
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2022

OR

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

For the transition period from _____ to _____

Commission File No. 001-31298

LANNETT COMPANY, INC.

(Exact name of registrant as specified in its charter)

State of Delaware
State of Incorporation

23-0787699
I.R.S. Employer I.D. No.

1150 Northbrook Drive, Suite 155
Trevose, Pennsylvania 19053

Registrant's telephone number, including area code: (215) 333-9000
(Address of principal executive offices and telephone number)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	LCI	New York Stock Exchange

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Aggregate market value of common stock held by non-affiliates of the registrant, as of December 31, 2021 was \$57,651,567 based on the closing price of the stock on the NYSE.

As of July 31, 2022, there were 42,959,959 shares of the registrant's common stock, \$.001 par value, outstanding.

TABLE OF CONTENTS

<u>PART I</u>		
	ITEM 1. DESCRIPTION OF BUSINESS	4
	ITEM 1A. RISK FACTORS	22
	ITEM 2. DESCRIPTION OF PROPERTY	37
	ITEM 3. LEGAL PROCEEDINGS	37
	ITEM 4. MINE SAFETY DISCLOSURES	37
<u>PART II</u>		
	ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	38
	ITEM 6. [RESERVED]	40
	ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	41
	ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	57
	ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	57
	ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	57
	ITEM 9A. CONTROLS AND PROCEDURES	58
	ITEM 9B. OTHER INFORMATION	59
<u>PART III</u>		
	ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	60
	ITEM 11. EXECUTIVE COMPENSATION	65
	ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	95
	ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	97
	ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	98
<u>PART IV</u>		
	ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE	99
SIGNATURES		109

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. Any statements made in this Annual Report that are not statements of historical fact or that refer to estimated or anticipated future events are forward-looking statements. We have based our forward-looking statements on management's beliefs and assumptions based on information available to them at this time. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," "continue," or "pursue," or the negative other variations thereof or comparable terminology, are intended to identify forward-looking statements. Such forward-looking statements reflect our current perspective of our business, future performance, existing trends and information as of the date of this filing. These include, but are not limited to, our beliefs about future revenue and expense levels, growth rates, prospects related to our strategic initiatives and business strategies, express or implied assumptions about government regulatory action or inaction, anticipated product approvals and launches, business initiatives and product development activities, assessments related to clinical trial results, product performance and competitive environment, anticipated financial performance. The statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. We caution the reader that certain important factors may affect our actual operating results and could cause such results to differ materially from those expressed or implied by forward-looking statements. Lannett is under no obligation to, and expressly disclaims any such obligation to, update or alter its forward-looking statements, whether as a result of new information, future events or otherwise and other events or factors, many of which are beyond our control, including those resulting from such events, or the prospect of such events, such as public health issues including health epidemics or pandemics, such as the outbreak of the novel coronavirus ("COVID-19"), whether occurring in the United States or elsewhere, which could disrupt our operations, disrupt the operations of our suppliers and business development and other strategic partners, disrupt the global financial markets or result in political or economic instability. We believe the risks and uncertainties discussed under the "Item 1A - Risk Factors" and other risks and uncertainties detailed herein and from time to time in our SEC filings may affect our actual results.

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

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Business Overview

Lannett Company, Inc. and subsidiaries (the “Company,” “Lannett,” “we,” or “us”) was incorporated in 1942 under the laws of the Commonwealth of Pennsylvania and reincorporated in 1991 as a Delaware corporation. We primarily develop, manufacture, market and distribute generic versions of brand pharmaceutical products. Generics represent the vast majority of U.S. prescriptions today, accounting for approximately 90% of prescriptions in the 12-month period ending June 30, 2022. We report financial information on a quarterly and fiscal year basis with the most recent being the fiscal year ended June 30, 2022. All references herein to a “fiscal year” or “Fiscal” refer to the applicable fiscal year ended June 30.

