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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

[x] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2001.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ---------- TO ----------.

COMMISSION FILE NO. 0-9036

LANNETT COMPANY, INC.
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

STATE OF DELAWARE	23-0787-699
(STATE OF INCORPORATION)	(I.R.S. EMPLOYER I.D. NO.)

9000 STATE ROAD
PHILADELPHIA, PA 19136
(215) 333-9000
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES AND TELEPHONE NUMBER)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

As of January 28, 2002, there were 13,219,127 shares of the issuer's common stock, $.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

LANNETT COMPANY, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

ASSETS

CURRENT ASSETS:
- Cash
- Trade accounts receivable (net of allowance of $15,000 and $25,000)
- Inventories
- Prepaid expenses
- Deferred tax asset

Total current assets

PROPERTY, PLANT AND EQUIPMENT
Less accumulated depreciation

RESTRICTED CASH

OTHER ASSETS

Total assets

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:
Line of credit
Line of credit-shareholder
Accounts payable
Accrued expenses
Income taxes payable
Current portion of long-term debt

Total current liabilities

LONG-TERM DEBT, LESS CURRENT PORTION

DEFERRED TAX LIABILITY

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:
Common stock -
authorized 50,000,000 shares par value $.001:
issued and outstanding, 13,219,127 shares
Additional paid-in capital
Retained earnings

Total shareholders' equity

Total liabilities and shareholders' equity

See notes to consolidated financial statements

LANNETT COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	FOR THE THREE MONTHS ENDED 12/31/01	FOR THE THREE MONTHS ENDED 12/31/00
NET SALES	$ 5,391,341	$ 2,285,091
COST OF SALES	2,236,715	1,881,320
Gross profit	3,154,626	403,771
RESEARCH AND DEVELOPMENT EXPENSES	367,670	376,756
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	768,670	403,204
Operating profit/(loss)	2,018,286	(376,189)
OTHER INCOME (EXPENSE):		
Income from settlement of lawsuit, net of fees	--	--
Interest income-restricted	6,732	27,342
Interest expense	(91,136)	(187,069)
	(84,404)	(159,727)
INCOME/(LOSS) BEFORE INCOME TAXES	$ 1,933,882	$ (535,916)
INCOME TAX EXPENSE/(BENEFIT)	$ 677,290	$ (120,885)
NET INCOME/(LOSS)	$ 1,256,592	$ (415,031)
BASIC INCOME/(LOSS) PER SHARE	$ .10	$ (.03)
DILUTED INCOME/(LOSS) PER SHARE	$ .09	$ (.03)
BASIC WEIGHTED AVERAGE NUMBER OF SHARES	13,219,127	13,206,128
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	13,303,645	13,206,128

See notes to the consolidated financial statements

LANNETT COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

OPERATING ACTIVITIES:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
Depreciation and amortization
Deferred tax expense
Changes in assets and liabilities which provided/(used) cash:
Trade accounts receivable
Inventories
Prepaid expenses and other assets
Accounts payable
Accrued expenses
Income taxes payable

Net cash provided by operating activities

INVESTING ACTIVITIES:
Purchases of property, plant and equipment

Net cash used in investing activities

FINANCING ACTIVITIES:
Net borrowings/(repayments) under line of credit
Repayments under line of credit -- shareholder
Repayments of debt
Proceeds from debt, net of restricted cash released
Proceeds from issuance of stock

Net cash provided by/(used in) financing activities

NET INCREASE/(DECREASE) IN CASH

CASH, BEGINNING OF YEAR

CASH, END OF PERIOD

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION
Interest paid during period
Income taxes paid during period

See notes to the consolidated financial statements

LANNETT COMPANY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and the results of operations and cash flows.

The results of operations for the three and six months ended December 31, 2001 and 2000 are not necessarily indicative of results for the full year.

While the Company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2001.

NOTE 2. NEW ACCOUNTING STANDARDS

In July 2000, the Company adopted Statement of Financial Accounting Standards (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, was effective for all fiscal quarters of fiscal years beginning after June 15, 2000. There has been no accounting, or financial effect on the Company for the three and six months ended December 31, 2001 with respect to this Statement. The Company will continue to analyze the impact, if any, of adopting SFAS No. 133 will have on its consolidated financial position and results of operations.

