, 2015
10.31*	Employment Agreement of Rohit Desai	Incorporated by reference to Exhibit 10.31 to the Annual Report on 2015 Form 10-K
10.32*	Employment Agreement of Dr. Mahendra Dedhiya	Incorporated by reference to Exhibit 10.31 to the Annual Report on 2015 Form 10-K
10.33	Project Orion Commitment Letter	Incorporated by reference to Exhibit 10.33 on Form 8-K dated September 4, 2015
10.34*	Separation Agreement and General Release between William F. Schreck and Lannett Company, Inc., dated September 11, 2015	Incorporated by reference to Exhibit 10.34 on Form 8-K dated September 15, 2015
10.35	Project Orion Amended and Restated Commitment Letter	Incorporated by reference to Exhibit 10.35 on Form 8-K dated September 25, 2015
10.36	Credit and Guaranty Agreement dated as of November 25, 2015	Incorporated by reference to Exhibit 10.36 on Form 8-K dated December 2, 2015
10.37	Credit Agreement Joinder	Incorporated by reference to Exhibit 10.37 on Form 8-K dated December 2, 2015
10.38	Pledge and Security Agreement dated as of November 25, 2015	Incorporated by reference to Exhibit 10.38 on Form 8-K dated December 2, 2015
10.39	Supplement No. 1 to the Pledge and Security Agreement	Incorporated by reference to Exhibit 10.39 on Form 8-K dated December 2, 2015
10.40	Warrant to Purchase Common Stock	Incorporated by reference to Exhibit 10.40 on Form 8-K dated December 2, 2015
10.41	Registration Rights Agreement	Incorporated by reference to Exhibit 10.41 on Form 8-K dated December 2, 2015
10.42*	Separation Agreement and General Release between Michael Bogda and Lannett Company, Inc., dated April 11, 2016	Incorporated by reference to Exhibit 10.42 on Form 8-K dated April 12, 2016
10.43	Amendment No. 1 to Credit and Guaranty Agreement dated June 17, 2016	Incorporated by reference to Exhibit 10.43 on Form 8-K dated June 20, 2016
10.44	Amendment No. 2 to Credit and Guaranty Agreement dated June 17, 2016	Incorporated by reference to Exhibit 10.44 on Form 8-K dated June 20, 2016

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10.45*	Employment Agreement of Samuel H. Israel	Incorporated by reference to Exhibit 10.45 on Form 8-K dated July 19, 2017
21	Subsidiaries of the Company	Filed Herewith
23.1	Consent of Grant Thornton, LLP	Filed Herewith
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith

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<b>Exhibit Number</b>	<b>Description</b>	<b>Method of Filing</b>
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
101.INS	XBRL Instance Document	
101.SCH	XBRL Extension Schema Document	
101.CAL	XBRL Calculation Linkbase Document	
101.DEF	XBRL Definition Linkbase Document	
101.LAB	XBRL Label Linkbase Document	
101.PRE	XBRL Presentation Linkbase Document	

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**SIGNATURES**

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

LANNETT COMPANY, INC.

Date: August 28, 2017 By: /s/ Arthur P. Bedrosian  
Arthur P. Bedrosian,  
Chief Executive Officer

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

Date: August 28, 2017 By: /s/ Martin P. Galvan  
Martin P. Galvan  
Vice President of Finance, Chief Financial Officer and Treasurer

Date: August 28, 2017 By: /s/ G. Michael Landis  
G. Michael Landis  
Director of Finance and Principal Accounting Officer

Date: August 28, 2017 By: /s/ Jeffrey Farber  
Jeffrey Farber,  
Director, Chairman of the Board of Directors

Date: August 28, 2017 By: /s/ Arthur P. Bedrosian  
Arthur P. Bedrosian,  
Director, Chief Executive Officer

Date: August 28, 2017 By: /s/ David Drabik  
David Drabik,  
Director, Chairman of Governance and Nominating Committee,  
Lead Independent Director

Date: August 28, 2017 By: /s/ Paul Taveira  
Paul Taveira,  
Director, Chairman of Compensation Committee

Date: August 28, 2017 By: /s/ James M. Maher  
James M. Maher,  
Director, Chairman of Audit Committee

Date: August 28, 2017 By: /s/ Albert Paonessa III  
Albert Paonessa III,

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Director

Date: August 28, 2017

By: /s/ Patrick G. LePore  
Patrick G. LePore,  
Director

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Supplementary Financial Information**

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

Management of Lannett Company Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control framework was designed to provide the Company's management and Board of Directors, reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework (2013) in conducting its assessment as of June 30, 2017. As a result of this assessment, management has concluded that, as of June 30, 2017, the Company's internal control over financial reporting is effective.

The Company's independent registered public accounting firm, Grant Thornton, LLP, has issued its report on the effectiveness of the Company's internal control over financial reporting as of June 30, 2017. Grant Thornton, LLP's opinion on the Company's internal control over financial reporting appears on page 97 of this Form 10-K.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of  
Lannett Company, Inc.

We have audited the accompanying consolidated balance sheets of Lannett Company, Inc. (a Delaware corporation) and Subsidiaries (collectively, the Company) as of June 30, 2017 and 2016 and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for each of the three fiscal years in the period ended June 30, 2017. Our audits of the basic consolidated financial statements included the consolidated financial statement schedule listed in the index appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lannett Company, Inc. and Subsidiaries as of June 30, 2017 and 2016 and the results of their operations and their cash flows for each of the three fiscal years in the period ended June 30, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2017, based on criteria established in the *2013 Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 28, 2017 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania

August 28, 2017

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of  
Lannett Company, Inc.

We have audited the internal control over financial reporting of Lannett Company, Inc. (a Delaware Corporation) and Subsidiaries (the Company) as of June 30, 2017, based on criteria established in the *2013 Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on criteria established in the *2013 Internal Control - Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended June 30, 2017 and our report dated August 28, 2017 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania

August 28, 2017

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## LANNETT COMPANY, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2017	June 30, 2016
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 117,737	\$ 224,769
Investment securities	27,091	14,094
Accounts receivable, net	204,066	211,722
Inventories	122,604	114,904
Prepaid income taxes	16,703	
Deferred tax assets	28,905	40,892
Other current assets	6,592	6,434
Total current assets	523,698	612,815
<b>Property, plant and equipment, net</b>	<b>243,148</b>	<b>216,638</b>
<b>Intangible assets, net</b>	<b>453,861</b>	<b>575,503</b>
<b>Goodwill</b>	<b>339,566</b>	<b>333,611</b>
<b>Deferred tax assets</b>	<b>23,848</b>	<b>11,556</b>
<b>Other assets</b>	<b>19,191</b>	<b>13,895</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,603,312</b>	<b>\$ 1,764,018</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 44,720	\$ 34,720
Accrued expenses	12,499	9,247
Accrued payroll and payroll-related expenses	4,833	10,572
Rebates payable	44,593	21,894
Royalties payable	3,015	5,127
Restructuring liability	5,431	4,130
Settlement liability	17,000	7,000
Income taxes payable		743
Acquisition-related contingent consideration		35,000
Short-term borrowings and current portion of long-term debt	60,117	178,236
Total current liabilities	192,208	306,669
<b>Long-term debt, net</b>	<b>843,530</b>	<b>883,612</b>
<b>Settlement liability</b>		<b>12,526</b>
<b>Other liabilities</b>	<b>6,452</b>	<b>6,754</b>
<b>TOTAL LIABILITIES</b>	<b>1,042,190</b>	<b>1,209,561</b>
Commitments and contingencies (Note 12 and 13)		
<b>STOCKHOLDERS EQUITY</b>		
Common stock (\$0.001 par value, 100,000,000 shares authorized; 37,528,450 and 37,150,165 shares issued; 36,919,296 and 36,604,202 shares outstanding at June 30, 2017 and 2016, respectively)	37	37
<b>Additional paid-in capital</b>	<b>292,780</b>	<b>283,301</b>
<b>Retained earnings</b>	<b>277,774</b>	<b>278,355</b>
<b>Accumulated other comprehensive loss</b>	<b>(222)</b>	<b>(295)</b>
<b>Treasury stock (609,154 and 545,963 shares at June 30, 2017 and 2016, respectively)</b>	<b>(9,247)</b>	<b>(7,349)</b>

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Total Lannett Company, Inc. stockholders' equity	561,122	554,049
<b>Noncontrolling Interest</b>		408
Total stockholders' equity	561,122	554,457
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,603,312</b>	<b>\$ 1,764,018</b>

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

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## LANNETT COMPANY, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	2017	Fiscal Year Ended June 30,		2015
		2016		
<b>Net sales</b>	\$ 637,341	\$ 566,091	\$	406,837
<b>Settlement agreement</b>	(4,000)	(23,598)		
<b>Total net sales</b>	633,341	542,493		406,837
<b>Cost of sales</b>	300,030	237,371		100,344
<b>Amortization of intangibles</b>	32,098	18,629		137
<b>Gross profit</b>	301,213	286,493		306,356
<b>Operating expenses:</b>				
Research and development expenses	42,073	45,054		30,342
Selling, general and administrative expenses	73,477	68,325		45,206
Acquisition and integration-related expenses	3,965	27,190		4,321
Restructuring expenses	7,168	7,166		
Intangible assets impairment charges	88,084	8,000		
Total operating expenses	214,767	155,735		79,869
<b>Operating income</b>	86,446	130,758		226,487
<b>Other income (loss):</b>				
Loss on extinguishment of debt		(3,009)		
Investment income	3,768	368		1,130
Interest expense	(89,420)	(65,937)		(207)
Other	(244)	(1)		12
Total other income (loss)	(85,896)	(68,579)		935
<b>Income before income taxes</b>	550	62,179		227,422
<b>Income tax expense</b>	1,097	17,322		77,430
<b>Net income (loss)</b>	(547)	44,857		149,992
Less: Net income attributable to noncontrolling interest	34	75		73
<b>Net income (loss) attributable to Lannett Company, Inc.</b>	\$ (581)	\$ 44,782	\$	149,919
<b>Earnings (loss) per common share attributable to Lannett Company, Inc.:</b>				
Basic	\$ (0.02)	\$ 1.23	\$	4.18
Diluted	\$ (0.02)	\$ 1.20	\$	4.04
<b>Weighted average common shares outstanding:</b>				
Basic	36,812,524	36,442,782		35,827,167
Diluted	36,812,524	37,389,445		37,127,117