Over the past 21 years, the Company has grown total net sales from \$12.1 million in fiscal year 2001 to \$340.6 million in fiscal year 2022. However, in recent periods, the Company’s sales have fallen due a period of industry decline. The Company generates revenue through filing and receiving approvals for abbreviated new drug applications (“ANDAs”), strategic partnerships and launches of additional manufactured drugs, as well as from products acquired from Silarx Pharmaceuticals, Inc. (“Silarx”) and Kremers Urban Pharmaceuticals Inc. (“KUPI”) in 2015. Management’s recent efforts to grow revenues include an emphasis on new product launches, strategic portfolio management and business development. We have launched 60 products since January 2018, anchored by 24 new partner agreements, covering 36 new product launches, and complemented by 24 acquired or internally developed products. Over the last four years, new product launches have generated more than \$620 million of revenues.

Today, we market more than 100 products, mainly tablet, capsule or liquid oral generic medications. Examples of marketed products include generics such as Posaconazole, Fluphenazine, Levothyroxine, Sumatriptan and our NDA-based product Numbrino. Our portfolio includes medications across multiple and diverse groups of therapeutic categories. The 60 products we launched have contributed to our revenue base, diversified our portfolio and reduced product concentration. For the fiscal years 2017, 2018 and 2019, the Company’s top two products contributed, on average, approximately 40% of revenues, which included sales of Levothyroxine Tablets through a distribution agreement with Jerome Stevens Pharmaceuticals that expired and was not renewed in March 2019. By comparison, our top two products accounted for approximately 28%, 19% and 15% of revenues for fiscal years 2020, 2021 and 2022, respectively.

The Company’s pipeline includes 6 ANDAs currently pending at the FDA and more than 20 additional product candidates in various stages of development. More recent additions to our pipeline include high value, large market opportunity products that are often partnered. These higher value products generally have more technical, manufacturing, regulatory and operational complexity and require significant capital investment for specialized and dedicated manufacturing facilities and equipment, making them more durable product opportunities with fewer expected competitors. Four of the product candidates, generic Advair Diskus and generic Flovent Diskus, combination drug/devices for the treatment of asthma, and biosimilar Insulin Glargine and biosimilar Insulin Aspart for the treatment of diabetes both delivered in a device, are widely used medications that we believe represent a combined U.S. addressable market opportunity of approximately \$16 billion in 2022, according to IQVIA although actual market sales will be less. Most of this value is related to the entire Insulin Glargine and Aspart markets.

Over the past four years, to help manage the recent decline in our sales and profitability, we have made cost and operational discipline, along with reducing our debt, key priorities. Since the beginning of calendar year 2018, we lowered our gross debt level by more than \$300 million and in April 2021, we completed a refinancing of our existing debt, which significantly extended the maturity of our debt and enhanced our capital structure. We have streamlined our operations by restructuring and have exited the pain management Active Pharmaceutical Ingredients (“APIs”) business. We consolidated plants and facilities, and substantially increased production and output at our manufacturing site in Seymour, Indiana. In addition, we have reduced costs companywide; these efforts included substantial workforce reductions, a \$66 million cost savings plan implemented in 2018 (approximately half of which we re-invested into the business), a \$15 million cost reduction plan implemented in July 2020 and a \$20 million cost reduction plan implemented in November 2021 (the “2021 Restructuring Plan”). The 2021 Restructuring Plan includes consolidating our manufacturing footprint by transferring certain liquid drug production from our Carmel, New York facility to our main plant in Seymour, Indiana, as well as other cost savings measures focused on improving efficiencies and reducing costs.

Competitive Strengths

Diversified product portfolio. We currently market over 100 products across multiple therapeutic categories. Our top two products accounted for approximately 15%, 19% and 28% of revenues for fiscal years 2022, 2021 and 2020, respectively.

Attractive mid to longer term pipeline. We believe we have an attractive pipeline of large product opportunities that will enable us to grow revenue and profitability. For example, we filed the ANDA for generic Advair on April 1, 2021 and expect to launch in calendar year 2024, if approved. We have completed the clinical trials for the other dry powder inhaler we have in partnership with Respirent, generic Flovent Diskus. Additionally, we are focused on advancing our biosimilar Insulin Glargine and Insulin Aspart pipeline products. We filed our Investigational New Drug (“IND”) application for Insulin Glargine in December 2021 to commence our pivotal clinical trial. This trial is ongoing and top-line results of the study are expected to be available at the end of calendar year 2022. We anticipate filing the BLA for the biosimilar Insulin Glargine in early calendar 2023 and a potential launch in calendar year 2024. The biosimilar Insulin Aspart pipeline product is expected to potentially launch in calendar year 2025. We believe leveraging our existing relationships to collaborate on new opportunities will enable us to further strengthen our pipeline.