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between

July 1, 2001 and the effective date of SFAS 142. Major provisions of these Statements and their effective dates for the Company are as follows:

- all business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.
- intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability

- goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective July 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.
- effective July 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator
- all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

Although management is still reviewing the provisions of these Statements, its preliminary assessment is that these Statements will not have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations. SFAS 143 applies to all entities, including rate-regulated entities, that have legal obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction or development and (or) normal operations of the long-lived asset. The application of this Statement is not limited to certain specialized industries, such as the extractive or nuclear industries. This Statement also applies, for example, to a company that operates a manufacturing facility and has a legal obligation to dismantle the manufacturing plant and restore the underlying land when it cease operation of that plant. A liability for an asset retirement obligation should be recognized if the obligation meets the definition of a liability and can be reasonably estimated. The initial recording should be at fair value. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, with earlier application encouraged. The provisions of the Statement are not expected to have a material impact on the financial condition or results of operations of the Company.

In August 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets). SFAS No. 144 retains the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. However, SFAS 144 makes changes to the scope and certain measurement requirements of existing accounting guidance. SFAS 144 also changes the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of this statement is not expected to have a significant impact on the financial condition or results of operations of the Company.

NOTE 3. INVENTORIES

Inventories consist of the following:

	December 31, 2001 (unaudited)	June 30, 2001
Raw materials	$ 1,689,923	$ 1,516,030
Work-in-process	309,632	686,359
Finished goods	1,256,355	712,992
Packaging supplies	204,674	240,728
	$ 3,460,584	$ 3,156,109

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NOTE 4. INCOME TAXES

The provision for federal and state income taxes for the three months ended December 31, 2001 was $677,290. The benefit recognized for federal and state income taxes for the three months ended December 31, 2000 was $120,885. The provision for federal and state income taxes for the six months ended December 31, 2001 and 2000 was $1,169,000 and $136,000, respectively.

NOTE 5. RELATED PARTY TRANSACTIONS

The Company had sales of approximately $62,000 and $39,000 during the six months ended December 31, 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 $112,000 and $225,000 during the six months ended December 31, 2001 and 2000, respectively. Accounts receivable includes amounts due from the related party of approximately $22,000 and $34,000 at December 31, 2001 and June 30, 2001, respectively. Accrued expenses include amounts due to the related party of approximately $14,000 and $29,000 at December 31, 2001 and June 30, 2001, respectively.

NOTE 6. SETTLEMENT OF LAWSUIT

Included in other income for the six months ended December 31, 2000 is $1,478,277 in income from the settlement of a lawsuit, net of fees. 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. Lannett alleged that the breach of contract delayed the introduction of one of its products into the marketplace. Consequently, the Company and the defending party settled the suit out of court. The Company received the proceeds in First Quarter Fiscal 2001. The Company incurred approximately $300,000 in legal fees relating to the lawsuit. These fees were expensed to operations in Fiscal 2000.

NOTE 7. RECLASSIFICATIONS

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS.

In addition to historical information, this Form 10-QSB contains forward-looking information. The forward-looking information contained herein 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 Results of Operations and Financial Condition." 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-QSB. 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 Corporation files from time to time with the Securities and Exchange Commission, including the Annual report on Form 10-KSB filed by the Corporation in Fiscal 2001, and any Current Reports on Form 8-K filed by the corporation.

RESULTS OF OPERATIONS -- THREE MONTHS ENDED DECEMBER 31, 2001 COMPARED WITH THREE MONTHS ENDED DECEMBER 31, 2000.

Net sales for the three months ended December 31, 2001 ("Second Quarter Fiscal 2002") increased by 135.9% to $5,391,341 from net sales of $2,285,091 for the three months ended December 31, 2000 ("Second Quarter Fiscal 2001"). Sales increased as a result of higher sales of the Company's prescription (Rx) line of products, including Primidone 50 mg tablets, which was first marketed in May of 2001. The increase is also due to improved marketing activities, new customer accounts, increased unit sales, and increased unit revenues on a portion of the Company's niche line of products, which are sold to distributors, wholesalers and retail chains throughout the nation. The increase in Rx sales was offset by a decrease in over-the-counter (OTC) product sales, due to increased competition. Rx sales increased by approximately $3,338,000 from Second Quarter Fiscal 2001 to Second Quarter Fiscal 2002. OTC product sales decreased by approximately $232,000 from Second Quarter Fiscal 2001 to Second Quarter Fiscal 2002.