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

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## LANNETT COMPANY, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	2017	Fiscal Year Ended June 30, 2016	2015
<b>Net income (loss)</b>	\$ (547)	\$ 44,857	\$ 149,992
<b>Other comprehensive income (loss), before taxes:</b>			
Foreign currency translation gain (loss)	73		(241)
Total other comprehensive income (loss), net of taxes	73		(241)
<b>Comprehensive income (loss)</b>	<b>(474)</b>	44,857	149,751
Less: Total comprehensive income attributable to noncontrolling interest	34	75	73
<b>Comprehensive income (loss) attributable to Lannett Company, Inc.</b>	<b>\$ (508)</b>	\$ 44,782	\$ 149,678

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



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## LANNETT COMPANY, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands)

	Stockholders Equity Attributable to Lannett Company Inc.								
	Common Stock Shares Issued	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Treasury Stock	Stockholders Equity Attributable to Lannett Co., Inc.	Noncontrolling Interest	Total Stockholders Equity
<b>Balance, June 30, 2014</b>	36,088	\$ 36	\$ 216,793	\$ 83,654	\$ (54)	\$ (5,959)	\$ 294,470	\$ 295	\$ 294,765
Shares issued in connection with share-based compensation plans	695	1	4,937				4,938		4,938
Share-based compensation			6,397				6,397		6,397
Excess tax benefits on share-based compensation awards			8,051				8,051		8,051
Purchase of treasury stock						(121)	(121)		(121)
Distribution to noncontrolling interests								(15)	(15)
Other comprehensive income (loss), net of income tax					(241)		(241)		(241)
Net income				149,919			149,919	73	149,992
<b>Balance, June 30, 2015</b>	36,783	\$ 37	\$ 236,178	\$ 233,573	\$ (295)	\$ (6,080)	\$ 463,413	\$ 353	\$ 463,766
Shares issued in connection with share-based compensation plans	367		4,134				4,134		4,134
Share-based compensation			11,562				11,562		11,562
Excess tax benefits on share-based compensation awards			1,507				1,507		1,507
Purchase of treasury stock						(1,269)	(1,269)		(1,269)
Issuance of warrant			29,920				29,920		29,920
Distribution to noncontrolling interests								(20)	(20)
Net income				44,782			44,782	75	44,857
<b>Balance, June 30, 2016</b>	37,150	\$ 37	\$ 283,301	\$ 278,355	\$ (295)	\$ (7,349)	\$ 554,049	\$ 408	\$ 554,457
Shares issued in connection with share-based compensation plans	378		2,818				2,818		2,818
Share-based compensation			7,719				7,719		7,719
Purchase of noncontrolling interest			(1,058)				(1,058)	(442)	(1,500)
Purchase of treasury stock						(1,898)	(1,898)		(1,898)
Other comprehensive income, net of income tax					73		73		73
Net income (loss)				(581)			(581)	34	(547)

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<b>Balance, June 30, 2017</b>	<b>37,528</b>	<b>\$</b>	<b>37</b>	<b>\$</b>	<b>292,780</b>	<b>\$</b>	<b>277,774</b>	<b>\$</b>	<b>(222)</b>	<b>\$</b>	<b>(9,247)</b>	<b>\$</b>	<b>561,122</b>	<b>\$</b>	<b>561,122</b>
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The accompanying notes are an integral part of the consolidated financial statements.

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## LANNETT COMPANY, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	2017	Fiscal Year Ended June 30,		2015
		2016		
<b>OPERATING ACTIVITIES:</b>				
Net income (loss)	\$	(547)	\$ 44,857	\$ 149,992
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>				
Depreciation and amortization		55,340	33,433	5,583
Deferred income tax benefit		(305)	(19,497)	(3,266)
Share-based compensation		7,719	11,562	6,397
Excess tax benefits on share-based compensation awards			(1,507)	(8,051)
Intangible assets impairment charges		88,084	8,000	
Loss (gain) on sale of assets		290	92	(33)
Loss (gain) on investment securities		(2,914)	11	(705)
Loss on extinguishment of debt			3,009	
Amortization of debt discount and other debt issuance costs		20,577	12,484	110
Other noncash expenses		1,889	523	
<b>Changes in assets and liabilities which provided (used) cash; net of acquisitions:</b>				
Accounts receivable, net		1,701	15,149	(25,382)
Inventories		(7,700)	15,296	1,358
Prepaid income taxes/Income taxes payable		(17,748)	1,717	5,127
Other current assets and other assets		1,916	7,719	(1,673)
Rebates payable		14,369	4,525	2,995
Royalties payable		(2,112)	1,524	
Restructuring liability		1,301	4,130	
Settlement liability		1,000	18,598	
Accounts payable		5,000	(3,723)	(2,498)
Accrued expenses		3,252	(1,760)	1,027
Accrued payroll and payroll-related expenses		(5,739)	(20,865)	(2,463)
Net cash provided by operating activities		165,373	135,277	128,518
<b>INVESTING ACTIVITIES:</b>				
Purchases of property, plant and equipment		(48,694)	(24,267)	(31,676)
Proceeds from sale of property, plant and equipment		112	16	94
Purchases of intangible assets				(300)
Acquisitions, net of cash acquired			(934,178)	(41,862)
Proceeds from sale of investment securities		67,828	39,895	75,770
Purchase of investment securities		(77,911)	(40,533)	(47,839)
Net cash used in investing activities		(58,665)	(959,067)	(45,813)
<b>FINANCING ACTIVITIES:</b>				
Proceeds from issuance of debt			1,048,610	
Short-term borrowings under revolving credit facility			125,000	
Repayments of short-term borrowings and long-term debt		(178,233)	(295,033)	(129)
Purchase of noncontrolling interest		(1,500)		
Acquisition-related contingent consideration		(35,000)		
Proceeds from issuance of stock		2,818	4,134	4,938
Payment of debt issuance costs			(34,710)	(435)
Excess tax benefits on share-based compensation awards			1,507	8,051
Purchase of treasury stock		(1,898)	(1,269)	(121)

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Distributions to noncontrolling shareholders		(20)	(15)
Net cash provided by (used in) financing activities	(213,813)	848,219	12,289
Effect on cash and cash equivalents of changes in foreign exchange rates	73		(241)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(107,032)</b>	24,429	94,753
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>224,769</b>	200,340	105,587
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 117,737</b>	<b>\$ 224,769</b>	<b>\$ 200,340</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest paid (net of amounts capitalized)	\$ 67,115	\$ 52,916	\$ 206
Income taxes paid, net	\$ 19,150	\$ 35,141	\$ 75,569
Credits issued pursuant to Settlement Agreement	\$ 5,000	\$	\$
Issuance of unsecured 12.0% Senior Notes to finance KUPI acquisition	\$	\$ 200,000	\$
Issuance of a warrant to finance KUPI acquisition	\$	\$ 29,920	\$
Acquisition-related contingent consideration	\$	\$ 35,000	\$

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

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**LANNETT COMPANY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. The Business And Nature of Operations**

Lannett Company, Inc. (a Delaware corporation) and its subsidiaries (collectively, the Company or Lannett ) 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, most notably under the Jerome Stevens Distribution Agreement. The Company also manufactures active pharmaceutical ingredients through its Cody Laboratories, Inc. ( Cody Labs ) subsidiary, providing a vertical integration benefit.

On November 25, 2015, the Company completed the acquisition of Kremers Urban Pharmaceuticals, Inc. ( KUPI ), the former U.S. specialty generic pharmaceuticals subsidiary of global biopharmaceuticals company UCB S.A ( UCB ). 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.

**Note 2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles in the United States. ( U.S. GAAP )

***Principles of consolidation***

The Consolidated Financial Statements include the accounts of Lannett Company, Inc. and its wholly-owned subsidiaries, as well as Cody LCI Realty, LLC ( Realty ), a variable interest entity ( VIE ) in which the Company had a 50% ownership interest until November 30, 2016, when the

Company acquired the remaining 50% interest. Noncontrolling interest in Realty was recorded net of tax as net income attributable to the noncontrolling interest. Additionally, all intercompany accounts and transactions have been eliminated.

***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.

***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

***Use of estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are required in the determination of revenue recognition and sales deductions for estimated chargebacks, rebates, returns and other adjustments including a provision for the Company's liability under the Medicare Part D program. Additionally, significant estimates and assumptions are required when determining the fair value of long-lived assets, including goodwill and intangible assets, income taxes, contingencies, share-based compensation and contingent consideration.

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Because of the inherent subjectivity and complexity involved in these estimates and assumptions, actual results could differ from those estimates.

*Foreign currency translation*

The Consolidated Financial Statements are presented in U.S. Dollars, the reporting currency of the Company. The financial statements of the Company's foreign subsidiary are maintained in local currency and translated into U.S. dollars at the end of each reporting period. Assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated at average exchange rates during the period. The adjustments resulting from the use of differing exchange rates are recorded as part of stockholders' equity in accumulated other comprehensive income (loss). Gains and losses resulting from transactions denominated in foreign currencies are recognized in the Consolidated Statements of Operations under Other income (loss). Amounts recorded due to foreign currency fluctuations are immaterial to the Consolidated Financial Statements.

*Cash and cash equivalents*

The Company considers all highly liquid investments with original maturities less than or equal to three months at the date of purchase to be cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value, and consist of bank deposits and certificates of deposit that are readily convertible into cash. The Company maintains its cash deposits and cash equivalents at well-known, stable financial institutions. Such amounts frequently exceed insured limits.

*Investment securities*

The Company's investment securities consist of publicly-traded equity securities which are classified as trading investments. Investment securities are recorded at fair value based on quoted market prices from broker or dealer quotations or transparent pricing sources at each reporting date. Realized and unrealized gains and losses are included in the Consolidated Statements of Operations under Other income (loss).

*Allowance for doubtful accounts*

The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time balances are past due, the Company's previous loss history, the customer's current ability to pay its obligations to the Company and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they are determined to be uncollectible.

*Inventories*

Inventories are stated at the lower of cost and net realizable value 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.

***Property, Plant and Equipment***

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.

***Intangible Assets***

Definite-lived intangible assets are stated at cost less accumulated amortization. Amortization of definite-lived intangible assets is computed 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. Indefinite-lived intangible assets are not amortized, but instead are tested at least annually for impairment. Costs to renew or extend the term of a recognized intangible asset are expensed as incurred.

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

The Company's long-lived assets primarily consist of property, plant and equipment and definite and indefinite-lived intangible 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. If a triggering event is determined to have occurred, the asset's carrying value is compared to the future undiscounted cash flows expected to be generated by the asset. If the carrying value exceeds the undiscounted cash flow of the asset, then impairment exists. Indefinite-lived intangible assets are tested for impairment at least annually during the fourth quarter of each fiscal year or more frequently if events or changes in circumstances indicate that the asset might be impaired.