Extensive experience with productive partnerships. We continue to diversify and strengthen our business by entering into partnerships to distribute both externally developed products and authorized generic equivalents of brand products. We are focused on the U.S. generics market, but our partnership opportunities are global, as demonstrated by our partnerships with HEC, Respirent, Rivopharm, IBSA, Cediprof/Neolpharma and Sinotherapeutics, due to our experience, expertise and reliability in commercialization in the U.S. market. In fiscal year 2022, we successfully launched five new products, including our first powder for oral suspension product Mycophenolate POS. We believe that our success with these products, along with existing alliances, has established us as a strong development and marketing partner creating the foundation for continued productive partnership alliances in the future.

Strong internal product development capabilities. We believe that our manufacturing expertise and skilled product development capabilities will contribute to being competitive in the generic pharmaceutical market. We intend to dedicate significant resources toward developing new products because we believe our success is linked to our ability to continually introduce new generic products into the marketplace.

Strong track record of obtaining regulatory approvals for new products. During the past three fiscal years, we have received one NDA approval and 13 ANDA approvals from the FDA. Although the timing of ANDA approvals by the FDA is uncertain, we currently expect to continue to receive more during Fiscal 2023. These regulatory approvals will enable us to manufacture and supply a broader portfolio of generic pharmaceutical products.

Market orientation. We believe that our success depends on our ability to properly assess the competitive market for new products, including customer interest, the number of competitors, market share opportunity and the generic unit price erosion. We look to reduce our exposure to competitive influences that may negatively affect our sales and profits, including the potential saturation of the market for certain products, by continuing to emphasize a strong product selection process with an orientation to internal development in areas where we have technological and manufacturing expertise and external development partnerships to access other technologies and associated manufacturing capacity as well as risk sharing.

Leverage our flexibility and speed. We believe flexibility and speed in decision-making are critical success factors in the generic industry. Our mid-sized scale and relatively less complex organizational structure as a U.S. based organization results in a nimbler response to securing market opportunities.

Dependable U.S.-based supplier to our customers. We believe we are viewed by our customers as a strong, dependable supplier due in part to our agile and reliable operations network, as well as having a less complex manufacturing/supply chain based mostly within the U.S. We have cultivated productive customer relationships by focusing on what is important to them and their patients, along with maintaining adequate inventory levels, employing a responsive order filling system and prioritizing timely fulfillment of those orders. Unless a later delivery date is specified, a majority of our orders are filled and shipped within two days after we receive the order.

Reputation for regulatory compliance. We have a strong track record of regulatory compliance. We believe that we have effective regulatory compliance capabilities and practices due to: (1) the hiring of qualified individuals, (2) the implementation of comprehensive Standard Operating Procedures (“SOP”), (3) adherence to current Good Manufacturing Practices (“cGMP”) and (4) operating an owned manufacturing network less complex than larger firms. Our agility in responding quickly to market events and a reputation for regulatory compliance positions us to avail ourselves of market opportunities as they materialize.

We continue to pursue “Quality by Design” for improving and maintaining product quality in our pharmaceutical development and manufacturing facilities, which is outlined in the Food and Drug Administration (“FDA”) report entitled, “Pharmaceutical Quality for the 21st Century: A Risk-Based Approach.” The FDA periodically inspects our operations to determine our compliance with applicable laws and regulations. During an inspection, the FDA may issue an inspection report, entitled a “Form 483,” containing potentially objectionable observations arising from an inspection. Additionally, at the close of each inspection, FDA will issue an Establishment Inspection Report (“EIR”) that details the final classification for each site, either No Action Indicated (“NAI”), Voluntary Action Indicated (“VAI”), or Official Action Indicated (“OAI”). The FDA’s observations may be minor or severe in nature and the degree of severity is generally determined by potential consequences to the consumer. By strictly complying with cGMPs and the various FDA guidelines as well as adherence to our Standard Operating Procedures, we have never received a cGMP Warning Letter in more than 70 years of business.

