LANNETT CO INC
Form 10KSB/A
August 21, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A

(Mark One)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

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. 0-9036

LANNETT COMPANY, INC.
(Name of small business issuer in its charter)

STATE OF DELAWARE	23-0787-699
State of Incorporation	I.R.S. Employer I.D. No.

9000 STATE ROAD
PHILADELPHIA, PENNSYLVANIA 19136
(215) 333-9000
(Address of principal executive offices and telephone number)

Securities registered under Section 12(b) of the Exchange Act:
NONE

Securities registered under Section 12(g) of the Exchange Act:
COMMON STOCK, $.001 PAR VALUE
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

The issuer had net sales of $12,090,993 for the fiscal year ended June 30, 2001.

As of September 10, 2001, the aggregate market value of the voting stock held by non-affiliates was approximately $23,045,000 computed by reference to the average of the bid and asked prices of such stock as quoted by the National Quotations Bureau, Inc.

As of August 10, 2001, there were 13,206,128 shares of the issuer's common stock, $.001 par value, outstanding.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL.

Lannett Company, Inc. (the "Company") was incorporated in 1942 under the laws of the Commonwealth of Pennsylvania. In 1991, the Company merged into Lannett Company, Inc., a Delaware corporation. The sole purpose of the merger was to reincorporate the Company as a Delaware corporation. The administrative offices and manufacturing facilities of the Company are located at 9000 State Road, Philadelphia, Pennsylvania.

The Company manufactures and distributes pharmaceutical products sold under generic names ("competitive pharmaceutical products") and historically has manufactured and distributed pharmaceutical products sold under its trade or brand names. In addition, the Company contract manufactures and private labels pharmaceutical products for other companies.

During the year ended June 30, 2001, the use of the Company's manufacturing capacity remained consistent as compared to the prior year. Certain manufacturing departments are operating at full utilization (utilizing one shift) and certain departments are operating on a limited second shift. The hiring of additional personnel, and the renovation of excess storage space to be used for manufacturing purposes will allow for increased efficiency and utilization of equipment and should be sufficient to accommodate increased production needs during Fiscal 2002. On December 19, 1997, the Company entered into a three-year and three-month lease for a 23,500 square foot facility. In January 2001, the Company extended this lease through April 30, 2004. This facility houses research and development, and warehousing operations; and is an addition to the Company's primary manufacturing facility located at the Company's headquarters.

PRINCIPAL PRODUCTS.

During Fiscal 2001, the Company manufactured and distributed nine products: (i) Butalbital Compound Capsules ("BCC"), a generic version of Novartis Pharmaceutical Corporation's Fiorinal(R); an analgesic primarily used for the treatment of migraine headaches, (ii) Primidone, 250-mg tablets, and (iii) 50-mg tablets, generic versions of American Home Product's Mysoline(R) an anti-convulsant, (iv) Dicyclomine Hydrochloride USP, 10-mg capsules, and (v) 20-mg tablets, generic versions of Hoechst Marion Roussel's Bentyl(R), an antispasmodic and anticholinergic agent, (vi) Acetazolamide Tablets USP, a generic version of Wyeth-Ayerst's Diamox(R), an enzyme inhibitor used to treat congestive heart failure, and other conditions, (vii) Pseudoephedrine Hydrochloride 60-mg tablets, (viii) Pseudoephedrine Hydrochloride 30-mg tablets and (ix) Guafenesin/Ephedrine 25/200-mg tablets, both cough/cold preparations. In addition to these nine products, Lannett also distributed five other products, under its label, which were manufactured by another company.

Twenty-two additional products are currently under development. Three of these products are being developed and manufactured for another company; and the other nineteen products are being developed as part of the Lannett product line. Five of the Lannett products have been

redeveloped and submitted to the Food and Drug Administration ("FDA") for supplemental approval. Seven additional products represent previously approved Abbreviated New Drug Applications ("ANDA's") which the Company is planning to reintroduce. The other seven Lannett products represent new products that the Company is planning to introduce. Since the Company has no control over the FDA review process, management is unable to anticipate whether or when it will be able to begin producing and shipping additional products.

RAW MATERIALS.

The raw materials used by the Company in the manufacture of pharmaceutical products consist of pharmaceutical chemicals in various forms, which are available from various sources. FDA approval is required in connection with the process of selecting active ingredient suppliers. Two suppliers, Ganes Chemicals and BI Chemicals Inc., accounted for approximately 27% and 24%, and 15% and 41%, respectively, of the Company's raw material purchases in Fiscal 2001 and Fiscal 2000. The raw materials purchased from these suppliers are available from a number of vendors.

DISTRIBUTION.

The Company sells its pharmaceutical products primarily to wholesalers, distributors, warehousing chains, retail chains and other pharmaceutical companies. Sales of the Company's pharmaceutical products are made on an individual order basis. One customer accounted for approximately 24% of net sales in Fiscal 2001. Two customers accounted for approximately 42% and 11%, respectively, of net sales in Fiscal 2000. As the Company introduces additional products, it expects to broaden its customer base.

COMPETITION.

The manufacture and distribution of pharmaceutical products is a highly competitive industry. Competition in the pharmaceutical industry is primarily based on quality, price and service. The Company intends to compete primarily on this basis, as well as flexibility, availability of inventory, and by the fact that the Company's products are only available from a limited number of competitors. The modernization of its facilities, hiring of experienced staff, and implementation of inventory and quality control programs have improved the Company's competitive position over the past five years.

GOVERNMENT REGULATION.

Pharmaceutical manufacturers are subject to extensive regulation by the federal government, principally by the FDA and the Drug Enforcement Agency ("DEA"), and, to a lesser extent, by other federal regulatory bodies and state governments. The Federal Food, Drug and Cosmetic Act, the Controlled Substance Act and other federal statutes and regulations govern or influence the testing, manufacture, safety, labeling, storage, record keeping, approval, pricing, advertising and promotion of the Company's generic drug products. Noncompliance with applicable regulations can result in fines, recall and seizure of products, total or partial suspension of production, personal and/or corporate prosecution

and debarment, and refusal of the government to

enter into supply contracts or to approve new drug applications. The FDA also has the authority to revoke previously approved drug products.

FDA approval is required before any "new" prescription drug can be marketed. The approval procedures are generally quite burdensome. A new drug is one not generally recognized by qualified experts as safe and effective for its intended use. Generally, a drug, which is the generic equivalent of a previously approved prescription drug, will be treated as a new generic drug requiring FDA approval. Furthermore, each dosage form of a specific generic drug product requires separate approval by the FDA. However, less burdensome approval procedures may be used for generic equivalents. Although generic equivalents of many over-the-counter drugs generally do not require affirmative FDA pre-approval, there are instances where FDA pre-approval is required. There are currently three ways to obtain FDA approval of a new drug.

NEW DRUG APPLICATIONS ("NDA"). Unless one of the two procedures discussed in the following paragraphs is available, a manufacturer must conduct and submit to the FDA complete clinical studies to establish a drug's safety and efficacy.

ABBREVIATED NEW DRUG APPLICATIONS ("ANDA"). An ANDA is similar to an NDA, except that the FDA waives the requirement of complete clinical studies of safety and efficacy, although it may require bioavailability and bioequivalence studies. This process normally takes approximately 18 months. "Bioavailability" indicates the rate of absorption and levels of concentration of a drug in the blood stream needed to produce a therapeutic effect. "Bioequivalence" compares one drug product with another, and when established, indicates that 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 equivalent drug. Under the Drug Price 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 Drug Price Act, in addition to establishing a new ANDA procedure, created statutory protections for approved brand name drugs. Under the Drug Price Act, an ANDA for a generic drug may not be made effective until all relevant products and use patents for the equivalent brand name drug have expired or have been determined to be invalid. Prior to enactment of the Drug Price Act, the FDA gave no consideration to the patent status of a previously approved drug. Additionally, the Drug Price Act extends for up to five years the term of a product or use patent covering a drug to compensate the patent holder for the reduction of the effective market life of a patent due to federal regulatory review. With respect to certain drugs not covered by patents, the Drug Price Act sets specified time periods of two to ten years during which ANDA's for generic drugs cannot become effective or, under certain circumstances, cannot be filed if the equivalent brand name drug was approved after December 31, 1981.

PAPER NEW DRUG APPLICATIONS ("PAPER NDA"). For drugs which are identical to a drug first approved after 1962, a prospective manufacturer need not go through the full NDA procedure, but instead may demonstrate safety and efficacy by reliance on published literature and reports, and must also submit, if the FDA so requires, bioavailability or bioequivalence data illustrating that the generic drug formulation produces, within an acceptable range, the same effects as the previously approved equivalent drug. Because published literature to support the safety and efficacy of post-1962 drugs may not be generally available, this procedure is of limited utility to generic drug manufacturers. Moreover, the utility of Paper NDA's has been even further diminished by the

recently broadened availability of the abbreviated new drug application as described above.