Cost of sales increased by 18.9%, to $2,236,715 in Second Quarter Fiscal 2002 from $1,881,320 in Second Quarter Fiscal 2001. The cost of sales increase is due to an increase in certain direct variable costs and indirect overhead costs incurred as a result of the increase in sales, and production activities. These costs include labor and other benefits related expenses, depreciation expense, and manufacturing and laboratory supplies. Gross profit margins for Second Quarter Fiscal 2002 and Second Quarter Fiscal 2001 were 58.5% and 17.7%, respectively. The increase in the gross profit percentage is due to the product sales mix, a higher absorption of fixed overhead and production costs, and improved unit profit margins on the Company's niche line of products. During the current fiscal year, one of the Company's competitors suspended production and distribution of a generic product in which Lannett competed. Consequently, Lannett was able to increase its sales output to meet the unchanged demand for the item. For these reasons, Lannett increased its unit sales output and the total revenue earned for the product, thereby increasing Lannett's total sales for the period compared to the prior period. With its fixed overhead cost structure unchanged, the gross profit margin increased as a result of the higher revenue per unit, and a higher absorption of fixed overhead and production costs.

Selling, general and administrative expenses increased by 90.6% to $768,670 in Second Quarter Fiscal 2002 from $403,204 in Second Quarter Fiscal 2001. This increase is a result of increases in commissions to sales representatives for incremental sales programs, payroll and other benefits related expenses, professional service fees related to the Company's creation of its subsidiary, Lannett Holdings, Inc., and marketing expenses.

As a result of the foregoing, the Company reported an operating profit of $2,018,286 for Second Quarter Fiscal 2002, as compared to an operating loss of $376,189 for Second Quarter Fiscal 2001.

The Company's interest expense decreased from $187,069 in Second Quarter Fiscal 2001 to $91,136 in Second Quarter Fiscal 2002 as a result of principal repayments, and reduced interest rates.

The Company's income tax expense increased from a benefit of $120,885 in Second Quarter Fiscal 2001 to an expense of $677,290 in Second Quarter Fiscal 2002 as a result of the increase in taxable income.

The Company reported net income of $1,256,592 for Second Quarter Fiscal 2002, or $0.10 basic and $0.09 diluted income per share, compared to a net loss of $415,031 for Second Quarter Fiscal 2001, or $0.03 basic and diluted loss per share.

RESULTS OF OPERATIONS -- SIX MONTHS ENDED DECEMBER 31, 2001 COMPARED WITH SIX MONTHS ENDED DECEMBER 31, 2000.

Net sales for the six months ended December 31, 2001 increased by 133.7% to $9,464,173 from net sales of $4,049,056 for the six months ended December 31, 2000. Sales increased during this period as a result of higher sales of the Company's prescription (Rx) line of products, including Primidone 50 mg tablets, which was first marketed in May of 2001. The increase is also due to improved marketing activities, new customer accounts, increased unit sales, and increased unit revenues on a portion of the Company's niche line of products. The increase in Rx sales was offset by a decrease in over-the-counter (OTC) product sales, due to increased competition. Rx sales increased by approximately $5,906,000 from the six months ended December 31, 2000 to the six months ended December 31, 2001. OTC product sales decreased by approximately

$491,000 from the six months ended December 31, 2000 to the six months ended December 31, 2001.

Cost of sales for the six months ended December 31, 2001 increased by 24.4%, to $3,783,159 from $3,042,199 for the six months ended December 31, 2000. The cost of sales increase is due to an increase in direct variable costs and certain indirect overhead costs incurred as a result of the increase in sales, and production activities. These costs include labor and other benefits related expenses, depreciation expense, manufacturing and laboratory supplies, and raw materials. Gross profit margins for the six months ended December 31, 2001 and December 31, 2000 were 60.0% and 24.9%, respectively. The increase in the gross profit percentage is due to the product sales mix, a higher absorption of fixed overhead and production costs, and increased unit profit margins on the Company's niche line of products. During the current fiscal year, one of the Company's competitors suspended production and distribution of a generic product in which Lannett competed. Consequently, Lannett was able to increase its sales output to meet the unchanged demand for the item. For these reasons, Lannett increased its unit sales output and the total revenue earned for the product, thereby increasing Lannett's total sales for the period compared to the prior period. With its fixed overhead cost structure unchanged, the gross profit margin increased as a result of the higher revenue per unit, and a higher absorption of fixed overhead and production costs.