Experienced management team. We have been focused on maintaining and augmenting the quality of our management team in anticipation of continuing growth. Our team is distinctive with regard to their generic industry tenure and extensive U.S. focus. We have hired experienced personnel from large, established, pharmaceutical companies as well as competing generic companies to complement the skills and knowledge of the existing management team. As we continue to grow, additional personnel may need to be added to our management team and we intend to hire the best people available to expand the knowledge base and expertise within our team.

Business Strategies

Focus on the large U.S. generic market and larger U.S. brand market opportunities

We believe generics are the foundation of efficient pharmaceutical care and are estimated to be approximately 90% of all U.S. pharmaceutical prescription volume with an IQVIA value of over \$50 billion for the 12-month period ending June 30, 2022. While that estimate likely well exceeds actual market size, Lannett's opportunity is significant relative to Lannett's size. Meanwhile, the brand market subject to eventual genericization exceeds \$500 billion, according to IQVIA. As new branded products become off patent and existing generic product opportunities become available, we will seek to generate new business through both internal development and partnerships.

We are focused on increasing our profit in the U.S. generic pharmaceutical industry while directing additional resources on the development of new products. We look to grow revenue and profitability by expanding our line of generic products, increasing unit sales to current customers, creating manufacturing efficiencies and managing our overhead and administrative costs.

Emphasis on in-line execution

We have a broad portfolio of existing generics and we continually look to optimize the share and value of our existing portfolio. We look to capitalize on competitor supply disruptions, which occur frequently in the industry of both a shorter and longer duration. We seek to reduce the cost of our products through various life cycle management approaches including increasing the efficiency of our plant, and our product manufacturing yields, and lowering incipient and API costs from third-party suppliers.

Strategic expansion of our product offering

We have three primary strategies for expanding our product offerings: (1) entering into product development partnerships or strategic alliances with third-party product developers and formulators; (2) deploying our experienced R&D staff to develop products in-house; and (3) purchasing ANDAs or New Drug Applications ("NDA") from other manufacturers. We expect that each strategy will facilitate our identification, selection and development of additional pharmaceutical products that we may sell to our existing network of customers.

We are focused on the U.S. market, but our business development efforts are global. Our relationships with global partners and our track record of delivering regulatory and commercialization expertise to global biopharmaceutical companies is a competitive advantage and offers significant opportunities for future growth. Between January 2018 and June 2022, the number of alliances that our business development efforts have secured increased significantly and we have acquired or in-licensed over 75 ANDA products as a result of these efforts.

One of our major strategic partnerships was struck in October 2019 when the Company announced it had entered into an exclusive U.S. distribution agreement for the therapeutically equivalent generic of ADVAIR DISKUS® (Fluticasone Propionate – Salmeterol Xinafoate Powder Inhaler) of Respirent Pharmaceuticals Co. Ltd. ADVAIR DISKUS had U.S. sales of \$2.8 billion for the 12 months ending June 2022, according to IQVIA, although the accessible generic market is expected to be lower. The Company submitted to the FDA an ANDA for the product on April 1, 2021. We received a Complete Response Letter ("CRL") from the FDA regarding the ANDA and, due to additional trials that need to be conducted, we now expect to launch in calendar year 2024, if approved. Under the agreement, the Company will commence U.S. distribution of the product after FDA approval. The Company made an upfront payment and will make future milestone payments and receive a portion of the net profits once it commences distribution of the product. The term of the agreement is 12 years, which begins upon commencement of distribution.

As an expansion in our partnership with Respirent, in August 2020, the Company announced it had entered into an exclusive U.S. distribution agreement for a second product, the therapeutically equivalent generic of Flovent® Diskus® (Fluticasone Propionate Powder Inhaler). U.S. sales of Flovent Diskus were \$99 million for the 12 months ending June 2022 according to IQVIA, although actual accessible generic market values are expected to be lower. Development of the product is underway and we anticipate filing the product with the FDA in Fiscal 2023. Subsequently, the Company announced further expansion of the relationship to target the therapeutically equivalent generic to SPIRIVA® handihaler®. U.S. sales of SPIRIVA handihaler were approximately \$1.4 billion for the 12 months ending June 2022 according to IQVIA.