Among the requirements for new drug approval is the requirement that the prospective manufacturer's methods conform to the FDA's current good manufacturing practices ("CGMP Regulations"). The CGMP Regulations must be followed at all times during which the approved drug is manufactured. In complying with the standards set forth in the CGMP regulations, the Company 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 the CGMP regulations risks possible FDA action such as the seizure of noncomplying drug products or, through the Department of Justice, enjoining the manufacture of such products.

The Company is also subject to federal, state and local laws of general applicability, such as laws regulating working conditions, and, to the extent that its business operations entail the generation, storage, transportation or discharge of items that may be considered hazardous substances, hazardous waste or environmental contaminants, the Company may be subject to various federal, state and local environmental protection laws and regulations. The Company monitors its compliance with all environmental laws. Any compliance costs, which may be incurred, are contingent upon the results of future site monitoring and will be charged against operations when incurred. The Company incurred no monitoring costs during the years ended June 30, 2001 and 2000.

RESEARCH AND DEVELOPMENT.

During Fiscal 2001 and Fiscal 2000, the Company incurred research and development costs of approximately $1,403,000 and $1,277,000, respectively.

EMPLOYEES.

The Company currently employs 94 employees, all of whom are full-time.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's general business offices, laboratory and manufacturing and distribution facilities are located in a facility owned by the Company at 9000 State Road, Philadelphia, Pennsylvania. This facility was extensively renovated during Fiscal 1993 and Fiscal 1992 and is approximately 31,000 square feet, located on four and one half (4-1/2) acres. The Company had increased its warehousing activities beyond the capacity of its current facility. As a result, on December 19, 1997, it entered into a three-year and three-month lease for a 23,500 square foot facility located at 500 State Road, Bensalem Bucks County, Pennsylvania. The leased facility is located approximately 1.5 miles from its main operating facility. This new leased facility houses research and development, and warehousing operations. The Company has renewed and extended the lease term through April 30, 2004.

ITEM 3. LEGAL PROCEEDINGS

REGULATORY PROCEEDINGS. The Company is engaged in an industry, which is subject to considerable government regulation relating to the development, manufacturing and marketing of pharmaceutical products. Accordingly, incidental to its business, the Company periodically

responds to inquiries or engages in administrative and judicial proceedings involving regulatory authorities, particularly the FDA and the DEA.

EMPLOYEE CLAIMS. A claim of retaliatory discrimination has been filed by a former employee with the Pennsylvania Human Relations Commission ("PHRC"), and the Equal Employment Opportunity Commission ("EEOC"). The Company has denied liability in this matter. The PHRC has made a determination that the complaint against the Company should be dismissed because the facts do not establish probable cause of the allegations of discrimination. The matter is still pending before the EEOC. At this time, management is unable to estimate a range of loss, if any, related to this action. Management believes that the outcome of this claim will not have a material adverse impact on the financial position of the Company.

Additionally, two separate claims of discrimination have been filed against the Company with the PHRC and the EEOC. The Company was notified of the Complaints in June 2001 and July 2001, respectively. The Company has filed answers with the PHRC and EEOC denying the allegations. The PHRC and the EEOC are investigating the claims pursuant to their normal procedures. At this time, management is unable to estimate a range of loss, if any, related to these actions. Management believes that the outcomes of these claims also will not have material adverse impacts on the financial position of the Company.

DES CASES. The Company is currently engaged in several civil actions as a co-defendant with many other manufacturers of Diethylstilbestrol ("DES"), a synthetic hormone. Prior litigation established that the Company's pro rata share of any liability is less than one-tenth of one percent. The Company was represented in many of these actions by the insurance company with which the Company maintained coverage during the time period that damages were alleged to have occurred. The insurance company denied coverage of actions filed after January 1, 1992. With respect to these actions, the Company paid nominal damages or stipulated to its pro rata share of any liability. The Company has either settled or is currently defending over 500 such claims. At this time, management is unable to estimate a range of loss, if any, related to these actions. Management believes that the outcome of these cases will not have a material adverse impact on the financial position of the Company.

CONTRACT DISPUTE. The Company was engaged in a civil lawsuit as the plaintiff based on a contract dispute regarding raw material for use in one of the Company's new products in development. The lawsuit was initiated after a chemical supplier failed to supply the Company with raw material for its manufacturing process, despite the existence of a signed five-year supply contract. The Company alleged that the breach of contract delayed the introduction of one of its products into the marketplace. The Company and the defending party settled the suit prior to trial. The Company received approximately $1.5 million in First Quarter Fiscal 2001. The Company incurred approximately $305,000 in legal fees relating to the lawsuit in Fiscal 2000. These fees were expensed to operations as they were incurred.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters have been submitted to a vote of the Company's security holders during the quarter ended June 30, 2001 and since the annual meeting of shareholders held March 1, 2001.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION.

The Company's common stock trades in the over-the-counter market through the use of the inter-dealer "pink-sheets" published by Pink Sheets LLC. The following table sets forth certain information with respect to the high and low bid prices of the Company's common stock during Fiscal 2001 and 2000 as quoted by Pink Sheets LLC. Such quotations reflect inter-dealer prices without retail mark-up, markdown or commission and may not represent actual transactions.

FISCAL YEAR ENDED JUNE 30, 2001

	HIGH
First quarter	$0.63
Second quarter	$0.81
Third quarter	$0.75
Fourth quarter	$1.25

FISCAL YEAR ENDED JUNE 30, 2000

	HIGH
First quarter	$1.25
Second quarter	1.22
Third quarter	1.22
Fourth quarter	1.06

HOLDERS.

The number of holders of record of the Company's common stock as of August 21, 2001 was 399.

DIVIDENDS.

The Company did not pay any cash dividends in Fiscal 2001 or 2000. The Company intends to use all available funds for the Company's working capital and does not anticipate paying cash dividends in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In addition to historical information, this Form 10-KSB contains forward-looking information. The forward-looking information is subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in the following section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Form 10-KSB. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances which arise later. Readers should carefully review the risk factors described in other documents the Company files from time to time with the Securities and Exchange Commission, including the Quarterly reports on Form 10-QSB to be filed by the Company in Fiscal 2001, and any Current Reports on Form 8-K filed by the Company.

RESTATEMENT

The Company restated results for Fiscal 2000 and 2001 due to the correction of an error resulting from the improper deferral of legal fees incurred associated with the favorable settlement of a lawsuit. This resulted in a reduction in net income of $305,128 or $.02 per diluted share in Fiscal 2000, and an increase in net income of $305,128, or $.02 per diluted share in Fiscal 2001, respectively. This impact is reflected in the reported results herein.

RESULTS OF OPERATIONS - FISCAL 2001 TO FISCAL 2000.

Net sales for Fiscal 2001 increased by 4.7% to $12,090,993 from net sales of $11,553,457 in Fiscal 2000. Sales increased during Fiscal 2001 due to increased sales of the Company's prescription (Rx) product line, offset partially by a decrease in sales of the Company's Over-The-Counter ("OTC") products. In the fourth quarter of Fiscal 2001, the Company increased its sales volume by successfully marketing a new product and increasing its volume on certain other Rx products. Rx sales increased from $3,117,764 in Fiscal 2000 to $7,299,273 in Fiscal 2001. Sales of OTC products decreased from $8,435,693 in Fiscal 2000 to $4,791,717 in Fiscal 2001 due to increased competition. Net sales derived from the contract development and manufacturing agreement represents approximately $9,000 and $42,000 for Fiscal 2001 and Fiscal 2000, respectively. As the Company introduces additional products, it expects to continue increasing Rx product sales.

Cost of sales decreased by 9.1%, to $6,534,764 in Fiscal 2001 from $7,186,289 in Fiscal 2000. The cost of sales decrease is due to a decrease in raw material costs as a result of the change in the product sales mix. Gross profit margins for Fiscal 2001 and Fiscal 2000 were 46.0% and 37.8%, respectively. The increase in the gross profit percentage is due to the change in the product sales mix.

Research and development expenses increased by 9.9% to $1,402,900 in Fiscal 2001 from $1,277,075 in Fiscal 2000 due to more aggressive new product development activities. Selling, general and administrative expenses increased by 10.6% to $2,014,004 in Fiscal 2001 from $1,820,196 in Fiscal 2000 due to increases in sales commission expense, and service charges related to banking activities.

As a result of the foregoing, the Company reported an operating profit of $2,139,325 for Fiscal 2001, as compared to an operating profit of $1,269,897 for Fiscal 2000.

The Company's interest expense, net of interest income, remained relatively constant at $680,962 for Fiscal 2001 compared to $690,258 for Fiscal 2000. See Liquidity and Capital Resources below.