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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.

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

Amounts allocated to in-process research and development (IPR&D) in connection with a business combination are recorded at fair value and are considered indefinite-lived intangible assets subject to impairment testing in accordance with the Company's impairment testing policy for indefinite-lived intangible assets. 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.

***Goodwill***

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is carried at cost. Goodwill is tested for impairment on an annual basis on the first day of the fourth quarter of each fiscal year or more frequently if events or changes in circumstances 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 impairment test. The Company first determines the fair value of our reporting unit (generic pharmaceuticals). If the net book value of our reporting unit exceeds its fair value, the difference will be recorded as a goodwill impairment, not to exceed the carrying amount of goodwill. 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 judgments made in determining the estimated fair value of goodwill can materially impact our results of operations.

***Segment Information***

The Company operates in one reportable segment, generic pharmaceuticals. As such, the Company aggregates its financial information for all products. The following table identifies the Company's net sales by medical indication for fiscal years ended June 30, 2017, 2016 and 2015:

(In thousands) Medical Indication	Fiscal Year Ended June 30,		
	2017	2016	2015
Antibiotic	\$ 16,748	\$ 14,558	\$ 12,306
Anti-Psychosis	58,625	5,462	2,260
Cardiovascular	50,628	53,541	55,166
Central Nervous System	39,451	36,291	
Gallstone	48,600	67,348	65,262

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Gastrointestinal	71,887	52,699	
Glaucoma	18,763	25,336	21,145
Migraine	29,014	21,776	25,729
Muscle Relaxant	13,636	5,403	8,779
Obesity	3,956	3,809	4,004
Pain Management	26,135	29,804	27,461
Respiratory	10,516	9,982	
Thyroid Deficiency	174,005	162,411	153,460
Urinary	14,695	17,398	212
Other	43,240	38,230	31,053
Contract manufacturing revenue	17,442	22,043	
Net sales	637,341	566,091	406,837
Settlement agreement	(4,000)	(23,598)	
Total net sales	\$ 633,341	\$ 542,493	\$ 406,837

Table of Contents***Customer, Supplier and Product Concentration***

The following table presents the percentage of total net sales, for the fiscal years ended June 30, 2017, 2016 and 2015, for certain of the Company's products, defined as products containing the same active ingredient or combination of ingredients, which accounted for at least 10% of total net sales in any of those periods:

	June 30, 2017	June 30, 2016	June 30, 2015
Product 1	27%	30%	38%
Product 2	8%	12%	16%
Product 3	2%	4%	12%

The following table presents the percentage of total net sales, for the fiscal years ended June 30, 2017, 2016 and 2015, for certain of the Company's customers which accounted for at least 10% of total net sales in any of those periods:

	June 30, 2017	June 30, 2016	June 30, 2015
Customer A	28%	25%	30%
Customer B	21%	16%	11%

The Company's primary finished product inventory supplier is Jerome Stevens Pharmaceuticals, Inc. ( "JSP" ), in Bohemia, New York. Purchases of finished goods inventory from JSP accounted for 36%, 52% and 68% of the Company's inventory purchases in fiscal years 2017, 2016 and 2015, respectively. See Note 21 "Material Contracts with Suppliers" for more information.

***Revenue Recognition***

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

***Net Sales Adjustments***

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, depending on the nature of the reserve. The reserves, presented as a reduction of accounts receivable, totaled \$175.8 million and \$176.1 million at June 30, 2017 and 2016, respectively. Rebates payable at June 30, 2017 and 2016 included \$44.6 million and \$21.9 million, respectively, for certain rebate programs, primarily related to Medicare Part D, Medicaid and certain sales allowances and other adjustments paid to indirect customers.

*Cost of Sales, including Amortization of Intangibles*

Cost of sales includes all costs related to bringing products to their final selling destination, which includes direct and indirect costs, such as direct material, labor and overhead expenses. Additionally, cost of sales includes product royalties, depreciation, amortization and costs to renew or extend recognized intangible assets, freight charges and other shipping and handling expenses.

*Research and Development*

Research and development costs are expensed as incurred, including all production costs until a drug candidate is approved by the Food and Drug Administration ( FDA ). Research and development expenses include costs associated with internal projects as well as costs associated with third-party research and development contracts.

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***Contingencies***

Loss contingencies, including litigation-related contingencies, are included in the Consolidated Statements of Operations when the Company concludes that a loss is both probable and reasonably estimable. Legal fees related to litigation-related matters are expensed as incurred and are included in the Consolidated Statements of Operations under the Selling, general and administrative line item.

***Contingent Consideration***

Contingent consideration resulting from the KUPI acquisition was recorded at its estimated fair value on the acquisition date. The Company agreed to a 50/50 split of the additional tax liabilities UCB will incur associated with the IRS Section 338(H)(10) tax election, up to \$35.0 million. These fair value measurements represent Level 3 measurements, as they are based on significant inputs not observable in the market. In the third quarter of Fiscal 2017, the Company paid UCB \$35.0 million in connection with the 338(H)(10) election.

***Restructuring Costs***

The Company records charges associated with approved restructuring plans to remove duplicative headcount and infrastructure associated with business acquisitions or to simplify business processes. Restructuring charges can include severance costs to eliminate a specified number of employees, infrastructure charges to vacate facilities and consolidate operations and contract cancellation costs. The Company records restructuring charges based on estimated employee terminations, site closure and consolidation plans. The Company accrues severance and other employee separation costs under these actions when it is probable that a liability exists and the amount is reasonably estimable.

***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 stock 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.

***Self-Insurance***

Effective January 1, 2017, the Company self-insures for certain employee medical and prescription benefits. The Company also maintains stop loss coverage with third party insurers to limit our total liability exposure. The liability for self-insured risks is primarily calculated using

independent third party actuarial valuations which take into account actual claims, claims growth and claims incurred but not yet reported. Actual experience, including claim frequency and severity as well as health-care inflation, could result in different liabilities than the amounts currently recorded. The liability for self-insured risks under this plan as of June 30, 2017 was not material to the financial position of the Company.

### *Income Taxes*

The Company uses the liability method to account for income taxes as prescribed by Accounting Standards Codification ( ASC ) 740, *Income Taxes*. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense (benefit) is the result of changes in deferred tax assets and liabilities. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates in the period during which they are signed into law. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. 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.

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The authoritative accounting standards also provide guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

***Earnings Per Common Share***

Basic earnings per common share attributable to Lannett Company, Inc. is computed by dividing net income attributable to Lannett Company, Inc. common stockholders by the weighted average number of shares outstanding during the period. Diluted earnings per common share attributable to Lannett Company, Inc. is computed by dividing net income attributable to Lannett Company, Inc. common stockholders by the weighted average number of shares outstanding during the period including additional shares that would have been outstanding related to potentially dilutive securities. These potentially dilutive securities consist of stock options, unvested restricted stock and an outstanding warrant. Anti-dilutive securities are excluded from the calculation. Dilutive shares are also excluded in the calculation in periods of net loss because the effect of including such securities would be anti-dilutive.

***Comprehensive Income (Loss)***

Comprehensive income (loss) includes all changes in equity during a period except those that resulted from investments by or distributions to the Company's stockholders. Other comprehensive income (loss) refers to gains and losses that are included in comprehensive income (loss), but excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity.

***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, 2017. Based on a preliminary review of the contracts representing a substantial portion of our revenues, the Company does not expect the guidance to have a material impact on the timing and recognition of our revenues. The Company is still evaluating the adoption method it will elect upon implementation.

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 and 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. The adoption of ASU 2015-11 did not result in a material impact on the consolidated financial statements.

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 does not believe this guidance will have a material impact 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. 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. The Company has elected to early adopt this ASU in the fourth quarter of Fiscal 2017 which did not result in a material impact on the consolidated financial statements. As a result of our election to early adopt, all excess tax benefits are now reflected in the provision for income taxes rather than paid-in capital. The Company has also elected to continue to estimate forfeitures related to share-based payment awards at the time of grant. In addition, the Company has elected to apply the presentation requirements for cash flows related to excess tax benefits prospectively. As such, all tax-related cash flows resulting from share-based payments in Fiscal 2017 are reflected as operating activities on the statement of cash flows.



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In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company is currently in the process of assessing the impact this guidance will have on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other – Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test which previously required measurement of any goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; without exceeding the total amount of goodwill allocated to that reporting unit. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company has elected to early adopt this guidance in the fourth quarter of Fiscal 2017 and will apply it on a prospective basis. The Company does not believe that the adoption will have a material impact on its consolidated financial statements.

**Note 3. Acquisitions*****Kremers Urban Pharmaceuticals Inc.***

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., pursuant to the terms and conditions of a Stock Purchase Agreement. 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.

Pursuant to the terms of the Stock Purchase Agreement, Lannett purchased 100% of the outstanding equity interests of KUPI for total consideration of approximately \$1.2 billion.

The following table summarizes the fair value of total consideration transferred to KUPI shareholders at the acquisition date of November 25, 2015:

**(In thousands)**

Cash purchase price paid to KUPI shareholders	\$ 1,030,000
Working capital adjustment	(41,605)
Certain amounts reimbursed by UCB	(37,340)
Total cash consideration transferred to KUPI shareholders	951,055
12.0% Senior Notes issued to UCB	200,000
Acquisition-related contingent consideration	35,000
Warrant issued to UCB	29,920

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Total consideration to KUPI shareholders	\$	1,215,975
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The Company funded the acquisition and transaction expenses with proceeds from the issuance of the \$910.0 million of term loans, \$22.8 million borrowings from a revolving credit facility, the issuance of \$250.0 million Senior Notes (see Note 11 Long-term Debt ) and cash on hand of \$94.6 million. Lannett also issued a warrant with an estimated fair value of \$29.9 million.

As part of the acquisition, the Company and UCB agreed to jointly make an election under Section 338(h)(10) of the Internal Revenue Code of 1986, as amended and under the corresponding provisions of state law, to treat the acquisition as a deemed purchase and sale of assets for income tax purposes. The Company agreed to reimburse UCB for 50% of the incremental tax cost of making such election, subject to a reimbursement cap of \$35.0 million. This liability was recorded as acquisition-related contingent consideration on the Consolidated Balance Sheet. In the third quarter of Fiscal 2017, the Company paid UCB \$35.0 million in connection with this election.