In 2016, the Company announced a strategic partnership with YiChang HEC ChangJiang Pharmaceutical Co., Ltd, an HEC Group company, to co-develop a biosimilar insulin glargine pharmaceutical product for the U.S. market. The product is currently in development, and a healthy human Pharmacokinetic/Pharmacodynamic modeling (“PK/PD”) clinical trial was conducted in South Africa. The study met all of its primary endpoints. Subsequently, Lannett held a Biosimilar Biological Product Development Type II meeting with the FDA. The feedback was consistent with our expectation. The Company plans to manage the clinical and regulatory steps for FDA approval and will have the exclusive U.S. marketing rights to the product. Drug substance and drug product have been produced at a newly commissioned facility and we submitted an Investigational New Drug Application (“IND”) on December 20, 2021. The pivotal clinical trial is now underway and top-line results of the study are expected to be available at the end of calendar year 2022. We anticipate filing the BLA for the biosimilar Insulin Glargine in early calendar 2023 and a potential launch in calendar year 2024. In February 2021, the Company expanded its strategic relationship with HEC and added a new co-development agreement for biosimilar Insulin Aspart, which is expected to potentially launch in calendar year 2025. In addition, we will market other generic products developed by HEC with several launches expected over the next few years.

We have several other existing supply and development agreements with both international and domestic companies. In the past year, we have added several non-oral dosage forms through partnership, including Sevoflurane Inhalation Solution and Fludarabine injectable. Like our drug/deuce respiratory and injectable insulin development programs, these new dosage forms are subject to relatively less competition and, thus, offer the prospect of more relative value. In addition, we are currently in negotiations on similar agreements with other companies through which we can market and distribute future products. We intend to continue to capitalize on our strong customer relationships to build our market share for such products.

Internal research and development is also an important prong of our growth strategy. Examples of approved internally developed products include Chlorpromazine and butalbital, acetaminophen and caffeine (“BAC”), and co-development projects such as Sumatriptan Nasal Spray. Moreover, we have filed sucralfate oral suspension and lisdexamphetamine with the FDA. Opportunistically, we may increase our focus on specialty markets within the pharmaceutical industry.

Key Products

Key products were selected based on current and future sales and profitability. In aggregate, the 11 products noted below accounts for approximately 39% of Lannett sales in Fiscal 2022. While these products are our top selling products, margins may vary well above or below average margins based on changing competitive circumstances as well as product partnership royalties, where applicable.

Amphetamine IR Tablets

Amphetamine IR Tablets are used to treat ADHD and narcolepsy. It is the generic version of Adderall.

Amphetamine ER Capsules

Amphetamine ER Capsules are indicated for use to treat ADHD. Studies show that the drugs improve attention and focus and reduces impulsive behaviors.

[Table of Contents](#)

Dicyclomine Tablets

Dicyclomine tablets are indication for the treatment of functional bowel disorder and irritable bowel syndrome.

Fluphenazine Tablets

Fluphenazine tablets are used for the management of manifestations of psychotic disorders.

Levothyroxine Capsules

Levothyroxine capsules are soft gel capsules used to treat patients with hypothyroidism and other conditions. It is the generic version of the branded drug Tirosint®.

Methylphenidate CD Capsules

Methylphenidate CD is a central nervous system (“CNS”) stimulant indicated for the treatment of Attention Deficit Hyperactivity Disorder (“ADHD”). This product is the authorized generic version of the brand Metadate CD®.

Methylphenidate ER

Methylphenidate ER is indicated for treatment of ADHD, Attention Deficit Disorder.

Numbrino Nasal Solution

Numbrino Nasal Solution is used for the induction of local anesthesia of the mucous membranes when performing diagnostic procedures and surgeries on or through the nasal cavities in adults.

Posaconazole DR Tablets

Posaconazole DR tablets are used to prevent fungal infections in people who have a weak immune system resulting from certain treatments or conditions. The product is the generic version of Noxafil®.

Probenecid Tablets

Probenecid tablets are indicated for the treatment of the hyperuricemia associated with gout and gouty arthritis. It is the generic version of the branded drug Benemid®.