Included in other income during Fiscal 2001 is $1,475,814 in income from the settlement of a lawsuit. The lawsuit was initiated after a chemical supplier failed to supply the Company with raw material for its manufacturing process, despite the existence of a signed five-year supply contract. The Company alleged that the breach of contract delayed the introduction of one of its products into the marketplace. The Company and the defending party settled the suit prior to trial. The Company received the proceeds in First Quarter Fiscal 2001. The Company incurred approximately $305,000 in legal fees relating to the lawsuit, which were expensed to operations in Fiscal 2000.

During Fiscal 2001, the Company provided for federal and state income tax expense of $1,007,522. During Fiscal 2000, the Company recorded net income tax benefits of $465,330. Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes requires companies to record deferred tax assets and liabilities on the balance sheet, including the effect of operating loss carryforwards, net of the effect of a valuation allowance. The purpose of the valuation allowance is to reduce the deferred asset to a value that "more likely than not" the Company will have taxable income in its future to offset such operating loss carryforwards. Lannett renewed its Research and Development plan, committing additional resources toward the identification and development of new generic drug products. In Fiscal Year 2001, Lannett was able to receive FDA approval for 2 new products. As a result of the Company's revived focus on development of new drug products, management expected the Company would achieve gains in sales, operating profits and taxable income in future years. This expectation led to management's decision to reduce its valuation allowance for the tax asset recorded because it believed that "more likely than not", the Company would achieve the taxable income to offset against past operating loss carryforwards.

The Company reported net income of $1,829,915 for Fiscal 2001, $0.14 basic income per share, $0.14 on a diluted basis, compared to net income of $1,044,969 for Fiscal 2000, $0.08 basic income per share, $0.08 on a diluted basis.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided from operating activities of $452,843 during Fiscal 2001 was attributable to net income of $1,829,915 as adjusted for the effects of non-cash items of $1,594,405 and a negative net change in operating assets and liabilities totaling $2,971,477. Significant changes in operating assets and liabilities are comprised of:

an increase in accounts receivable of $3,269,069 due to a significant increase in sales in the last quarter of Fiscal 2001, compared to the last quarter of Fiscal 2000. During Fiscal Year 2000, the total sales of 11,553,457 occurred relatively equally over the course of the entire year. Sales for Fiscal year 2001 were skewed more toward the end of the year. Specifically, sales for the final quarter in Fiscal 2001 were $5,401,489, which is significantly higher than sales in the first three quarters of Fiscal 2001. Due to the timing of cash payments pursuant to our credit terms, a significant portion of our sales of this final quarter were still in accounts receivable at June 30, 2001. The reasons for the increase in sales in the final quarter of Fiscal 2001 were: the introduction in May 2001 of a new product, Primidone 50 mg tablets, onto the marketplace for the first time in the Company's history, and increases in sales volume on other products due to favorable market conditions and aggressive marketing efforts. The addition of Primidone 50 mg tablets to Lannett's line of products allowed the Company to open many new customer accounts, including major chains and wholesalers. Lannett succeeded in increasing its market share for certain other items that it sold during this time period.

ii) an increase in inventories of $205,933 due to an increase of raw materials in anticipation of increased sales levels in Fiscal 2002.

The net cash used in investing activities consisted mainly of $1,488,741 expended during Fiscal 2001 primarily for machinery and equipment. The Company has budgeted for $1,300,000 in capital expenditures in Fiscal 2002. The anticipated additional capital expenditure requirements will support the Company's growth related to new product introductions. As of June 30, 2001, approximately $1,226,000 from the proceeds of the bonds issued during Fiscal 1999 was available in financing restricted for certain future capital expenditures.

The Company has a $4,250,000 revolving line of credit from its principal shareholder, William Farber, who is also the Chairman of the Board ("Shareholder Line of Credit"). At June 30, 2001, the Company has $4,225,000 outstanding and $25,000 available under this line of credit. The maturity date on the Shareholder Line of Credit was extended to December 1, 2001. Accrued interest at June 30, 2001, and June 30, 2000 was $0 and $22,977, respectively.

The Company also had a convertible debenture available to it by Mr. Farber. The maturity date of the shareholder debenture was December 23, 1999. On December 22, 1999, William Farber elected to convert the debenture into shares of common stock of the Company. The shareholder debenture and accrued interest was convertible at the rate of 4,000 shares of common stock for each $1,000 of outstanding indebtedness. The principal balance on the debenture at the time of conversion was $2,000,000, and the interest on the debenture was paid to date; therefore the transaction converted the $2,000,000 of indebtedness to 8,000,000 shares of the Company's common stock.

In April 1999, the Company entered into a loan agreement (the "Agreement") with a governmental authority (the "Authority") to finance future construction and growth projects of the Company. The Authority has issued $3,700,000 in tax-exempt variable rate demand and fixed rate revenue bonds to provide the funds to finance such growth projects pursuant to a trust indenture ("the "Trust indenture"). A portion of the Company's proceeds from the bonds was used to pay for bond issuance costs of approximately $170,000. The remainder of the proceeds was deposited into a money market account, which is restricted to future plant and equipment needs of the Company as specified in the Agreement. The Trust Indenture requires the Company to repay the Authority loan through installment payments beginning in May 2003 and continuing through May 2014, the year the bonds mature. At June 30, 2001, the Company has $3,700,000 outstanding on the Authority loan, which is classified as a long-term liability. In April 1999, an irrevocable letter of credit of

$3,770,000 was issued by a bank to secure payment of the Authority Loan and a portion of the related accrued interest. At June 30, 2001, no portion of the letter of credit has been utilized.

In April 1999, the Company authorized and directed the issuance of $2,300,000 in taxable variable rate demand and fixed rate revenue bonds pursuant to a trust indenture between the Company and a bank as trustee (the "Trust Indenture"). From the proceeds of the bonds, $750,000 was utilized to pay deferred interest owed to Mr. Farber and approximately $1,440,000 was paid to a bank to refinance a mortgage term loan and equipment term loans. The remainder of the proceeds was used to pay bond issuance costs of approximately $109,000. The Trust Indenture requires the Company to repay the bonds through installment payments beginning in June 1999 and continuing through May 2003, the year the bonds mature. At June 30, 2001, the Company has $848,222 outstanding on the bonds, of which $728,330 is classified as currently due. In April 1999, an irrevocable letter of credit of approximately $1,690,000 was issued by a bank to secure payment of the bonds and a portion of the related accrued interest. At June 30, 2001, no portion of the letter of credit has been utilized.

The Company has a $2,000,000 line of credit from a bank. The line of credit is due November 30, 2001, at which time the Company plans to renew and extend the due date. The line of credit is limited to 80% of qualified accounts receivable and 50% of qualified inventory. At June 30, 2001, the Company had $2,000,000 outstanding and no further availability under the line of credit.

The Company believes that cash generated from its operations and the balances available under the Company's existing loans and lines of credit as of June 30, 2001, are sufficient to finance its level of operations and currently anticipated capital expenditures.

Except as set forth in this report, the Company is not aware of any trends, events or uncertainties that have or are reasonably likely to have a material adverse impact on the Company's short-term or long-term liquidity or financial condition.

PROSPECTS FOR THE FUTURE

As described above, twenty-two additional products are currently under development. Three of these products are being developed and manufactured for another company; and the other nineteen products are being developed as part of the Lannett product line. Five of the Lannett products have been redeveloped and submitted to the Food and Drug Administration ("FDA") for supplemental approval. Seven additional products represent previously approved Abbreviated New Drug Applications ("ANDA's") which the Company is planning to reintroduce. The other seven Lannett products represent new products that the Company is planning to introduce. Since the Company has no control over the FDA review process, management is unable to anticipate whether or when it will be able to begin producing and shipping additional products.

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ITEM 7. FINANCIAL STATEMENTS

The Consolidated Financial Statements for the years ended June 30, 2001 and 2000 and Independent Auditor Report filed as a part of this Form 10-KSB are listed in the "Index to Financial Statements" filed herewith.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS AND EXECUTIVE OFFICERS.

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

	Age	Position
Directors:		
William Farber	70	Chairman of the Board
Marvin Novick	70	Director
Arthur P. Bedrosian	54	Director
Other Executive Officers:		
Larry Dalesandro	29	Chief Operating Officer
Alan Saidel	42	Vice President - Operations & Manufacturing
Eugene Livshits	46	Vice President - Technical Affairs

WILLIAM FARBER was elected as Chairman of the Board of Directors in August 1991. From April 1993 to the end of 1993, Mr. Farber was the President and a director of Auburn Pharmaceutical Company. From 1990 through March 1993, Mr. Farber served as Director of Purchasing for Major Pharmaceutical Corporation. From 1965 through 1990, Mr. Farber was the Chief Executive Officer of Michigan Pharmacal Corporation. Mr. Farber is a registered pharmacist in the State of Michigan.