The Company also agreed to contingent payments related to Methylphenidate Hydrochloride Extended Release tablets ( Methylphenidate ER ) provided the FDA reinstates the AB-rating for such product and certain sales thresholds are met. On October 18, 2016, the Company received notice from the FDA that it will seek to withdraw approval of the Company s ANDA for Methylphenidate ER. See Note 10 Goodwill and Intangible Assets for more information.

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The Company used the acquisition method of accounting to account for this transaction. Under the acquisition method of accounting, the assets acquired and liabilities assumed in the transaction were recorded at the date of acquisition at their respective fair values.

The purchase price has been allocated to the assets acquired and liabilities assumed for the KUPI business as follows:

<b>(In thousands)</b>	<b>Purchase Price Allocation</b>	
Cash and cash equivalents	\$	16,877
Accounts receivable, net of revenue-related reserves		129,408
Inventories		84,009
Other current assets		11,238
Property, plant and equipment		111,849
Product rights		427,000
Trade name		2,920
Other intangible assets		19,000
In-process research and development		125,000
Goodwill		339,425
Deferred tax assets		4,186
Other assets		10,218
<b>Total assets acquired</b>		<b>1,281,130</b>
Accounts payable		(19,249)
Accrued expenses		(6,079)
Accrued payroll and payroll-related expenses		(21,040)
Rebates payable		(9,816)
Royalties payable		(3,602)
Other liabilities		(5,369)
<b>Total net assets acquired</b>	<b>\$</b>	<b>1,215,975</b>

In the first quarter of Fiscal 2017, the Company recorded a \$6.0 million measurement-period adjustment to the Returns reserve related to the KUPI acquisition.

Included in the purchase price allocation above are indemnification assets totaling approximately \$20.7 million, of which \$10.4 million relates to compensation-related payments, \$4.9 million relates to unrecognized tax benefits and \$5.4 million for chargeback and rebate-related items. The inventory balance above includes \$19.1 million to reflect fair value step-up adjustments. KUPI's intangible assets primarily consist of product rights and in-process research and development. See Note 10 Goodwill and Intangible Assets.

Amounts allocated to acquired in-process research and development represent the fair value of purchased in-process technology for research projects that, as of the closing date of the acquisition, had not yet reached technological feasibility and had no alternative future use. The fair value of in-process research and development was based on the excess earnings method, which utilizes forecasts of expected cash inflows (including estimates for ongoing costs) and other contributory charges, on a project-by-project basis at the appropriate discount rate for the inherent risk in each project and will be tested for impairment in accordance with the Company's policy for testing indefinite-lived intangible assets.

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Goodwill of \$339.4 million arising from the acquisition consists primarily of the value of the employee workforce and the value of products to be developed in the future. The goodwill was assigned to the Company's only reporting unit. Goodwill recognized is expected to be fully deductible for income tax purposes.

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The following supplemental unaudited pro forma information presents the financial results as if the acquisition of KUPI had occurred on July 1, 2014 for the fiscal years ended June 30, 2016 and 2015. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on July 1, 2014, nor are they indicative of any future results:

(In thousands, except per share data)	For the fiscal year ended	
	June 30,	
	2016	2015
Total net sales	\$ 689,754	\$ 809,379
Net income attributable to Lannett Company, Inc.	61,916	116,119
Earnings per common share attributable to Lannett Company, Inc.:		
Basic	\$ 1.70	\$ 3.24
Diluted	\$ 1.66	\$ 3.13

The supplemental pro forma earnings for the fiscal year ended June 30, 2016 were adjusted to exclude \$28.9 million of acquisition-related costs, of which \$21.5 million was incurred by Lannett and \$7.4 million was incurred by KUPI and \$17.0 million of expense related to the amortization of fair value adjustments to acquisition-date inventory.

The supplemental pro forma earnings for the fiscal year ended June 30, 2015 were adjusted to include \$28.9 million of acquisition-related costs, of which \$21.5 million was incurred by Lannett and \$7.4 million was incurred by KUPI, as well as \$18.9 million of expense related to the amortization of fair value step-up adjustments to acquisition-date inventory.

Silarx

On June 1, 2015, the Company completed the acquisition of Silarx Pharmaceuticals, Inc., a New York corporation and Stoneleigh Realty, LLC, a New York limited liability company (together Silarx), pursuant to the terms and conditions of a Stock Purchase Agreement. Silarx manufactures and markets high-quality liquid pharmaceutical products, including generic prescription and over-the-counter products. Silarx operates within a manufacturing facility located in Carmel, New York. Strategic benefits of the acquisition include an FDA-approved manufacturing facility, research and development expertise and added diversity to Lannett's portfolio of existing and pipeline products.

Pursuant to the terms of the Stock Purchase Agreement, Lannett purchased 100% of the outstanding equity interests of Silarx for cash consideration totaling \$42.5 million. The Company used the acquisition method of accounting to account for this transaction. Under the acquisition method of accounting, the assets acquired and liabilities assumed in the transaction were recorded at the date of acquisition at their respective fair values using assumptions that were subject to change.

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The purchase price has been allocated to the assets acquired and liabilities assumed for the Silarx business as follows:

<b>(In thousands)</b>	
Cash	\$ 664
Accounts receivable, net of revenue-related reserves	4,396
Inventories	2,705
Other current assets	467
Property, plant and equipment	7,247
Product rights	10,000
In-process research and development	18,000
Goodwill	141
Other current assets	9
Total assets acquired	43,629
Accounts payable	(711)
Income taxes payable	(392)
Total net assets acquired	\$ 42,526

Amounts allocated to acquired in-process research and development represent an estimate of the fair value of purchased in-process technology for research projects that, as of the closing date of the acquisition, had not yet reached technological feasibility and had no alternative future use. The fair value of in-process research and development was based on the excess earnings method, which utilizes forecasts of expected cash inflows (including estimates for ongoing costs) and other contributory charges, on a project-by-project basis at the appropriate discount rate for the inherent risk in each project and will be tested for impairment in accordance with the Company's policy for testing indefinite-lived intangible assets.

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Product rights totaling \$10.0 million are comprised of currently marketed products that have an estimated useful life of 15 years. The goodwill of \$141 thousand arising from the acquisition consists primarily of the value of the employee workforce and the value of products to be developed in the future. The goodwill was assigned to the Company's only reporting unit. Goodwill recognized is expected to be fully deductible for income tax purposes.

**Note 4. Restructuring Charges*****2016 Restructuring Program***

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 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 \$21.0 million in restructuring charges for actions that have been announced or communicated since the 2016 Restructuring Program began. Of this amount, approximately \$12.0 million relates to employee separation costs, approximately \$1.0 million relates to contract termination costs and approximately \$8.0 million relates to facility closure costs and other actions. The 2016 Restructuring Program is expected to be completed by the end of Fiscal 2019. The expenses associated with the restructuring program included in restructuring expenses during the twelve months ended June 30, 2017 and 2016 were as follows:

(In thousands)	Twelve Months Ended June 30, 2017	Twelve Months Ended June 30, 2016
Employee separation costs	\$ 3,486	\$ 5,789
Contract termination costs		701
Facility closure costs	3,682	676
Total	\$ 7,168	\$ 7,166

A reconciliation of the changes in restructuring liabilities associated with the 2016 Restructuring Program from June 30, 2015 through June 30, 2017 is set forth in the following table:

(In thousands)	Employee Separation Costs	Contract Termination Costs	Facility Closure Costs	Total
Balance at June 30, 2015	\$	\$	\$	\$
Restructuring Charges	5,789	701	676	7,166
Payments	(1,956)	(404)	(676)	(3,036)
Balance at June 30, 2016	3,833	297		4,130
Restructuring Charges	3,486		3,682	7,168
Payments	(1,888)	(297)	(3,682)	(5,867)
Balance at June 30, 2017	\$ 5,431	\$	\$	\$ 5,431

**Note 5. Accounts Receivable**

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Accounts receivable consisted of the following components at June 30, 2017 and 2016:

<b>(In thousands)</b>	<b>June 30,</b>		<b>June 30,</b>	
	<b>2017</b>		<b>2016</b>	
Gross accounts receivable	\$	380,653	\$	388,460
Less Chargebacks reserve		(79,537)		(86,495)
Less Rebates reserve		(43,023)		(32,189)
Less Returns reserve		(42,135)		(40,593)
Less Other deductions		(11,096)		(16,851)
Less Allowance for doubtful accounts		(796)		(610)
Accounts receivable, net	\$	204,066	\$	211,722



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For the fiscal year ended June 30, 2017, the Company recorded a provision for chargebacks, rebates, returns and other deductions of \$881.3 million, \$297.0 million, \$25.4 million and \$53.4 million, respectively. For the fiscal year ended June 30, 2016, the Company recorded a provision for chargebacks, rebates, returns and other deductions of \$646.9 million, \$189.2 million, \$21.3 million and \$50.0 million, respectively. For the fiscal year ended June 30, 2015, the Company recorded a provision for chargebacks, rebates, returns and other deductions of \$338.7 million, \$83.4 million, \$17.7 million and \$30.7 million, respectively.

**Note 6. Inventories**

Inventories at June 30, 2017 and 2016 consisted of the following:

(In thousands)	June 30, 2017	June 30, 2016
Raw Materials	\$ 57,442	\$ 47,881
Work-in-process	15,676	20,207
Finished Goods	49,486	46,816
Total	\$ 122,604	\$ 114,904

During the fiscal years ended June 30, 2017, 2016 and 2015, the Company recorded write-downs for excess and obsolete inventory of \$10.4 million, \$9.4 million and \$6.7 million, respectively. Inventories were reduced by \$4.5 million and \$6.9 million at June 30, 2017 and 2016, respectively for excess and obsolete inventory amounts.

**Note 7. Property, Plant and Equipment**

Property, plant and equipment at June 30, 2017 and 2016 consisted of the following:

(In thousands)	Useful Lives	June 30, 2017	June 30, 2016
Land		\$ 6,191	\$ 6,191
Building and improvements	10 - 39 years	108,730	103,496
Machinery and equipment	5 - 10 years	142,086	120,272
Furniture and fixtures	5 - 7 years	2,953	2,904
Less accumulated depreciation		(71,461)	(53,598)
		188,499	179,265
Construction in progress		54,649	37,373
Property, plant and equipment, net		\$ 243,148	\$ 216,638

Depreciation expense for the fiscal years ended June 30, 2017, 2016 and 2015 was \$21.8 million, \$13.9 million and \$5.4 million, respectively.

During the fiscal years ended June 30, 2017, 2016 and 2015, the Company had no impairment charges related to property, plant and equipment. Property, plant and equipment, net included amounts held in foreign countries in the amount of \$1.0 million at June 30, 2017 and June 30, 2016.