Verapamil SR Tablets

Verapamil SR tablets are a calcium channel blocker used in the treatment of high blood pressure, arrhythmia and angina. We market the authorized generic of Verelan PM.

The Company is a party to a Distribution and Supply Agreement (“Agreement”) with Societal CDMO Gainesville LLC (“Societal”) for the distribution of Verapamil SR tables. On May 5, 2022, the Company received a letter from Societal purporting to terminate the Agreement claiming that Lannett was in default under the Agreement. Societal has since rescinded the letter of termination and we continue to partner on the distribution and supply of the product. The Agreement is set to expire on December 31, 2024.

Sales & Marketing and Customers

We enter into contracts with Group Purchasing Organizations (“GPOs”) to sell our products to their members who are our direct and indirect customers. The largest GPOs are ClarusOne, Red Oak Sourcing and Walgreens Boots Alliance Development. Net sales to these GPOs accounted for 72% of total net sales in fiscal year 2022 and 73% in fiscal year 2021.

We sell our pharmaceutical products to generic pharmaceutical distributors, drug wholesalers, chain drug retailers, private label distributors, mail-order pharmacies, other pharmaceutical companies, managed care organizations, hospital buying groups, governmental entities and health maintenance organizations. The pharmaceutical industry’s largest wholesale distributors, Amerisource Bergen, McKesson and Cardinal Health, each associated with one of the GPOs mentioned above, accounted for 24%, 19% and 14%, respectively, of our total net sales in fiscal year 2022, 27%, 21% and 12%, respectively, of our total net sales in fiscal year 2021 and 25%, 23% and 11%, respectively, of our total net sales in fiscal year 2020.

Sales to wholesale customers include “indirect sales,” which represent sales to third-party entities, such as independent pharmacies, managed care organizations, hospitals, nursing homes and group purchasing organizations, collectively referred to as “indirect customers.”

We enter into definitive agreements with our indirect customers to establish pricing for certain covered products. Under such agreements, the indirect customers independently select a wholesaler from which to purchase the products at these agreed-upon prices. We will provide credit to the wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler’s invoice price. This credit is called a “chargeback.” For more information on chargebacks, see the section entitled “Critical Accounting Policies and Estimates” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-K. These indirect sale transactions are recorded on our books as sales to wholesale customers.

We promote our products through direct sales, trade shows and group purchasing organizations’ bidding processes. We also have a limited number of products that are marketed as part of our customers’ “private label” programs. Private label products are manufactured by Lannett but distributed to the customer with a label typically containing the name and logo of the customer. Private label allows us to leverage our internal sales efforts by using the sales and marketing efforts of those customers.

Strong and dependable customer relationships have created a positive platform for us to increase our sales volumes. Historically and in fiscal years 2022, 2021 and 2020, our advertising expenses have been modest. When our sales representatives make contact with a customer, we will generally offer to supply the customer our products at fixed prices. Fixed prices change often in response to the competitive environment. If accepted, the customer’s purchasing department will coordinate the purchase, receipt and distribution of the products throughout its distribution centers and retail outlets. Once a customer accepts our supply of a product, the customer typically expects a high standard of service, including timely receipt of products ordered, availability of convenient, user-friendly and effective customer service functions and maintaining open lines of communication.

We believe that retail-level consumer demand dictates the total volume of sales for most of our various products. In the event that wholesale and retail customers adjust their purchasing volumes, we believe that consumer demand will be fulfilled by other wholesale or retail sources of supply. As a result, we attempt to develop and maintain strong relationships with most of the major retail chains, wholesale distributors and mail-order pharmacies in order to facilitate the supply of our products through whatever channel the consumer prefers. Although we have agreements with customers governing the transaction terms of our sales, generally there are no minimum purchase quantities applicable to these agreements. Our practice of maintaining adequate inventory levels, employing a responsive order filling system and prioritizing timely fulfillment of those orders have contributed to a strong reputation among our customers as a dependable supplier of high-quality generic pharmaceuticals.