Selling, general and administrative expenses increased by 75.8% to $1,433,974 for the six months ended December 31, 2001 from $815,835 for the six months ended December 31, 2000. This increase is a result of increases in sales commissions, payroll and other benefits related expenses, professional service fees related to the Company's creation of its subsidiary, Lannett Holdings, Inc., and marketing expenses.

As a result of the foregoing, the Company reported an operating profit of $3,532,566 for the six months ended December 31, 2001, as compared to an operating loss of $531,211 for the six months ended December 31, 2000.

Included in other income for the six months ended December 31, 2000 is $1,478,277 in income from the settlement of a lawsuit, net of fees. 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. Lannett alleged that the breach of contract delayed the introduction of one of its products into the marketplace. Consequently, the Company and the defending party settled the suit out of court. The Company received the proceeds in First Quarter Fiscal 2001. The Company incurred approximately $305,000 in legal fees relating to the lawsuit. These fees were expensed to operations in Fiscal 2000.

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The Company's interest expense decreased from $395,605 for the six months ended December 31, 2000 to $212,434 for the six months ended December 31, 2001 as a result of principal repayments, and reduced interest rates. See Liquidity and Capital Resources below.

The Company's income tax expense increased from $136,000 for the six months ended December 31, 2000 to $1,169,000 for the six months ended December 31, 2001 as a result of the increase in taxable income.

The Company reported net income of $2,169,767 for the six months ended

December 31, 2001, or $0.16 basic and diluted income per share, compared to net income of $472,325 for the six months ended December 31, 2000, or $0.04 basic and diluted income per share.

LIQUIDITY AND CAPITAL RESOURCES -

Net cash provided by operating activities of $3,739,540 for the six months ended December 31, 2001 was attributable to net income of $2,169,767 as adjusted for the effects of non-cash items of $1,236,432 and changes in operating assets and liabilities totaling $333,341. Significant changes in operating assets and liabilities are comprised of: i) a decrease in trade accounts receivable due to receivable collections, and the timing of shipments and related invoices, ii) an increase in inventories of $304,475 due to increases in raw materials and finished goods, offset by a decrease in work-in-process, iii) an increase in prepaid expenses and other assets of $252,318 due to deposits paid by the Company on certain production related equipment not yet received, iv) an increase in accounts payable due to increased operational expenses and capital equipment purchases, and v) an increase in income taxes payable of $33,745 due to higher taxable income and the accrual of the related income taxes, which will be paid when the Company's estimated tax filings and income tax returns are due.

The net cash used in investing activities consisted of $1,042,506 expended during the six months ended December 31, 2001 for equipment and building additions. The Company has increased its budget for capital expenditures in Fiscal 2002 to $2,000,000. The anticipated additional capital expenditure requirements will support the Company's growth related to new product introductions and increased production output due to higher sales levels. As of December 30, 2001, approximately $602,000 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 a shareholder who is also the Chairman of the Board ("Shareholder Line of Credit"). At December 31, 2001, the Company has $1,871,439 outstanding and $2,378,561 available under this line of credit. The maturity date on the Shareholder Line of Credit was extended to December 1, 2002. Accrued interest at December 31, 2001, and June 30, 2001 was $111,931 and $0, respectively.

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 were deposited into a money market account, which is restricted for future plant and equipment needs of the Company as specified in the Agreement. 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. At December 31, 2001, the Company had $3,700,000 outstanding on the Authority loan, of which $175,718 is classified as currently due. 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 December 31, 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. At December 31, 2001, the Company had $552,612 outstanding on the bonds, which is classified as currently due. In April 1999, an irrevocable letter of credit of approximately $2,349,000 was issued by a bank to secure payment of the bonds and a portion of the related accrued interest. At December 31, 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 was renewed and extended to November 30, 2002, at which time the Company expects 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 December 31, 2001, the Company had $1,316,690 outstanding and $683,310 available 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 December 31, 2001, are sufficient to finance its level 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 of December 31, 2001, several additional products are under development. One of these products is being developed and manufactured for another company; and the remainder are being developed as part of the Lannett product line. Three of the Lannett products have been redeveloped and submitted to the Food and Drug Administration ("FDA") for supplemental approval. The remainder of the developmental products are either previously approved Abbreviated New Drug Applications ("ANDA's") which the Company is planning to reintroduce, or 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 when it will be able to begin producing and shipping additional products

PART II. OTHER INFORMATION

ITEM 1. 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 Drug Enforcement Agency.