**Note 8. Fair Value Measurements**

The Company's financial instruments recorded in the Consolidated Balance Sheets include cash and cash equivalents, accounts receivable, investment securities, accounts payable, accrued expenses and debt obligations. Included in cash and cash equivalents are certificates of deposit with maturities less than or equal to three months at the date of purchase and money market funds. The carrying value of certain financial instruments, primarily cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate their estimated fair values based upon the short-term nature of their maturity dates. The carrying amount of the Company's debt obligations approximates fair value based on current interest rates available to the Company on similar debt obligations.

The Company follows the authoritative guidance of ASC Topic 820 - Fair Value Measurements and Disclosures. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The authoritative guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company's financial assets and liabilities measured at fair value are entirely within Level 1 of the hierarchy as defined below:

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Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 Directly or indirectly observable inputs, other than quoted prices, such as quoted prices for similar assets or liabilities; quoted prices for identical or similar instruments in markets that are not active; or model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Unobservable inputs that are supported by little or no market activity and that are material to the fair value of the asset or liability. Financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation are examples of Level 3 assets and liabilities.

If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The Company's financial assets and liabilities measured at fair value at June 30, 2017 and June 30, 2016 were as follows:

(In thousands)	June 30, 2017				Total
	Level 1	Level 2	Level 3		
<b><u>Assets</u></b>					
Equity securities	\$ 27,091	\$	\$	\$	27,091
Total Assets	\$ 27,091	\$	\$	\$	27,091
(In thousands)	June 30, 2016				Total
	Level 1	Level 2	Level 3		
<b><u>Assets</u></b>					
Equity securities	\$ 14,094	\$	\$	\$	14,094
Total Assets	\$ 14,094	\$	\$	\$	14,094
<b><u>Liabilities</u></b>					
Acquisition-related contingent consideration	\$	\$	\$ 35,000	\$	35,000
Total Liabilities	\$	\$	\$ 35,000	\$	35,000

### **Note 9. Investment Securities**

The Company uses the specific identification method to determine the cost of securities sold, which consisted entirely of securities classified as trading.

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The Company had a net gain on investment securities of \$2.9 million during the fiscal year ended June 30, 2017, which included an unrealized gain related to securities still held at June 30, 2017 of \$964 thousand.

The Company had a net loss on investment securities of \$11 thousand during the fiscal year ended June 30, 2016, which included an unrealized loss related to securities still held at June 30, 2016 of \$51 thousand.

The Company had a net gain on investment securities of \$705 thousand during the fiscal year ended June 30, 2015, which included an unrealized loss related to securities still held at June 30, 2015 of \$1.1 million.

### **Note 10. Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill for the twelve months ended June 30, 2016 and 2017 are as follows:

(In thousands)	Generic	
		Pharmaceuticals
Balance at June 30, 2015	\$	141
Goodwill acquired		333,470
Balance at June 30, 2016		333,611
Measurement-period adjustments		5,955
Balance at June 30, 2017	\$	339,566

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Intangible assets, net as of June 30, 2017 and June 30, 2016, consisted of the following:

(In thousands)	Weighted Avg. Life (Yrs.)	Gross Carrying Amount		Accumulated Amortization		Intangible Assets, Net	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
<b>Definite-lived:</b>							
Cody Labs import license	15	\$ 582	\$ 582	\$ (347)	\$ (309)	\$ 235	\$ 273
KUPI product rights	15	434,000	427,000	(43,286)	(17,119)	390,714	409,881
KUPI trade name	2	2,920	2,920	(2,338)	(878)	582	2,042
KUPI other intangible assets	15	19,000	19,000	(2,028)	(762)	16,972	18,238
Silarx product rights	15	10,000	10,000	(1,389)	(722)	8,611	9,278
Other product rights	14	653	653	(355)	(311)	298	342
Total definite-lived		\$ 467,155	\$ 460,155	\$ (49,743)	\$ (20,101)	\$ 417,412	\$ 440,054
<b>Indefinite-lived:</b>							
KUPI in-process research and development		\$ 18,000	\$ 117,000	\$	\$	\$ 18,000	\$ 117,000
Silarx in-process research and development		18,000	18,000			18,000	18,000
Other product rights		449	449			449	449
Total indefinite-lived		36,449	135,449			36,449	135,449
Total intangible assets, net		\$ 503,604	\$ 595,604	\$ (49,743)	\$ (20,101)	\$ 453,861	\$ 575,503

For the fiscal years ended June 30, 2017, 2016 and 2015, the Company recorded amortization expense of \$33.6 million, \$19.5 million and \$137 thousand, respectively.

On October 18, 2016, the Company received a notice from the FDA indicating that the FDA will seek to withdraw approval of the Company's Methylphenidate ER ANDA. As a result of the notice, the Company performed an impairment analysis including a review of revised net sales projections for Methylphenidate ER. This analysis resulted in the Company recording a \$65.1 million impairment charge in the first quarter of Fiscal 2017.

In the second quarter of Fiscal 2017, the Company abandoned a project within KUPI's in-process research and development portfolio. The value assigned to the project was \$23.0 million. Accordingly, the Company recorded a \$23.0 million impairment charge in the second quarter.

Future annual amortization expense consists of the following:

(In thousands)	
Fiscal Year Ending June 30,	Annual Amortization Expense
2018	\$ 31,530
2019	30,946

2020		30,938
2021		30,938
2022		30,938
Thereafter		262,122
	\$	417,412

**Note 11. Long-Term Debt***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 a Term Loan A facility in an aggregate principal amount of \$275.0 million, a Term Loan B facility 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.

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In the third quarter of Fiscal 2017, the Company made voluntary payments totaling \$100.0 million against its outstanding revolving credit facility balance. In the fourth quarter of Fiscal 2017, the Company repaid the remaining \$25.0 million revolving credit facility balance. As of June 30, 2017, there was no balance outstanding under the revolving credit facility.

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 facility. 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. As a result of the repurchase of the Senior Notes, the Company recorded a \$3.0 million loss on extinguishment of debt in the fourth quarter of Fiscal 2016.

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 rate 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.

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.

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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.

In connection with the Senior Secured Credit Facility and the Senior Notes, the Company incurred an initial purchaser's discount of \$72.1 million and debt issuance costs of \$32.7 million. These costs are recorded as a reduction of long-term debt in the Consolidated Balance Sheet. In connection with the amendment to the Senior Secured Credit Facility and raising the Incremental Term Loan, the Company capitalized \$14.0 million of initial purchaser's discount and other fees and expensed \$2.2 million of legal and other expenses.



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Long-term debt, net consisted of the following:

(In thousands)	June 30, 2017	June 30, 2016
Term Loan A due 2020	254,375	\$ 268,125
Unamortized discount and other debt issuance costs	(16,238)	(22,104)
Term Loan A, net	238,137	246,021
Term Loan B due 2022	727,881	767,226
Unamortized discount and other debt issuance costs	(63,106)	(77,273)
Term Loan B, net	664,775	689,953
Revolving Credit Facility due 2020		125,000
Other	735	874
Total debt, net	903,647	1,061,848
Less short-term borrowings and current portion of long-term debt	(60,117)	(178,236)
Total long-term debt, net	\$ 843,530	\$ 883,612

Long-term debt amounts due, for the twelve month periods ending June 30 were as follows:

(In thousands)	Amounts Payable to Institutions
2018	\$ 60,117
2019	66,999
2020	67,006
2021	218,263
2022	39,451
Thereafter	531,155
Total	\$ 982,991

**Note 12. Legal, Regulatory Matters and Contingencies**Richard Asherman

On April 16, 2013, Richard Asherman ( Asherman ), the former President of and a member in Realty, filed a complaint ( Complaint ) in Wyoming state court against the Company and Cody Labs. At the same time, he also filed an application for a temporary restraining order to enjoin certain operations at Cody Labs, claiming, among other things, that Cody Labs was in violation of certain zoning laws and that Cody Labs was required to increase the level of its property insurance and to secure performance bonds for work being performed at Cody Labs. Mr. Asherman claimed Cody Labs was in breach of his employment agreement and was required to pay him severance under his employment agreement, including 18 months of base salary, vesting of unvested stock options and continuation of benefits. Mr. Asherman also asserted that the Company was in breach of the Realty Operating Agreement and, among other requested remedies, he sought to have the Company (i) pay him 50% of the value of 1.66 acres of land that Realty previously agreed to donate to an economic development entity associated with the City of Cody, Wyoming, which contemplated transaction has since been avoided and cancelled. Although Mr. Asherman originally sought to require that Lannett acquire his interest in Realty for an unspecified price and/or to dissolve Realty, those claims have been dismissed. In October 2016, the Company and Mr. Asherman reached a tentative agreement in principle to resolve their disputes. On November 30, 2016, the parties agreed to a settlement payment in full and final satisfaction of the claims filed by Asherman without an admission of liability by either party. As part of this settlement, the Company purchased for \$1.5 million the remaining noncontrolling interest in Realty, free and clear of all liens, claims and

encumbrances.

Connecticut Attorney General Inquiry

In July 2014, the Company received interrogatories and subpoena from the State of Connecticut Office of the Attorney General concerning its investigation into the pricing of digoxin. According to the subpoena, the Connecticut Attorney General is investigating whether anyone engaged in any activities that resulted in (a) fixing, maintaining or controlling prices of digoxin or (b) allocating and dividing customers or territories relating to the sale of digoxin in violation of Connecticut antitrust law. In June 2016, the Connecticut Attorney General issued interrogatories and a subpoena to an employee of the Company in order to gain access to documents and responses previously supplied to the Department of Justice. In December 2016, the Connecticut Attorney General, joined by numerous other State Attorney General, filed a civil complaint alleging that six pharmaceutical companies engaged in anti-competitive behavior related to Doxycycline Hyclate and Gliburide. The Company was not named in the action and does not compete on the products that formed the basis of the complaint.

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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.

Federal Investigation into the Generic Pharmaceutical Industry

In fiscal years 2015 and 2016, 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.

Texas Medicaid Investigation

In August 2015, KUPI received a letter from the Texas Office of the Attorney General alleging that it had inaccurately reported certain price information in violation of the Texas Medicaid Fraud Prevention Act. UCB, KUPI's previous parent company is handling the defense and is evaluating the allegations and cooperating with the Texas Attorney General's Office. Per the terms of the Stock Purchase Agreement between the Company and UCB (Stock Purchase Agreement) dated September 2, 2015, the Company is fully indemnified for any pre-acquisition amounts. The Company is currently unable to estimate the timing or the outcome of this matter.