MARVIN NOVICK was elected a Director of the Company in February 2000. Mr. Novick has been an advisor, consultant and financial planner for multiple companies in the past thirty-five years. He is currently President of R&M Resources, Inc., an investment company. Previously, he has held the positions of Vice Chairman of Dura Corporation, a major automotive supplier, Partner of international accounting firm J.K. Lasser & Co., and Touche Ross & Co., Chief Financial Officer and Director of Meadowbrook Insurance Group, and Senior Vice President of Michigan Blue Shield, a major healthcare organization. Mr. Novick holds Bachelor's and Master's Degrees, and is a member of the American Institute of Certified Public Accountants.

ARTHUR P. BEDROSIAN, J.D. was elected a Director of the Company in February 2000. Mr. Bedrosian has operated generic drug manufacturing, sales, and marketing businesses in the

healthcare industry for many years. He currently operates Pharmaceutical Ventures. Ltd, a healthcare consultancy and Interal Corporation, a computer consultancy to Fortune 100 companies. Mr. Bedrosian holds a Bachelor of Arts Degree in Political Science from Queens College of the City University of New York and a Juris Doctorate from Newport University in California. Currently, Mr. Bedrosian is President and Chief Executive Officer of Trinity Laboratories, Inc., a medical device and drug manufacturer.

LARRY DALESANDRO was elected Chief Operating Officer of the Company in November 1999. Mr. Dalesandro joined Lannett Company in January 1999 to manage the Company's financial operations. Previously, he was the Chief Financial Officer of Criterion Communications, Inc., a technology and new media services firm, Controller of Crown Contractors, Inc., a contract construction company, and Senior Auditor of Grant Thornton LLP, an international professional services firm. Mr. Dalesandro graduated Magna Cum Laude with a Bachelor's of Science Degree in Accountancy from Villanova University, and is a Certified Public Accountant.

ALAN SAIDEL was elected Vice President Operations & Manufacturing in July 1998. Mr. Saidel joined the Company in February 1996 as Director of Operations & Manufacturing. Mr. Saidel has 18 years of experience in the pharmaceutical industry. Mr. Saidel has previously been employed at Barr Laboratories Inc., Mutual Pharmaceuticals Inc. and Pal-Pak Inc, where he held the position of Director of Operations. Mr. Saidel's employment with the Company was terminated on December 29, 2000.

EUGENE LIVSHITS was elected Vice President Technical Affairs in November 1999. Dr. Livshits joined the Company in February 1997 as Director of Analytical Services. Dr Livshits has 25 years of experience in Analytical Services and Technical Affairs in the pharmaceutical industry. Dr. Livshits has previously been employed at Mutual Pharmaceutical Inc., PharmaKinetics Labs, Pal-Pak Inc., and Glenwood-Palisades Inc., where he held management and Director positions in Analytical Services. Dr. Livshits holds a Ph.D. from Moscow

University.

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 or executive officer during the past five years.

ITEM 10. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table summarizes all compensation paid to or earned by the executive officers of the Company for Fiscal 2001, Fiscal 2000 and Fiscal 1999. There are no other executive officers whose total salary and bonus for services rendered to the Company or any subsidiary exceeded $100,000 during Fiscal 2001.

					Long Term Compens		
		Annual Compensation			Awards		Pa
(A) Name and Principal Position	(B) Fiscal Year	(C) Salary	(D) Bonus	(E) Other Annual Compensation	(F) Restricted Stock Award(s)	(G) Options/ SARs	P
William Farber	2001	0	0	0	0	0	
Chairman of the	2000	0	0	0	0	0	
Board	1999	0	0	0	0	0	
Larry Dalesandro(5)	2001	102,049(3)	5,000	3,600(1)	0	10,000(7)	
Chief Operating	2000	78,951(3)	5,000	3,600(1)	0	10,000(7)	
Officer	1999	0	0	0	0		
Eugene Livshits(5)	2001	109,669(3)	5,000	3,600(1)	0	12,000(7)	
Vice	2000	96,043(3)	2,000	2,631(1)	0	12,000(7)	
President/Technical Affairs	1999	0	0	0	0	0	
Vlad Mikijanic	2001	0	0	0	0	0	
Vice President/	2000	45,454(3)	0	0	0	0	
Technical Affairs(2)	1999	121,528(3)	2,000	7,200(1)	0	0	
Jeffrey M. Moshal	2001	0	0	0	0	0	
Chief Operating	2000	74,338(3)	0	3,000(1)	0	0	
Officer(2)	1999	122,768(3)	2,000	7,200(1)	0	100,000(4)	

Alan Saidel(2)	2001	65,879(3)	2,000	3,876(1)	0	50,000(4)
Vice President/	2000	125,458(3)	2,500	7,200(1)	0	50,000(4)
Manufacturing	1999	113,526(3)	2,000	7,200(1)	0	50,000(4)
& Operations						

(1) Represents auto allowance.

(2) Mr. Mikijanic's employment with the Company was terminated on May 14, 1999. His salary for fiscal year 2000 represents severance pay. Mr. Moshal's employment with the Company was terminated on November 23, 1999. Mr. Saidel's employment with the Company was terminated on December 29, 2000.

(3) Includes payments to the Company's 401(k) Plan (3% of eligible compensation).

(4) The options represent 100,000 and 50,000 incentive stock options which were granted to Mr. Moshal and Mr. Saidel, respectively on October 13, 1997 pursuant to the Company's 1993 Long Term Incentive Stock Plan. The options are exercisable as follows: one-third on or after October 13, 1998, one-third on or after October 13, 1999 and one-third on or after October 13, 2000. Mr. Moshal forfeited his options as a result of his termination from the Company. The forfeiture was effective on February 23, 2000. Mr. Saidel forfeited his options as a result of his termination from the Company. The forfeiture was effective on March 30, 2001.

(5) Mr. Dalesandro was elected as an officer of the Company on November 1, 1999. Mr. Livshits was elected as an officer of the Company on November 1, 1999.

(6) Represents compensation for living expenses.

(7) The options represent 10,000 and 12,000 incentive stock options which were granted to Mr. Dalesandro and Mr. Livshits, respectively on November 1, 2000 pursuant to the Company's 1993 Long Term Incentive Stock Plan. The options are exercisable as follows: one-third on or after November 1, 2000, one-third on or after November 1, 2001 and one-third on or after November 1, 2002. At August 10, 2001, the aggregate market value of these restricted stock holdings is $38,390 (computed by reference to the average closing bid and ask prices of such stock as quoted by Pink Sheets LLC).

OPTION EXERCISES AND YEAR END OPTION VALUES

(a)	(b)	(c)	(d)
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END EXERCISABLE/ UNEXERCISABLE
Larry Dalesandro Chief Operating Officer	-	-	3,333(1)/ 6,667(1)
Eugene Livshits Vice President - of Technical Affairs	-	-	4,000(1)/ 8,000(1)

(1) The options represents an aggregate of 10,000 and 12,000 incentive stock options which were granted to Mr. Dalesandro and Mr. Livshits, respectively on November 1, 2000 pursuant to the Company's 1993 Long Term Incentive Stock Plan. The options are exercisable as follows: one-third on or after November 1, 2000, one-third on or after November 1, 2001 and one-third on or after November 1, 2002.

COMPENSATION OF DIRECTORS.

Directors received compensation of $300 per meeting attended, for services provided as directors of the Company during Fiscal 2001. Directors are reimbursed for expenses incurred in attending Board meetings.

EMPLOYMENT CONTRACTS.

There were no employment contracts in existence at the end of Fiscal 2001.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of August 10, 2001, 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:

Excluding Options Includin

		and Debentures		and Deb
Name and Address of Beneficial Owner	Office	Number of Shares	Percent of Class	Number of Shares
Directors/Executive Officers:				
Arthur Bedrosian 9000 State Road Philadelphia, PA 19136	Director	189,400(1)	1.43%	189,400(1)
Larry Dalesandro 9000 State Road Philadelphia, PA 19136	Chief Operating Officer	0	0	3,333(2)
William Farber 9000 State Road Philadelphia, PA 19136	Chairman of the Board	9,234,486(3)	69.93%	9,234,486(3)
Eugene Livshits 9000 State Road Philadelphia, PA 19136	Vice President Technical Affairs	0	0%	4,000(2)
Marvin Novick 9000 State Road Philadelphia, PA 19136	Director	65,000(4)	.49%	95,000(5)
All directors and executive officers as a group (5 persons)		9,488,886	71.85%	9,526,219
Gilda Gratz(6) 1139 Kerper Street Philadelphia, PA 19111		758,167	5.74%	758,167

(1) Includes 9,400 shares owned by the spouse of Mr. Bedrosian.