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. However, management believes that the outcome 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. However, management believes that the outcomes will not have a material adverse impact 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. However, management believes that the outcomes will not have a material adverse impact on the financial position of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

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

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. 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-QSB is shown on the Exhibit Index filed herewith.

(b) The Company did not file any reports on Form 8-K during the six months ended December 31, 2001.

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SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANNETT COMPANY, INC.

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

Larry Dalesandro
Chief Operating Officer

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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 June 30, 199 ("1997 Form 10-
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 Form 10-KSB 1998 ("1998 Form 10-KSB")
10(j)	Amendment #9 to Loan	Incorporated by reference to Exhi

Exhibit Number	Description	Method of Filing
	Agreement dated December 30, 1998	the Annual Report on Form 10-KSB 1999 ("1999 Form 10-KSB")
10(k)	Amendment #10 to Loan Agreement dated December 31,1999	Incorporated by reference to Exhi the Annual Report on Form 10-KSB 1999 ("1999 Form 10-KSB")

10(l)	Amendment #11 to Loan Agreement dated December 1, 2001	Filed Herewith
10(m)	Loan Agreement dated May 4, 1993 between the Company and Meridian Bank	Incorporated by reference to Exhi the 1993 Form 10-K
10(n)	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(o)	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(p)	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(q)	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(r)	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")
10(s)	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(t)	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(u)	Line of Credit Note dated July 31, 1995	Incorporated by reference to Exhi the Annual Report on Form 10-KSB June 30, 1995 ("1995 Form 10-K")

Exhibit Number	Description	Method of Filing
10(v)	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(w)	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(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 March 20, 1997.	Incorporated by reference to Exhi the Annual Report on 1997 Form 10
10(z)	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
10(aa)	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(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 December 10, 1997.	Incorporated by reference to Exhi the Annual Report on 1997 Form 10
10(ad)	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(ae)	Amendment to Loan agreement between the	Incorporated by reference to Exhi the Annual Report on 1998 Form 10

Exhibit Number	Description	Method of Filing
	Company and Corestates Bank, dated June 1998.	
10(af)	Line of Credit Note dated March 11, 1999	Incorporated by reference to Exhi the Annual Report on 1999 Form 10
10(ag)	Taxable Variable Rate Demand/Fixed Rate Revenue Bonds, Series of 1999	Incorporated by reference to Exhi the Annual Report on 1999 Form 10
10(ah)	Philadelphia Authority for Industrial Development	Incorporated by reference to Exhi the Annual Report on 1999 Form 10

	Tax-Exempt Variable Rate Demand/Fixed Revenue Bonds (Lannett Company, Inc. Project) Series of 1999	
10(ai)	Reimbursement and Agreements supporting bond issues	Incorporated by reference to Exhi the Annual Report on 1999 Form 10
10(aj)	Amendment No. 1 to Reimbursement Agreement and Waiver	Incorporated by reference to Exhi the Annual Report on 1999 Form 10
10(ak)	Employment Agreement between the Company and Vlad Mikijanic	Incorporated by reference to Exhi the Annual Report on 1994 Form 10
10(al)	Supply Agreement dated January 14, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(am)	Supply Agreement dated January 17, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(an)	Supply Agreement dated January 17, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(ao)	Supply Agreement dated February 11, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
10(ap)	Supply Agreement dated May 27, 1997	Incorporated by reference to Exhi the Annual Report on 1998 Form 10
11	Computation of Per Share Earnings	Filed Herewith
22	Subsidiaries of the Company	Incorporated by reference to the on Form 10-K f/y/e June 30, 1990
23(b)	Consent of Deloitte & Touche	Incorporated by reference to Exhi the Annual Report on 1999 Form 10