Government Pricing

During the quarter ended December 31, 2016, the Company completed a contract compliance review, for the period January 1, 2012 through June 30, 2016, for one of KUPI's government-entity customers. As a result of the review, the Company identified certain commercial customer prices and other terms that were not properly disclosed to the government-entity resulting in potential overcharges. As of June 30, 2017, the Company's best estimate of the liability for potential overcharges is approximately \$9.3 million. For the period January 1, 2012 through November 24, 2015 (the pre-acquisition period), the Company is fully indemnified per the Stock Purchase Agreement. Accordingly, the Company has recorded an indemnification asset and related liability of \$8.3 million related to the pre-acquisition period. The Company does not believe that the ultimate resolution of this matter will have a significant impact on our financial position, results of operations or cash flows.

AWP Litigation

The Company and some of our competitors have been named as defendants in lawsuits filed in 2016 alleging that the Company and a number of other generic pharmaceutical manufacturers caused the Average Wholesale Prices (AWPs) of our and their products to be inflated, thereby injuring government programs, entities and persons who reimbursed prescription drugs based on AWP. The Company stopped using AWP as a basis for establishing prices in or around 2002 and the bulk of prescription drugs manufactured by the Company was sold under private label. The Company disputes these allegations and does not believe that the ultimate resolution of these lawsuits will have a significant impact on our financial position, results of operations or cash flows.

Private Antitrust and Consumer Protection Litigation

The Company and certain competitors have been named as defendants in a number of lawsuits filed in 2016 and 2017 alleging that the Company and certain generic pharmaceutical manufacturers have conspired to fix prices of generic digoxin, levothyroxine, ursodiol and baclofen. These cases are part of a larger group of more than 100 lawsuits generally alleging that approximately 50 generic pharmaceutical manufacturers and distributors conspired to fix prices for at least 18 different generic drugs in violation of the federal Sherman Act, various state antitrust laws, and various state consumer protection statutes. The United States also has been granted leave to intervene in the cases. On April 6, 2017, the Judicial Panel on Multidistrict Litigation ordered that all of the cases alleging price-fixing for generic drugs be consolidated for pretrial proceedings in the United States District Court for the Eastern District of Pennsylvania under the caption *In re: Generic Pharmaceuticals Pricing Antitrust Litigation*. The various plaintiffs are grouped into three categories – Direct Purchaser Plaintiffs, End Payer Plaintiffs, and Indirect Reseller Purchasers – and filed an Consolidated Amended Complaints against the Company and the other defendants on August 15, 2017. Originally, Plaintiffs filed a single lawsuit related to both doxycycline and digoxin naming the Company and other generic pharmaceutical manufacturers as defendants in the combined cases. However, when the multidistrict litigation was established with separate cases for each generic pharmaceutical at issue, the Company was only named as a defendant in the digoxin cases, and not the doxycycline cases.

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The Company believes that it acted in compliance with all applicable laws and regulations. Accordingly, the Company disputes the allegations set forth in these class actions. The Company does not believe that the ultimate resolution of these lawsuits will have a significant impact on our financial position, results of operations or cash flows.

Shareholder Litigation

In November 2016, a purported class action lawsuit was filed in the United States District Court for the Eastern District of Pennsylvania against the Company and two of its officers claiming that the Company in its securities filings made false and misleading statements in connection with its drug pricing methodologies and internal controls with respect to drug pricing methodologies, causing damage to the purported class. An amended complaint was filed in May 2017, and at this time the Company anticipates filing a motion to dismiss. The Company cannot reasonably predict the outcome of the suit at this time.

Patent Infringement (Paragraph IV Certification)

There is substantial litigation in the pharmaceutical industry with respect to the manufacture, use and sale of new products which are the subject of conflicting patent and intellectual property claims. Certain of these claims relate to paragraph IV certifications, which allege that an innovator patent is invalid or would not be infringed upon by the manufacture, use, or sale of the new drug.

Zomig®

The Company filed with the Food and Drug Administration an ANDA No. 206350, along with a paragraph IV certification, alleging that the two patents associated with the Zomig® nasal spray product (U.S. Patent No. 6,750,237 and U.S. Patent No. 6,722,767) are invalid.

In July 2014, AstraZeneca AB, AstraZeneca UK Limited and Impax Laboratories, Inc. filed two patent infringement lawsuits in the United States District Court for the District of Delaware, alleging that the Company's filing of ANDA No. 206350 constitutes an act of patent infringement and seeking a declaration that the two patents at issue are valid and infringed.

In September 2014, the Company filed a motion to dismiss one patent infringement lawsuit for lack of standing and responded to the second lawsuit by denying that any valid patent claim would be infringed. In the second lawsuit, the Company also counterclaimed for a declaratory judgment that the patent claims are invalid and not infringed. The Court has consolidated the two actions and denied the motion to dismiss the first action without prejudice.

In July 2015, the Company filed with the United States Patent and Trademark Office ( USPTO ) a Petition for Inter Partes Review of each of the patents in suit seeking to reject as invalid all claims of the patents in suit. The USPTO has issued a decision denying initiation of the Inter Partes

Review.

A trial was conducted in September 2016. The Court issued its decision on March 29, 2017, finding that Lannett did not prove that the patents at issue are invalid. The Company has appealed the decision and filed its opening appeal brief on July 11, 2017. The responsive brief by AstraZeneca AB, AstraZeneca UK Limited and Impax Laboratories, Inc. is due on September 5, 2017. A final decision of the appellate court is expected in late 2017 or early 2018.

*Thalomid*®

The Company filed with the Food and Drug Administration an ANDA No. 206601, along with a paragraph IV certification, alleging that the fifteen patents associated with the Thalomid drug product (U.S. Patent Nos. 6,045,501; 6,315,720; 6,561,976; 6,561,977; 6,755,784; 6,869,399; 6,908,432; 7,141,018; 7,230,012; 7,435,745; 7,874,984; 7,959,566; 8,204,763; 8,315,886; 8,589,188 and 8,626,53) are invalid, unenforceable and/or not infringed. On January 30, 2015, Celgene Corporation and Children's Medical Center Corporation filed a patent infringement lawsuit in the United States District Court for the District of New Jersey, alleging that the Company's filing of ANDA No. 206601 constitutes an act of patent infringement and seeking a declaration that the patents at issue are valid and infringed. The Company filed an answer and affirmative defenses, and an amended answer to the complaint.

A mediation before a magistrate judge was held on March 9, 2017. An agreement in principle was reached regarding settlement of the action. The parties currently are negotiating details of a final agreement.

*SUPREP*®

The Company filed ANDA No. 209941 with the Food and Drug Administration seeking approval to sell a bowel preparation oral solution (the Company's Oral Solution), along with a paragraph IV certification, alleging that US Patent 6,946,149 associated with the Suprep® bowel preparation kit would not be infringed by the Company's Oral Solution and/or that the patent is invalid.

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On March 20, 2017, Braintree Laboratories, Inc. ( Braintree ) filed a patent infringement lawsuit in the United States District Court for the District of Delaware (C.A. No. 1:17-cv-00293-GMS), alleging that the Company s filing of ANDA No. 209941 constitutes an act of patent infringement and seeking a declaration that the patent at issue was infringed by the submission of ANDA No. 209941. The Company answered the complaint denying infringement and raising invalidity as a defense, and has filed counterclaims seeking a declaration of non-infringement and invalidity. The matter is currently scheduled for a 4-day bench trial beginning on January 22, 2019. On July 28, 2017, the Company filed a motion for judgment on the pleadings, seeking a ruling that its ANDA product does not infringe the Braintree patent and seeking judgment as a matter of law. Braintree s responsive brief is due within 30 days and the court is expected to issue a decision in late 2017 or early 2018 on the motion.

Although the Company cannot currently predict the length or outcome of paragraph IV litigation, legal expenses associated with these lawsuits could have a significant impact on the financial position, results of operations and cash flows of the Company.

*EPA Violation Notice*

On July 13, 2017, the United States Department of Environmental Protection Agency ( EPA ) sent a Finding of Violation to KUPI alleging several violations of national emissions standards for hazardous air pollutants at KUPI s Seymour, Indiana facility. The EPA is giving the company the opportunity to discuss the matter with the agency before filing a formal complaint or assessing fines with respect to the alleged violations. The Company is conducting an investigation into the matter and cannot reasonably predict the outcome of any potential EPA action at this time.

Other Litigation Matters

The Company is also subject to various legal proceedings arising out of the normal course of its business including, but not limited to, product liability, intellectual property, patent infringement claims and antitrust matters. It is not possible to predict the outcome of these various proceedings. An adverse determination in any of these proceedings in the future could have a significant impact on the financial position, results of operations and cash flows of the Company.

**Note 13. Commitments**

*Leases*

The Company leases certain manufacturing and office equipment, in the ordinary course of business. These leases are typically renewed annually. Rental and lease expense was not material for all periods presented.

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Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) for the twelve-month periods ending June 30 thereafter are as follows:

<b>(In thousands)</b>	<b>Amounts Due</b>	
2018	\$	1,159
2019		1,080
2020		1,080
2021		1,080
2022		1,080
Thereafter		5,238
Total	\$	10,717

### Other Commitment

During the third quarter of Fiscal 2017, the Company signed an agreement with a company operating in the pharmaceutical business, under which the Company agreed to provide up to \$15.0 million in revolving loans for the purpose of expansion and other business needs. The decision to provide any portion of the revolving loan is at the Company's sole discretion. At any time after the outstanding revolving loan balance is equal to or greater than \$7.5 million, the Company has the option to convert the first \$7.5 million into a 50% ownership interest in the entity. As of June 30, 2017, \$977 thousand was outstanding under the revolving loan. The board of the entity is comprised of five members, two of which are employees of the Company. Based on the guidance set forth in ASC 810-10 *Consolidation*, the Company has concluded that it has a variable interest in the entity. However, the Company is not the primary beneficiary to the entity and as such, is not required to consolidate the entity's results of operations.