(2) Represents 3,333 and 4,000 vested options for Larry Dalesandro and Eugene Livshits, respectively, to purchase common stock at an exercise price of $0.80 per share.

(3) Includes 300,000 shares owned jointly by William Farber and Audrey Farber, the Secretary of the Company and William's Farber's spouse.

(4) Includes 16,000 shares owned by the spouse of Mr. Novick.

(5) Includes 30,000 vested options to purchase common stock at an exercise price of $1.38 per share.

(6) Gilda Gratz is the spouse of Sam Gratz, the founder of Lannett Company, Inc.

* Assumes that all options and debentures exercisable within sixty days have been exercised, which results in 13,277,411 shares outstanding.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

As described above, William Farber, the majority shareholder and Chairman of the Board of the Company, had provided the Company with a financing package aggregating $6,250,000, which the Company has used to renovate its manufacturing facility, to acquire new equipment, to retain new management and to provide working capital. The financing package consisted of a $4,250,000 revolving line of credit due October 1, 2001 and a $2,000,000 convertible debenture, which Mr. Farber converted to common shares of the Company on December 22, 1999. See MANAGEMENT'S DISCUSSION AND ANALYSIS -- Liquidity and Capital Resources." Mr. Farber is currently the holder of 9,234,486 shares of common stock of the Company, or approximately 70% of the Company's issued and outstanding shares. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT."

The Company had sales of approximately $111,000 and $4,856,000 during the years ended June 30, 2001 and 2000, respectively, to a distributor (the "related party") in which the owner is a relative of the Chairman of the Board of Directors and principal shareholder of the Company. The Company also incurred sales commissions payable to the related party of approximately $369,000 and $262,000 during the years ended June 30, 2001 and 2000, respectively. Accounts receivable includes amounts due from the related party of approximately $34,000 and $13,000 at June 30, 2001 and June 30, 2000, respectively. Accrued expenses includes amounts due to the related party of approximately $29,000 and $71,000 at June 30, 2001 and June 30, 2000, respectively. In the Company's opinion, the terms of these transactions were not more favorable than would have been from a non-related party.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) A list of the exhibits required by Item 601 of Regulation S-B to be filed as a part of this Form 10-KSB is shown on the Exhibit Index filed herewith.

(b) No reports on Form 8-K were filed during the quarter ended June 30, 2001.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANNETT COMPANY, INC.

Date: August 21, 2002 By: /s/ William Farber

William Farber,
Chairman of the Board

Date: August 21, 2002 By: /s/ Larry Dalesandro

Larry Dalesandro,
Chief Operating Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William Farber William Farber	Chairman of the Board	August 21, 2002
/s/ Marvin Novick Marvin Novick	Director	August 21, 2002
/s/ Arthur Bedrosian Arthur Bedrosian	Director	August 21, 2002

Report of Independent Certified Public Accountants

Shareholders and Board of Directors
Lannett Company, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of Lannett Company, Inc. and Subsidiary as of June 30, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial position of Lannett Company, Inc. and Subsidiary as of June 30, 2001 and 2000, and the consolidated results of their operations and cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company restated its fiscal 2001 operating results due to a correction of an error.

Grant Thornton LLP
Philadelphia, Pennsylvania
August 8, 2001

CONSOLIDATED BALANCE SHEETS, AS RESTATED
JUNE 30, 2001 AND 2000

ASSETS	2001 (RESTATED)	2000 (RESTAT
CURRENT ASSETS:		
Cash	$ --	$
Trade accounts receivable (net of allowance of $25,000 and $13,000)	4,366,587	1,097,5
Inventories	3,156,109	2,950,1
Prepaid expenses and other assets	112,736	190,8
Deferred tax asset	983,403	46,1
Total current assets	8,618,835	4,284,6
PROPERTY, PLANT AND EQUIPMENT	8,667,955	7,652,5
Less accumulated depreciation	3,089,735	2,698,3
	5,578,220	4,954,1
RESTRICTED CASH	1,225,649	2,026,4
OTHER ASSETS	242,913	266,9
DEFERRED TAX ASSET	--	1,026,5
TOTAL ASSETS	$ 15,665,617	$ 12,558,8
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit	$ 2,000,000	$ 1,058,5
Line of credit-shareholder	4,225,000	
Accounts payable	917,397	747,2

Accrued expenses	569,919	544,4
Income taxes payable	248,109	
Current portion of long-term debt	728,330	692,4
Total current liabilities	8,688,755	3,042,7
LONG-TERM DEBT, LESS CURRENT PORTION	3,819,892	4,605,3
LINE OF CREDIT - SHAREHOLDER	--	4,225,0
DEFERRED TAX LIABILITY	641,285	
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock - authorized 50,000,000 shares, par value $0.001; issued and outstanding, 13,206,128 shares	13,206	13,2
Additional paid-in capital	2,312,575	2,312,5
Retained earnings/(accumulated deficit)	189,904	(1,640,0
Total shareholders' equity	2,515,685	685,7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 15,665,617	$ 12,558,8

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS, AS RESTATED
YEARS ENDED JUNE 30, 2001 AND 2000

	2001 (RESTATED)	2000 (RESTATED)
NET SALES	$ 12,090,993	$ 11,553,457
COST OF SALES	6,534,764	7,186,289
Gross profit	5,556,229	4,367,018
RESEARCH AND DEVELOPMENT EXPENSES	1,402,900	1,277,075
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,014,004	1,820,196
Operating profit	2,139,325	1,269,897
OTHER INCOME/(EXPENSE):		
Income from settlement of lawsuit, net of fees	1,475,814	--
Loss on sale of assets	(18,902)	--
Loss on impairment of assets	(77,838)	--
Interest income	97,046	133,052

Interest expense, including $411,850 and $488,632 to shareholder	(778,008)	(823,310)
	698,112	(690,258)
INCOME BEFORE INCOME TAX (EXPENSE)/BENEFIT	2,837,437	579,639
INCOME TAX (EXPENSE)/BENEFIT	(1,007,522)	465,330
NET INCOME	$ 1,829,915	$ 1,044,969
Basic earnings per common share	$ 0.14	$ 0.08
Diluted earnings per common share	$ 0.14	$ 0.08

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY/(DEFICIENCY), AS RESTATED
YEARS ENDED JUNE 30, 2001 AND 2000

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS/ (ACCUMULATED DEFICIT)	SHARE EQ
	SHARES ISSUED	AMOUNT			
BALANCE, JULY 1, 1999	5,206,128	$ 5,206	$ 320,575	$(2,684,980)	$(2,3
Conversion of Shareholder Debenture	8,000,000	8,000	1,992,000		2,0
Net income (restated)				1,044,969	1,0
BALANCE, JUNE 30, 2000	13,206,128	13,206	2,312,575	(1,640,011)	6
Net income (restated)				1,829,915	1,8
BALANCE, JUNE 30, 2001	13,206,128	$ 13,206	$ 2,312,575	$ 189,904	$ 2,5

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS, AS RESTATED
YEARS ENDED JUNE 30, 2001 AND 2000

	2001 (RESTATED)
OPERATING ACTIVITIES:	
Net income	$ 1,829,915
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	767,047
Loss/Impairment on disposal of assets	96,740
Deferred tax expense/(benefit)	730,618
Changes in assets and liabilities which provided (used) cash:	
Trade accounts receivable	(3,269,069)
Inventories	(205,933)
Prepaid expenses and other assets	59,799
Accounts payable	170,197
Accrued expenses	25,420
Income taxes payable	248,109
Net cash provided by operating activities	452,843
INVESTING ACTIVITIES:	
Purchases of property, plant and equipment, net	(1,488,741)
Proceeds from sale of property, plant and equipment, net	43,250
Net cash used in investing activities	(1,445,491)
FINANCING ACTIVITIES:	
Net borrowings/(repayments) under line of credit	941,476
Repayments of accrued interest - shareholder	--
Repayments of debt	(749,624)
Proceeds from debt, net of restricted cash released	800,796
Net cash provided by/(used in) financing activities	992,648

NET INCREASE (DECREASE) IN CASH	--
CASH, BEGINNING OF YEAR	--
CASH, END OF YEAR	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -	
Interest paid during year	$ 800,171
Income taxes paid	$ 54,682

Cash paid for interest during the year ended June 30, 2000 includes $43,343 of capitalized interest costs related to property and plant additions.
See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001 AND 2000.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lannett Company, Inc. and subsidiary (the "Company"), a Delaware corporation, manufactures and distributes, throughout the United States, pharmaceutical products sold under generic names ("competitive pharmaceutical products") and, historically, has manufactured and distributed pharmaceutical products sold under its trade or brand names. In addition, the Company manufactures and develops pharmaceutical products for other companies.

The Company is engaged in an industry which is subject to considerable government regulation related to the development, manufacturing and marketing of pharmaceutical products. In the normal course of business, the Company periodically responds to inquiries or engages in administrative and judicial proceedings involving regulatory authorities, particularly the Food and Drug Administration (FDA) and the Drug Enforcement Agency (DEA).

Restatement - The Company restated results for Fiscal 2000 and 2001 due to the correction of an error resulting from the improper deferral of legal fees incurred associated with the favorable settlement of a lawsuit. This resulted in a reduction in net income of $305,128 or $.02 per diluted share in Fiscal 2000, and an increase in net income of $305,128, or $.02 per diluted share in Fiscal 2001, respectively. This impact is reflected in the reported results herein.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of Lannett Company, Inc. and its inactive wholly owned subsidiary, Astrochem Corporation. All intercompany accounts and transactions have been eliminated.

REVENUE RECOGNITION - The Company recognizes revenue when its products are shipped. Under a contract in which product development occurs, the Company recognizes revenue when services are rendered. There are no inventory

consignments held at customers' locations. Provisions for estimated rebates, chargebacks, returns and other adjustments are provided for in the period the related sales are recorded. If the historical data the Company uses to calculate these estimates does not properly reflect future activity, its net sales, gross profit, net income and earnings per share could decrease. However, management believes that these estimates do properly reflect future activity.

INVENTORIES - Inventories are valued at the lower of cost (determined under the first-in, first-out method) or market.

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are stated at cost. Depreciation and amortization are provided for by the straight-line and accelerated methods over estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2001 and 2000 was approximately $725,000 and $635,000, respectively.

DEFERRED DEBT ACQUISITION COSTS - Costs incurred in connection with obtaining financing are amortized by the straight-line method over the term of the loan arrangements. Amortization expense for the years ended June 30, 2001 and 2000 was approximately $42,000 and $44,000, respectively.

RESEARCH AND DEVELOPMENT - Research and development expenses are charged to operations as incurred.

ADVERTISING COSTS - The Company charges advertising costs to operations as incurred.

INCOME TAXES - The Company uses the liability method specified by Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for 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.

LONG-LIVED ASSETS - SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, provides guidance on when to recognize and how to measure impairment losses of long-lived assets and certain identifiable intangibles and how to value long-lived assets to be disposed of. There was $77,838 in impairment losses recognized during the year ended June 30, 2001. No impairment losses were recognized during the year ended June 30, 2000.

EARNINGS PER COMMON SHARE - SFAS No. 128, Earnings Per Share, requires a dual presentation of basic and diluted earnings per share on the face of the Company's consolidated statement of income and a reconciliation of the computation of basic earnings per share to diluted earnings per share. Basic earnings per share excludes the dilutive impact of common stock equivalents and is computed by dividing net income by the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share includes the effect of potential dilution from the exercise of outstanding common stock equivalents into common stock using

the treasury stock method. Earnings per share amounts for all periods presented have been calculated in accordance with the requirements of SFAS No. 128. A reconciliation of the Company's basic and diluted earnings per share follows:

	2001		2000	
	NET INCOME (NUMERATOR)	SHARES (DENOMINATOR)	NET INCOME (NUMERATOR)	SHA (DENOMI
Basic earnings per share factors	$1,829,915	13,206,128	$1,044,969	13,20
Effect of potentially dilutive option plans and debentures				
Diluted earnings per share factors	$1,829,915	13,206,128	$1,044,969	13,20
Basic earnings per share	$ 0.14		$ 0.08	
Diluted earnings per share	$ 0.14		$ 0.08	

Options to purchase 68,450 shares, 51,500 shares, 30,000 shares and 1,300 shares of common stock at $1.125 per share, $0.80 per share, $1.38 per share and $3.78 per share, respectively, were outstanding at June 30, 2001 and options to purchase 136,700 shares, 80,000 shares and 1,550 shares of common stock at $1.125 per share, $1.38 per share and $3.78 per share, respectively, were outstanding at June 30, 2000, but were not included in the computation of diluted earnings per share because to do so would be antidilutive. These securities could potentially be dilutive in the future.

STOCK OPTION PLAN - SFAS No. 123, Accounting for Stock-Based Compensation, encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation in accordance with Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, under which no compensation cost has been recognized.

SEGMENT INFORMATION - The Company reports segment information in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company operates one business segment--generic pharmaceuticals. In accordance with SFAS No. 131, the Company aggregates all products and reports one operating segment. Within this segment, the Company manufactures and sells a line of both

prescription (Rx) and over-the-counter (OTC) drug products. All of these products are either tablet or capsule pills sold generically to the drug distribution industry. The only difference in the product line is the status that the Food and Drug Administration gives the product--either prescription status in which a doctor prescribes or authorizes the consumer to obtain the product, or over-the-counter status, which allows consumers to purchase the product directly from retailers without a doctor's prescription. There are no operating differences for Lannett in the manufacture of such lines of product that would require the Company to perform separate profitability analyses, or segregate income and loss activities by its status, as described above. Additionally, management does not prepare separate income and loss statements, forecasts and/or budget plans for its Rx versus OTC product lines. For its Fiscal years ended June 30, 2001 and 2000, Rx sales were $7,299,273 and $3,117,764 respectively. For its Fiscal years ended June 30, 2001 and 2000, OTC sales were $4,791,717 and $8,435,693 respectively.

CONCENTRATION OF CREDIT RISK - One customer accounted for approximately $2,905,000 (24%) of net sales in the fiscal year ended June 30, 2001. Two customers accounted for approximately $4,856,000 (42%) and $1,247,000 (11%) of net sales in the fiscal year ended June 30, 2000. One of these customers is a distributor which is a related party (see Note 15). The Company performs ongoing credit evaluations of its customers' financial condition and has experienced no significant collection problems to date. Generally, the Company requires no collateral from its customers. Two of the Company's products accounted for approximately $4,445,000 (37%) and $4,167,000 (34%) of net sales in fiscal year ended June 30, 2001. One of the Company's products accounted for approximately $7,956,000 (69%) of net sales in fiscal year ended June 30, 2000. The Company expects these percentages to decrease as it begins to market additional products.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of

assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS - In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement, as amended by SFAS No. 137 Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, is effective for all fiscal quarters of fiscal years beginning

after June 15, 2000. The Company has adopted SFAS No. 133 and there was no effect on its consolidated financial position and results of operations.

On June 29, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Intangible Assets. These statements are expected to result in significant modifications relative to the Company's accounting for goodwill and other intangible assets. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 must be accounted for under the purchase method of accounting. SFAS No. 141 was effective upon issuance. SFAS No. 142 modifies the accounting for all purchased goodwill and intangible assets. SFAS No. 142 includes requirements to test goodwill and indefinite lived intangibles assets for impairment rather than amortize them. SFAS No. 142 will be effective for fiscal years beginning after December 31, 2001 and early adoption is not permitted except for business combinations entered into after June 30, 2001. The Company is currently evaluating the provisions of SFAS No. 142, but its preliminary assessment is that these Statements will not have a material impact on the Company's financial position or results of operations.

RECLASSIFICATIONS - Certain reclassifications were made to the 2000 consolidated financial statements to conform to the 2001 presentation.

2. INVENTORIES

Inventories at June 30, 2001 and 2000 consist of the following:

	2001	2000
Raw materials	$1,516,030	$ 785,795
Work-in-process	686,359	1,023,521
Finished goods	712,992	899,686
Packaging supplies	240,728	241,174
	$3,156,109	$2,950,176

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2001 and 2000 consist of the following:

	USEFUL LIVES	2001	
Land	-	$ 33,414	$
Building and improvements	10 - 39 years	2,388,841	
Machinery and equipment	5 - 10 years	6,136,775	
Furniture and fixtures	5 - 7 years	108,925	
		$ 8,667,955	$

4. RESTRICTED CASH EQUIVALENTS

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity date of three months or less from purchase date to be cash equivalents. At June 30, 2001 the Company had restricted cash equivalents of $1,225,649 which represents proceeds from debt invested in a money market account and is restricted for (i) the construction of a manufacturing-related facility as an addition to the Company's existing facility or, alternatively, the acquisition and renovation of an existing manufacturing and manufacturing-related facility and (ii) the acquisition of equipment for installation and use in either of the facilities mentioned above (see Note 6).

5. BANK LINE OF CREDIT

The Company has a $2,000,000 line of credit from the bank that bears interest at prime plus .50% per annum (7.25% at June 30, 2001). The line of credit is due November 30, 2001. The Company expects to extend the maturity date before the scheduled due date. The line of credit is limited to 80% of qualified accounts receivable and 50% of qualified inventory. At June 30, 2001, the Company had $2,000,000 outstanding under the line of credit. At June 30, 2001 the Company had $0 available under the line of credit. The line of credit is collateralized by substantially all Company assets and a personal guarantee of the major shareholder. Further, the line of credit and a related letter of credit contain certain financial covenants (see Note 6).