Table of Contents**Note 14. Accumulated Other Comprehensive Loss**

The Company's Accumulated Other Comprehensive Loss was comprised of the following components as of June 30, 2017 and 2016:

(In thousands)	June 30, 2017	June 30, 2016
<b>Foreign Currency Translation</b>		
Beginning Balance	\$ (295)	\$ (295)
Net (loss) on foreign currency translation (net of tax of \$0 and \$0)	73	
Reclassifications to net income (net of tax of \$0 and \$0)		
Other comprehensive (loss), net of tax		
Ending Balance	(222)	(295)
<b>Total Accumulated Other Comprehensive Loss</b>	<b>\$ (222)</b>	<b>\$ (295)</b>

**Note 15. Earnings (Loss) Per Common Share**

A dual presentation of basic and diluted earnings per common share is required on the face of the Company's Consolidated Statement of Operations as well as a reconciliation of the computation of basic earnings per common share to diluted earnings per common share. Basic earnings per common share excludes the dilutive impact of potentially dilutive securities and is computed by dividing net income (loss) attributable to Lannett Company, Inc. by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is computed using the treasury stock method and includes the effect of potential dilution from the exercise of outstanding stock options and a warrant and treats unvested restricted stock as if it were vested. Potentially dilutive securities have been excluded in the weighted average number of common shares used for the calculation of earnings per share in periods of net loss because the effect of including such securities would be anti-dilutive. A reconciliation of the Company's basic and diluted earnings per common share was as follows:

(In thousands, except share and per share data)	2017	For Fiscal Year Ended June 30,		2015
		2016		
Net income (loss) attributable to Lannett Company, Inc.	\$ (581)	\$ 44,782	\$	149,919
Basic weighted average common shares outstanding	36,812,524	36,442,782		35,827,167
Effect of potentially dilutive options and restricted stock awards		946,663		1,299,950
Diluted weighted average common shares outstanding	36,812,524	37,389,445		37,127,117
Earnings (loss) per common share attributable to Lannett Company, Inc.:				
Basic	\$ (0.02)	\$ 1.23	\$	4.18
Diluted	\$ (0.02)	\$ 1.20	\$	4.04

The number of anti-dilutive shares that have been excluded in the computation of diluted earnings per share for the fiscal years ended June 30, 2017, 2016 and 2015 were 4.3 million, 3.0 million and 83 thousand, respectively.

**Note 16. Warrant**

In connection with the KUPI acquisition, Lannett issued to UCB Manufacturing a warrant to purchase up to a total of 2.5 million shares of Lannett's common stock (the Warrant).

The Warrant has a term of three years (expiring November 25, 2018) and an exercise price of \$48.90 per share, subject to customary adjustments, including for stock splits, dividends and combinations. The Warrant also has a weighted average anti-dilution adjustment provision. The fair value included as part of the total consideration transferred to UCB at the acquisition date was \$29.9 million. The fair value assigned to the Warrant was determined using the Black-Scholes valuation model. The Company concluded that the warrant was indexed to its own stock and therefore the Warrant has been classified as an equity instrument.

**Note 17. Share-based Compensation**

At June 30, 2017, the Company had two share-based employee compensation plans (the 2011 Long-Term Incentive Plan LTIP and the 2014 LTIP). Together these plans authorized an aggregate total of 4.5 million shares to be issued. The plans have a total of 2.1 million shares available for future issuances.

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The Company issues share-based compensation awards with a vesting period ranging up to 3 years and a maximum contractual term of 10 years. The Company issues new shares of stock when stock options are exercised. As of June 30, 2017, there was \$6.5 million of total unrecognized compensation cost related to non-vested share-based compensation awards. That cost is expected to be recognized over a weighted average period of 1.8 years.

**Stock Options**

The Company measures share-based compensation cost for options using the Black-Scholes option pricing model. The following table presents the weighted average assumptions used to estimate fair values of the stock options granted during the fiscal years ended June 30, the estimated annual forfeiture rates used to recognize the associated compensation expense and the weighted average fair value of the options granted:

	June 30, 2017	June 30, 2016	June 30, 2015
Risk-free interest rate	1.1%	1.7%	1.7%
Expected volatility	55.6%	48.3%	52.1%
Expected dividend yield			
Forfeiture rate	6.5%	6.5%	6.5%
Expected term	5.2 years	5.2 years	5.5 years
Weighted average fair value	\$ 15.33	\$ 26.24	\$ 17.73

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.

A stock option roll-forward as of June 30, 2017, 2016 and 2015 and changes during the years then ended, is presented below:

(In thousands, except for weighted average price and life data)	Awards	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (yrs.)
Outstanding at June 30, 2014	2,205	7.84		
Granted	513	36.71		
Exercised	(665)	6.47	\$ 33,201	
Forfeited, expired or repurchased	(78)	18.33		
Outstanding at June 30, 2015	1,975	15.39	86,983	7.2
Granted	58	59.20		
Exercised	(254)	12.62	\$ 6,168	
Forfeited, expired or repurchased	(49)	32.66		

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Outstanding at June 30, 2016	1,730	\$	16.77	\$	19,524	6.3
Granted	11		31.30			
Exercised	(234)		7.38	\$	4,849	
Forfeited, expired or repurchased	(32)		33.04			
Outstanding at June 30, 2017	1,475	\$	18.02	\$	12,212	5.7
Vested and expected to vest at June 30, 2017	1,473	\$	17.98	\$	12,212	5.7
Exercisable at June 30, 2017	1,328	\$	15.69	\$	12,212	5.7

Table of Contents**Restricted Stock**

The Company measures restricted stock compensation costs based on the stock price at the grant date less an estimate for expected forfeitures. The annual forfeiture rate used to calculate compensation expense was 6.5% for fiscal year ended June 30, 2017, 2016 and 2015.

A summary of restricted stock awards as of June 30, 2017, 2016 and 2015 and changes during the fiscal years then ended, is presented below:

(In thousands)	Awards	Weighted Average Grant - date Fair Value	Aggregate Intrinsic Value
Non-vested at June 30, 2014	16	34.01	
Granted	103	37.97	
Vested	(14)	36.06	\$ 664
Forfeited	(7)	36.59	
Non-vested at June 30, 2015	98	37.83	
Granted	147	54.64	
Vested	(66)	47.11	\$ 3,511
Forfeited	(12)	47.67	
Non-vested at June 30, 2016	167	\$ 48.22	
Granted	298	24.73	
Vested	(86)	42.60	\$ 2,564
Forfeited	(45)	32.90	
Non-vested at June 30, 2017	334	\$ 30.71	

**Employee Stock Purchase Plan**

In February 2003, the Company's stockholders approved an Employee Stock Purchase Plan ( ESPP ). Employees eligible to participate in the ESPP may purchase shares of the Company's stock at 85% of the lower of the fair market value of the common stock on the first day of the calendar quarter, or the last day of the calendar quarter. Under the ESPP, employees can authorize the Company to withhold up to 10% of their compensation during any quarterly offering period, subject to certain limitations. The ESPP was implemented on April 1, 2003 and is qualified under Section 423 of the Internal Revenue Code. The Board of Directors authorized an aggregate total of 1.1 million shares of the Company's common stock for issuance under the ESPP. During the fiscal years ended June 30, 2017, 2016 and 2015, 57 thousand shares, 47 thousand shares and 12 thousand shares were issued under the ESPP, respectively. As of June 30, 2017, 542 thousand total cumulative shares have been issued under the ESPP.

The following table presents the allocation of share-based compensation costs recognized in the Consolidated Statements of Operations by financial statement line item:

(In thousands)	2017	For Fiscal Year Ended June 30, 2016	2015
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Selling, general and administrative expenses	\$	5,855	\$	9,529	\$	5,145
Research and development expenses		661		760		523
Cost of sales		1,203		1,273		729
Total	\$	7,719	\$	11,562	\$	6,397
Tax benefit at statutory rate	\$	2,818	\$	4,220	\$	2,159

**Note 18. Employee Benefit Plan**

The Company has a 401k defined contribution plan (the Plan) covering substantially all employees. Pursuant to the Plan provisions, the Company is required to make matching contributions equal to 50% of each employee's contribution, not to exceed 4% of the employee's compensation for the Plan year. Contributions to the Plan during the fiscal years ended June 30, 2017, 2016 and 2015 were \$2.1 million, \$1.6 million and \$855 thousand, respectively.

Table of Contents**Note 19. Income Taxes**

The provision for income taxes consisted of the following for the fiscal years ended June 30:

(In thousands)	June 30, 2017	June 30, 2016	June 30, 2015
Current Income Tax Expense (Benefit)			
Federal	\$ 764	\$ 34,932	\$ 80,124
State and Local	638	1,887	572
Total Current Income Tax Expense	1,402	36,819	80,696
Deferred Income Tax Expense (Benefit)			
Federal	(2,210)	(17,529)	(5,245)
State and Local	1,905	(1,968)	1,979
Total Deferred Income Tax Benefit	(305)	(19,497)	(3,266)
Total Income Tax Expense	\$ 1,097	\$ 17,322	\$ 77,430

A reconciliation of the differences between the effective rates and federal statutory rates was as follows:

	June 30, 2017	June 30, 2016	June 30, 2015
Federal income tax at statutory rate	35.0%	35.0%	35.0%
State and local income tax, net	293.6%	(0.1)%	0.1%
Nondeductible expenses	45.4%	0.8%	
Foreign rate differential	49.9%	0.5%	0.1%
Income tax credits	(160.9)%	(3.0)%	(0.4)%
Domestic production activity deduction		(5.2)%	(1.3)%
Change in tax laws			0.6%
Excess tax benefits on share-based compensation	(134.3)%		
Other	70.8%	(0.1)%	(0.1)%
Effective income tax rate	199.5%	27.9%	34.0%

The principal types of differences between assets and liabilities for financial statement and tax return purposes are accruals, reserves, impairment of intangibles, accumulated amortization, accumulated depreciation and share-based compensation expense. A deferred tax asset is recorded for the future benefits created by the timing of accruals and reserves and the application of different amortization lives for financial statement and tax return purposes. The Company's deferred tax liability is mainly attributable to different depreciation methods for financial statement and tax return purposes. A deferred tax asset valuation allowance is established if it is more likely than not that the Company will be unable to realize certain of the deferred tax assets. As of June 30, 2017 and 2016, temporary differences which give rise to deferred tax assets and liabilities were as follows:

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(In thousands)	June 30, 2017	June 30, 2016
Deferred tax assets:		
Accrued expenses	\$ 1,869	\$ 1,636
Share-based compensation expense	6,031	5,074
Reserve for returns	15,032	14,583
Reserves for rebates	11,194	19,235
Reserves for accounts receivable and inventory	2,026	6,305
Intangible impairment	2,176	3,312
Federal net operating loss	736	736
State net operating loss	2,944	1,469
Impairment on Cody note receivable	1,913	1,941
Accumulated amortization on intangible assets	25,505	5,301
Settlement Liability	6,019	7,014
Foreign net operating loss	736	579
Other	290	901
Total deferred tax asset	76,471	68,086
Valuation allowance	(6,391)	(3,927)
Total deferred tax asset less valuation allowance	70,080	64,159
Deferred tax liabilities:		
Prepaid expenses	267	263
Property, plant and equipment	16,807	11,381
Other	253	67
Total deferred tax liability	17,327	11,711
Net deferred tax asset	\$ 52,753	\$ 52,448

The net deferred tax asset as of June 30, 2017 and 2016 is reduced by a valuation allowance of \$6.4 million and \$3.9 million, respectively, which are primarily related to deferred tax assets for various states, the impairment on the Cody note receivable as well as foreign net operating losses. The Company increased the valuation allowance in Fiscal 2017 primarily related to an increase of state deferred tax assets.