6. LONG-TERM DEBT

Long-term debt at June 30, 2001 and 2000 consists of the following:

	2001	2000
Tax-exempt Bond Loan	$3,700,000	$3,700,000
Taxable Bond Loan	848,222	1,597,846
	4,548,222	5,297,846
Less current portion	728,330	692,496
	$3,819,892	$4,605,350

In April 1999, the Company entered into a loan agreement (the "Agreement") with a governmental authority (the "Authority") to finance future construction and growth projects of the Company. The Authority has issued $3,700,000 in tax-exempt variable rate demand and fixed rate revenue bonds to provide the funds to finance such growth projects pursuant to a trust indenture (the "Trust Indenture"). The bonds were issued under and secured by a Trust Indenture between the Authority and a bank, as trustee. A

portion of the Company's proceeds from the bonds was used to pay for bond issuance costs of approximately $170,000. The remainder of the proceeds was deposited into a money market account which is restricted to future plant and equipment needs of the Company as specified in the Agreement (see Note 4). The Agreement requires the Company to repay the Authority loan through installment payments beginning in May 2003 and continuing through May 2014, the year the bonds mature. Such payments will be deposited into an interest-bearing debt service money market account. The bonds bear interest at the floating variable rate determined by the organization responsible for selling the bonds (the "remarketing agent"). The interest rate fluctuates on a weekly basis. The effective interest rate at June 30, 2001 was 2.85%. The Company has an option to convert the bonds to a fixed rate of interest under certain conditions. At June 30, 2001, the Company has $3,700,000 outstanding on the Authority loan, which is classified as a long-term liability. In April 1999, an irrevocable letter of credit of $3,770,000 was issued by a bank to secure payment of the Authority loan and a portion of the related accrued interest. At June 30, 2001, no portion of the letter of credit has been utilized.

In April 1999, the Company authorized and directed the issuance of $2,300,000 in taxable variable rate demand and fixed rate revenue bonds pursuant to a trust indenture between the Company and a bank, as trustee (the "Trust Indenture"). From the proceeds of the bonds, $750,000 was utilized to pay deferred interest owed to the principal shareholder of the Company and approximately $1,440,000 was paid to a bank to refinance a mortgage term loan and equipment term loans. The remainder of the proceeds was used to pay bond issuance costs of approximately $109,000. The Trust Indenture requires the Company to repay the bonds through installment payments beginning in May 2000 and continuing through May 2003, the year the bonds mature. Such payments will be deposited into an interest-bearing debt service money market account. The bonds bear interest at the floating variable rate determined by the organization responsible for selling the bonds (the "remarketing agent"). The interest rate fluctuates on a weekly basis. The effective interest rate at June 30, 2001 was 4.06%. The Company has an option to convert the bonds to a fixed rate of interest under certain conditions. At June 30, 2001, the Company has $848,222 outstanding on the bonds, of which $728,330 is classified as currently due. In April 1999, an irrevocable letter of credit of approximately $1,690,000 was issued by a bank to secure payment of the bonds and a portion of the related accrued interest. At June 30, 2001, no portion of the letter of credit has been utilized.

Annual repayments of debt, including sinking fund requirements and amounts payable to shareholder (Notes 7 and 8) as of June 30, 2001 are as follows:

YEAR ENDING JUNE 30,	AMOUNTS PAYABLE TO INSTITUTIONS	AMOU TO S
2002	$ 2,728,330	$
2003	253,642	
2004	806,250	
2005	732,498	

2006	672,498
Thereafter	1,355,004
	$ 6,548,222

7. LINE OF CREDIT PAYABLE TO SHAREHOLDER

On October 1, 2000, a debt modification agreement was consummated, by and between, the Company and its principal shareholder relating to the line of credit agreement described below. The Company and its principal shareholder had previously modified the debt agreement relating to the line of credit and convertible debenture agreements described below and in Note 8 as of March 15, 1993, August 1, 1994, May 15, 1995, December 31, 1995, June 30, 1996, November 1, 1996, September 9, 1997, June 30, 1998, December 30, 1998 and December 31, 1999. In each of the modifications, the maturity date of the debt was extended.

The Company has a $4,250,000 revolving line of credit from a shareholder who is also the Chairman of the Board. At June 30, 2001, the Company had $4,225,000 outstanding and $25,000 available under this line of credit. The principal is due December 1, 2001.

The line of credit bears interest at the prime rate published by Michigan National Bank plus 1% per annum. The effective rate at June 30, 2001 was 7.75%. Interest expense during the years ended June 30, 2001 and 2000 was approximately $412,000, and $489,000, respectively. Accrued interest at June 30, 2001 and June 30, 2000 was $0.

The line of credit is collateralized by substantially all Company assets, is cross-collateralized with all loans from the shareholder (Note 8) and is subordinated to the bank letters of credit and line of credit.

8. CONVERTIBLE DEBENTURE AND DEFERRED INTEREST PAYABLE TO SHAREHOLDER

The Company also had a convertible debenture made available to it by William Farber. The maturity date of the shareholder debenture was December 23, 1999. The convertible debenture and deferred interest payable is collaterialized by substantially all Company assets, is cross-collateralized with all loans from this shareholder (Note 7) and is subordinated to the bank letters of credit and line of credit. On December 22, 1999, William Farber elected to convert the debenture into shares of common stock of the Company. The shareholder debenture and accrued interest was convertible at the rate of 4,000 shares of common stock for each $1,000 of outstanding indebtedness. The principal balance on the debenture at the time of conversion was $2,000,000, and the interest on the debenture was paid to date; therefore the transaction converted the $2,000,000 of indebtedness to 8,000,000 shares of the Company's common stock. Interest expense during the years ended June 30, 2001 and 2000 was $0 and $86,000, respectively.

9. INCOME TAXES

The provision (benefit) for income taxes consists of the following for the years ended June 30, 2001 and 2000.

	2001	2000
Current	$ 276,904	$ 62,190
Deferred	730,618	(527,520)
	$ 1,007,522	$ (465,330)

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

	2001
Federal income tax at statutory rate	34.0 %
State and local income tax, net	6.8
Change in the beginning of the year balance of the valuation allowance	
Other	(1.0)
Income taxes expense/(benefit)	39.8 %

The principal types of differences between assets and liabilities for financial statement and tax return purposes are net operating loss carryforwards and accumulated depreciation. A deferred tax asset is recorded for net operating losses being carried forward for tax purposes.

The Company has federal net operating loss carryforwards of approximately $2,457,000, expiring through June 2008, that are available to offset future taxable income. The annual utilization of tax loss carryforwards is subject to limitations defined in the Internal Revenue Code.

Temporary differences which give rise to deferred tax assets and liabilities are as follows as of June 30, 2001 and 2000:

	2001	2000
Deferred tax assets:		
Accrued expenses	$ 34,091	$ 21,567
Net operating loss carryforward	835,700	1,606,505
Other	113,612	24,570
	983,403	1,652,642
Valuation allowance	--	--

Total	983,403	1,652,642
Deferred tax liability - Property, plant and equipment	641,285	579,906
Net deferred tax asset	$ 342,118	$1,072,736

10. STOCK OPTIONS

In fiscal 1993, the Company adopted the 1993 Long-Term Incentive Plan (the "Plan"). Pursuant to the Plan, officers and key employees of the Company may be granted stock options which qualify as incentive stock options as well as stock options which are nonqualified. The exercise price of the options is at least the fair market value of the common stock on the date of grant. The options vest over a three-year period and expire no later than 10 years from the date of grant. There are 2,000,000 shares reserved under the Plan. Options for 1,848,750 shares remain unissued as of June 30, 2001.

The Company accounts for the Plan in accordance with APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the Plan been determined consistent with SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income would have been reduced by $63,358 and $55,586 for the years ended June 30, 2001 and 2000, respectively, and earnings per share would have been reduced by $0.01 per share for the years ended June 30, 2001 and 2000.

A summary of the status of the Company's option plan as of June 30, 2001 and 2000 and the changes during the years then ended is represented below:

	2001		2000	
	SHARES	WEIGHTED AVG. EXERCISE PRICE	SHARES	WEIGHTED AVG. EXERCISE PRICE
Outstanding, beginning of year	218,250	$ 1.24	189,200	$ 1.50
Granted	105,500	0.80	150,450	1.13
Terminated	(172,500)	1.08	(121,400)	1.52
Outstanding, end of year	151,250	$ 1.09	218,250	$ 1.24
Options exercisable at year-end	71,284	$ 1.20	54,883	$ 1.45

Weighted average fair value of options

Granted during the year	$ 0.47	$ 0.84

The fair value of the options granted were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for grants during the year ended June 30, 2001: risk-free interest rate of 5.42%, expected volatility of 57.5%, dividend yield of 0%, and expected life of 5 years.

	OPTIONS OUTSTANDING		
RANGE OF EXERCISE PRICES	OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	W A E
$0.80 - $1.125	119,950	8.3	
$1.38	30,000	6.3	
$3.78	1,300	2.8	

11. EMPLOYEE BENEFIT PLAN

The Company has a defined contribution plan (the "Plan") covering substantially all employees. The Company is required to contribute amounts pursuant to employee salary reduction agreements and a matching contribution equal to each employee's contribution not to exceed 3% of the employee's compensation for the Plan year. Contributions to the Plan during the years ended June 30, 2001 and 2000 were $70,891 and $55,788, respectively.

12. CONTINGENCIES

The Company monitors its compliance with all environmental laws. Any compliance costs which may be incurred are contingent upon the results of future site monitoring and will be charged to operations when incurred. No monitoring costs were incurred during the years ended June 30, 2001 and 2000.

The Company is currently engaged in several civil actions as a co-defendant with many other manufacturers of Diethylstilbestrol ("DES"), a synthetic hormone. Prior litigation established that the Company's pro rata share of any liability is less than one-tenth of one percent. The Company was represented in many of these actions by the insurance company with which the Company maintained coverage (subject to limits of liability) during the time period that damages were alleged to have occurred. The Company has either settled or is currently defending over 500 such claims. Management believes that the outcome will not have a material adverse impact on the consolidated financial position of the Company.

In addition to the matters reported herein, the Company is involved in litigation which arises in the normal course of business. In the opinion of management, the resolution of these lawsuits will not have a material adverse effect on the consolidated financial position or results of operations.

13. COMMITMENTS

In January 1998, the Company entered into an operating lease that includes an escalation clause, for its warehouse and research and development facility. The lease was extended through April 30, 2004. The Company also has another operating lease, expiring in 2005, for office equipment. Future minimum lease payments under these agreements are as follows:

YEAR ENDING JUNE 30,	AMOUNT
2002	$ 132,255
2003	132,255
2004	112,380
2005	11,935
	$ 388,825

Rental expense for the years ended June 30, 2001 and 2000 was $123,000 and $116,000, respectively.

14. RELATED PARTY TRANSACTIONS

The Company had sales of approximately $111,000 and $4,856,000 during the years ended June 30, 2001 and 2000, respectively, to a distributor (the "related party") in which the owner is a relative of the Chairman of the Board of Directors and principal shareholder of the Company. The Company also incurred sales commissions payable to the related party of approximately $369,000 and $262,000 during the years ended June 30, 2001 and 2000, respectively. Accounts receivable includes amounts due from the related party of approximately $34,000 and $13,000 at June 30, 2001 and June 30, 2000, respectively. Accrued expenses includes amounts due to the related party of approximately $29,000 and $71,000 at June 30, 2001 and June 30, 2000, respectively.

EXHIBIT INDEX

Exhibit Number	Description	Method of Filing
3(a)	Articles of Incorporation	Incorporated by reference to the filed with respect to the Annual Shareholders held on December 6, Proxy Statement").
3(b)	By-Laws, as amended	Incorporated by reference to the Statement.
4(a)	Specimen Certificate for Common Stock	Incorporated by reference to Exhi Form 8 dated April 23, 1993 (Amen Form 10-K f/y/e June 30, 1992) ("
10(a)	Loan Agreement dated August 30, 1991 between the Company and William Farber	Incorporated by reference to the on Form 10-K f/y/e June 30, 1991
10(b)	Amendment #1 to Loan Agreement dated March 15, 1993	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1993 ("1993 Form 10-K")
10(c)	Amendment #2 to Loan Agreement dated August 1, 1994	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1994 ("1994 Form 10-K")
10(d)	Amendment #3 to Loan Agreement dated May 15, 1995	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1995 ("1995 Form 10-K")
10(e)	Amendment #4 to Loan Agreement dated December 31, 1995	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1996 ("1996 Form 10-K")
10(f)	Amendment #5 to Loan Agreement dated June 30, 1996	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1996 ("1996 Form 10-K")
10(g)	Amendment #6 to Loan Agreement dated November 1, 1996	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1997 ("1997 Form 10-KSB")

Exhibit Number	Description	Method of Filing
10(h)	Amendment #7 to Loan Agreement dated September 9, 1997	Incorporated by reference to Exhi the Annual Report on 1997 Form 10

10(i)	Amendment #8 to Loan Agreement dated June 30, 1998	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(j)	Amendment #9 to Loan Agreement dated December 31, 1998	Incorporated by reference to Exhi the Quarterly Report on for the p December 31, 1998
10(k)	Amendment #10 to Loan Agreement dated December 31, 1998	Filed Herewith
10(l)	Loan Agreement dated May 4, 1993 between the Company and Meridian Bank	Incorporated by reference to Exhi the 1993 Form 10-K
10(m)	Amendment to Loan Documents between the Company and Meridian Bank dated as of December 8, 1993	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1994 ("1994 Form 10-K")
10(n)	Letter Agreement between the Company and Meridian Bank dated December 21, 1993	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1994 ("1994 Form 10-K")
10(o)	Third Amendment to Loan Agreement dated as of June 9, 1994	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1994 ("1994 Form 10-K")
10(p)	Fourth Amendment to Loan Documents between the Company and Meridian Bank as of October 27, 1994	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1995 ("1995 Form 10-K")
10(q)	Letter Agreement between the Company and Meridian Bank dated October 27, 1994	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1995 ("1995 Form 10-K")

Exhibit Number	Description	Method of Filing
10(r)	Letter Agreement between the Company and Meridian Bank dated July 10, 1995	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1995 ("1995 Form 10-K")
10(s)	Amendment to Security Agreement between the Company and Meridian Bank dated as of July 31, 1995	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1995 ("1995 Form 10-K")
10(t)	Line of Credit Note dated July	Incorporated by reference to Exhi

	31, 1995	the Annual Report on Form 10-KSB 1995 ("1995 Form 10-K")
10(u)	Fifth Amendment to Loan Agreement dated July 31, 1995	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1995 ("1995 Form 10-K")
10(v)	Amendment to Loan agreement between the Company and Meridian Bank, dated March 5, 1996.	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1996 ("1996 Form 10-K")
10(w)	Amendment to Loan agreement between the Company and Corestates Bank, dated March 20, 1997.	Incorporated by reference to Exhi the Annual Report on 1997 Form 10
10(x)	Amendment to Loan agreement between the Company and Corestates Bank, dated March 20, 1997.	Incorporated by reference to Exhi the Annual Report on 1997 Form 10
10(y)	Amendment to Loan agreement between the Company and Corestates Bank, dated May 23, 1997.	Incorporated by reference to Exhi the Annual Report on 1997 Form 10

Exhibit Number	Description	Method of Filing
10(z)	Amendment to Loan agreement between the Company and Corestates Bank, dated September 24, 1997.	Incorporated by reference to Exhi the Annual Report on 1997 Form 10
10(aa)	Amendment to Loan agreement between the Company and Corestates Bank, dated December 10, 1997.	Incorporated by reference to Exhi the Annual Report on 1997 Form 10
10(ab)	Amendment to Loan agreement between the Company and Corestates Bank, dated December 10, 1997.	Incorporated by reference to Exhi the Annual Report on 1997 Form 10
10(ac)	Amendment to Loan agreement between the Company and Corestates Bank, dated June 11, 1998.	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(ad)	Amendment to Loan agreement between the Company and Corestates Bank, dated June 1998.	Incorporated by reference to Exhi the Annual Report on 1998 Form 10

10(ae)	Line of Credit Note dated March 11, 1999	Incorporated by reference to Exhi the Annual Report on 1999 Form 10
10(af)	Taxable Variable Rate Demand/Fixed Rate Revenue Bonds, Series of 1999	Incorporated by reference to Exhi the Annual Report on 1999 Form 10
10(ag)	Philadelphia Authority for Industrial Development Tax-Exempt Variable Rate Demand/Fixed Revenue Bonds (Lannett Company, Inc. Project) Series of 1999	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(ah)	Letter of Credit and Agreements supporting bond issues	Incorporated by reference to Exhi the Annual Report on 1998 Form 10

Exhibit Number	Description	Method of Filing
10(ai)	Employment agreement between the Company and Vlad Mikijanic	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1994 ("1994 Form 10-K")
10(aj)	Supply Agreement dated January 14, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(ak)	Supply Agreement dated January 17, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(al)	Supply Agreement dated January 17, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(am)	Supply Agreement dated February 11, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(an)	Supply Agreement dated May 27, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
11	Computation of Earnings Per Share	Filed Herewith
22	Subsidiaries of the Company	Incorporated by reference to the on Form 10-K f/y/e June 30, 1990

23	Consent of Deloitte & Touche	Incorporated by reference to Exhi Annual Report on 1999 Form 10-KSB