On April 10, 2007, the Company entered into a Stock Purchase Agreement to acquire Cody by purchasing all of the remaining shares of common stock of Cody. As a result of the acquisition, the Company recorded deferred tax assets related to Cody's federal net operation loss (NOL) carry-forwards totaling \$3.8 million at the date of acquisition with \$1.9 million expiring in 2026 and \$1.9 million in 2027.

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.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (exclusive of interest and penalties) was as follows:

(In thousands)	Balance
Balance at June 30, 2015	\$ 578
Additions for tax positions of the current year	742
Additions for tax positions of prior years	109
Additions from acquisitions	4,858



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Reductions for tax positions of prior years		
Settlements		
Lapse of statute of limitations		(43)
Balance at June 30, 2016	\$	6,244
Additions for tax positions of the current year		
Additions for tax positions of prior years		16
Additions from acquisitions		
Reductions for tax positions of prior years		
Settlements		
Lapse of statute of limitations		(486)
Balance at June 30, 2017	\$	5,942

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The amount of unrecognized tax benefits at June 30, 2017, 2016 and 2015 was \$5.9 million, \$6.2 million and \$578 thousand respectively, of which \$4.2 million, \$4.4 million and \$578 thousand would impact the Company's effective tax rate, respectively, if recognized.

The Company has not recorded any interest and penalties for the periods ended June 30, 2017, 2016 and 2015 in the statement of operations and no cumulative interest and penalties have been recorded either in the Company's consolidated balance sheet as of June 30, 2017 and 2016. The Company will recognize interest accrued on unrecognized tax benefits in interest expense and any related penalties in operating expenses. The cumulative amount of unrecognized tax benefits as of June 30, 2017 includes approximately \$3.0 million of state reserves related to the acquisition of KUPI, which are expected to be recognized in Fiscal 2018 due to a lapse of statute of limitations.

The Company files income tax returns in the United States federal jurisdiction and various states. The Company's tax returns for Fiscal Year 2013 and prior generally are no longer subject to review as such years generally are closed. The Company believes that an unfavorable resolution for open tax years would not be material to the financial position of the Company.

**Note 20. Related Party Transactions**

The Company had sales of \$3.7 million, \$3.1 million and \$1.9 million during the fiscal years ended June 30, 2017, 2016 and 2015, 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 \$751 thousand and \$682 thousand at June 30, 2017 and 2016, respectively.

The Company also had net sales of \$1.7 million during the fiscal year ended June 30, 2017 to a generic distributor, KeySource. Albert Paonessa, a current board member, was appointed the CEO of KeySource in May 2017. Accounts receivable includes amounts due from KeySource of \$606 thousand as of June 30, 2017.

As part of its review, the Audit Committee noted that the amount of net sales to Auburn approximated 0.6%, 0.6% and 0.5% of total net sales during the fiscal years ended June 30, 2017, 2016 and 2015, respectively. The Audit Committee also noted that the amount of net sales to KeySource approximated 0.3% of total net sales during the fiscal year ended June 30, 2017.

The Audit Committee reviewed an analysis of sales prices charged to Auburn and KeySource, which compared the average sales prices by product for Auburn and KeySource 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 and KeySource during the fiscal year ended June 30, 2017 and 2016.

**Note 21. Material Contracts with Suppliers**

Jerome Stevens Pharmaceuticals Distribution Agreement:

The Company's primary finished goods inventory supplier is JSP, in Bohemia, New York. Purchases of finished goods inventory from JSP accounted for 36%, 52% and 68% of the Company's inventory purchases in the fiscal year ending June 30, 2017, 2016 and 2015, respectively.

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 23, 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 JSP's 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 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.

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 2018 and thereafter. If the Company does not meet the minimum purchase requirements, JSP's sole remedy is to terminate the JSP Distribution Agreement.

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**Note 22. Settlement Agreement**

On March 7, 2016, the Company entered into a Settlement Agreement Release and Mutual Release ( Settlement Agreement ) with one of its former customers, pursuant to which Lannett and such customer resolved all disputes between the parties with respect to the termination of the direct sales business relationship by Lannett on December 31, 2013.

Pursuant to the terms of the Settlement Agreement, Lannett paid the former customer \$8.0 million in cash in calendar year 2016. Lannett will also pay to the former customer the following amounts: (a) in calendar year 2017, at the discretion of the customer, either \$8.0 million in cash or a \$10.0 million credit memorandum to be applied against invoices for the purchase of products from Lannett or any of its subsidiaries by such customer; and (b) in calendar year 2018, at the discretion of the customer, either \$10.0 million in cash or a \$12.0 million credit memorandum to be applied against invoices for the purchase of products from Lannett or any of its subsidiaries by such customer.

As a result of the settlement agreement, the Company recorded a reduction to net sales in the amount of \$23.6 million in the third quarter of Fiscal 2016, which represented the net present value of the future cash payments.

In the third quarter of Fiscal 2017, the customer notified the Company that it had elected to receive \$10.0 million in credit memorandums in lieu of \$8.0 million in cash related to the calendar year 2017 election. As a result of the election, the Company re-assessed the fair value of the settlement agreement which resulted in an increase to the liability and a reduction to net sales of \$4.0 million in the third quarter of Fiscal 2017.

Table of Contents**Note 23. Quarterly Financial Information (Unaudited)**

Lannett's quarterly consolidated results of operations are shown below:

(In thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<b>Fiscal 2017</b>				
Net sales	\$ 139,118	\$ 165,720	\$ 170,944	\$ 161,559
Settlement agreement		(4,000)		
Total net sales	139,118	161,720	170,944	161,559
Cost of sales	80,240	89,290	82,891	79,707
Gross profit	58,878	72,430	88,053	81,852
Operating expenses	30,069	28,793	53,747	102,158
Operating income (loss)	28,809	43,637	34,306	(20,306)
Other loss	(19,983)	(21,371)	(22,578)	(21,964)
Income tax expense (benefit)	3,100	7,337	3,542	(12,882)
Less: Net income attributable to noncontrolling interest			14	20
Net income (loss) attributable to Lannett Company, Inc.	\$ 5,726	\$ 14,929	\$ 8,172	\$ (29,408)
Earnings (loss) per common share attributable to Lannett Company Inc. (1)				
Basic	\$ 0.16	\$ 0.41	\$ 0.22	\$ (0.80)
Diluted	\$ 0.15	\$ 0.40	\$ 0.22	\$ (0.80)

(In thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<b>Fiscal 2016</b>				
Net sales	\$ 168,887	\$ 163,712	\$ 127,059	\$ 106,433
Settlement agreement		(23,598)		
Total net sales	168,887	140,114	127,059	106,433
Cost of sales	88,957	82,623	55,414	29,006
Gross profit	79,930	57,491	71,645	77,427
Operating expenses	49,535	38,874	41,320	26,006
Operating income	30,395	18,617	30,325	51,421
Other loss	(29,752)	(26,830)	(10,827)	(1,170)
Income tax expense (benefit)	(2,948)	(2,743)	5,958	17,055
Less: Net income attributable to noncontrolling interest	20	20	20	15
Net income (loss) attributable to Lannett Company, Inc.	\$ 3,571	\$ (5,490)	\$ 13,520	\$ 33,181
Earnings (loss) per common share attributable to Lannett Company Inc. (1)				
Basic	\$ 0.10	\$ (0.15)	\$ 0.37	\$ 0.91
Diluted	\$ 0.10	\$ (0.15)	\$ 0.36	\$ 0.89

(In thousands, except per share data)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<b>Fiscal 2015</b>				

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Net sales	\$	99,276	\$	99,352	\$	114,822	\$	93,387
Cost of sales		27,326		23,714		27,621		21,820
Gross profit		71,950		75,638		87,201		71,567
Operating expenses		20,932		21,363		20,658		16,916
Operating income		51,018		54,275		66,543		54,651
Other income (loss)		165		(42)		713		99
Income tax expense		17,222		17,973		22,435		19,800
Less: Net income attributable to noncontrolling interest		18		27		10		18
Net income attributable to Lannett Company, Inc.	\$	33,943	\$	36,233	\$	44,811	\$	34,932
Earnings per common share attributable to Lannett Company Inc. (1)								
Basic	\$	0.94	\$	1.01	\$	1.26	\$	0.98
Diluted	\$	0.91	\$	0.97	\$	1.21	\$	0.94

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(1) Due to differences in weighted average common shares outstanding, quarterly earnings per share may not add up to the totals reported for the full fiscal year.

The decline in operating income in the first and second quarters of Fiscal 2017 is primarily attributable to a \$65.1 million and \$23.0 million intangible assets impairment charge, respectively. Total net sales in the third and fourth quarters of Fiscal 2017 were negatively impacted by \$4.5 million and \$5.7 million, respectively, due to the Bipartisan Budget Act of 2015 which required drug manufacturers to pay additional rebates to state Medicaid programs. Total net sales in the third quarter of Fiscal 2017 was also negatively impacted by a \$4.0 million adjustment to the Fiscal 2016 settlement agreement amount with a former customer (See Note 22).

The decline in operating income in the third and fourth quarters of Fiscal 2016 is primarily attributable to a \$23.6 million settlement agreement with a former customer and an \$8.0 million intangible assets impairment charge, respectively. Net income attributable to Lannett Company, Inc. in the fourth quarter of Fiscal 2016 also included a \$3.0 million loss on extinguishment of debt.

The decrease in the effective tax rate in the fourth quarter of Fiscal 2016 is primarily due to state deferred tax benefits recorded as a result of the KUPI acquisition. In addition, research and development tax credits and domestic manufacturing deductions relative to pre-tax income also contributed to the lower rate.

The decline in net sales from the second quarter of Fiscal 2015 to the third quarter of Fiscal 2015 was due to lower volumes and increased competition in cardiovascular products.