Competition

The manufacturing and distribution of generic pharmaceutical products is a highly competitive industry and that competition has intensified in recent years. Competition is based primarily on supply and price. In addition to competitive pricing, our competitive advantages are our ability to provide strong and dependable customer service by maintaining adequate inventory levels, employing a responsive order filling system and prioritizing timely fulfillment of orders. We look to ensure that our products are available from national wholesale, chain drug and mail-order suppliers as well as our own warehouse. The modernization of our facilities, hiring of experienced staff and implementation of inventory and quality control programs have improved our competitive cost position. Our primary competitors across our product portfolio are Teva Pharmaceutical Industries Ltd., Aurobindo Pharma Limited, and Amneal Pharmaceuticals Inc.

Validated Pharmaceutical Capabilities

The Company's 432,000 square foot Seymour, Indiana facility contains approximately 107,000 square feet of manufacturing space as well as a leased 116,000 square foot temperature/humidity-controlled storage warehouse. The Seymour facility has had satisfactory inspections conducted by the FDA and EMA and similar regulatory authorities of Japan, Taiwan, Brazil, China, Korea and Turkey. As of June 30, 2022, the facility has a production capacity of approximately 4.0 billion doses based on our current product mix and plant configuration.

Lannett owns two facilities in Philadelphia, Pennsylvania. The research and development facilities are located in a 31,000 square foot facility at 9000 State Road and a second, 63,000 square foot facility that is located within one mile of the State Road facility at 9001 Torresdale Avenue, Philadelphia, PA. The latter facility contains our analytical research and development and quality control laboratories. We have adopted many systems and processes to ensure adherence to FDA requirements and we believe we are operating our facilities in substantial compliance with the FDA's cGMP regulations.

During Fiscal 2022, the Company completed the sale of its 110,000 square foot manufacturing facility located in Carmel, New York. In connection with the sale, the buyer will continue to produce certain liquid products on behalf of the Company at the Carmel facility while the Company completes the transfer of such products to its Seymour, Indiana plant.

Raw Materials and Finished Goods Suppliers

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

Over time, we have entered into supply and development agreements with Summit Bioscience LLC, Sinotherapeutics, Respirant Pharmaceuticals Co., Ltd., HEC Pharm Group, Dexcel Pharma, Elite Pharmaceuticals, RivoPharm and various other international and domestic companies. The Company is currently in negotiations on similar agreements with other companies and is actively seeking additional strategic partnerships, through which it will market and distribute products manufactured in-house or by third parties. The Company also continues to assess product acquisitions that are a strategic fit and accretive to the business.

Research and Development Process

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

- 1.) *Formulation and analytical method development.* After a drug candidate is selected for future sale, product development scientists perform various experiments to incorporate excipients with the API(s) to produce a robust, stable and bioequivalent dosage form that will be pharmaceutically and therapeutically equivalent to the Reference Listed Drug (“RLD”) and meet all FDA requirements for approval. These experiments will result in the creation of a number of product formulations to determine which formula will be most suitable for our subsequent development process. Various formulations are tested in the laboratory to measure results against the RLD. During this time, we may use reverse engineering methods on samples of the RLD to determine the type and quantity of inactive ingredients. During the formulation phase, our R&D chemists begin to develop analytical testing methods. The successful development of various test methods will allow us to test developmental and commercial batches of the product in the future. All of the information used in the final formulation, including the analytical test methods adopted for the generic drug candidate, will be included as part of the Chemistry, Manufacturing and Controls (“CMC”) section of the ANDA submitted to the FDA.
- 2.) *Scale-up and tech transfer.* After product development, our R&D formulators and our R&D chemists agree on a final formulation for use in moving the drug candidate forward in the developmental process. We then attempt to increase the batch size of the product. The batch size represents the standard magnitude to be used in manufacturing a commercial batch of the product. The determination of batch size affects the amount of raw materials that are used in the manufacturing process and the number of expected dosages to be created during the production cycle. We attempt to determine batch size based on the available production equipment and unit sales projections. The scaled-up batch is then generally produced in our commercial manufacturing facilities. During this manufacturing process, we document the equipment used, the amount of time in each major processing step and any other steps needed to consistently produce a batch of that product.
- 3.) *Bio equivalence and/or clinical testing.* After a successful scale-up of the generic drug, we schedule and manufacture at least three submission batches of the selected drug product. One of these batches is used to perform any required bioequivalence testing on the product and in some cases, clinical testing, if required by the FDA. These studies, which are generally outsourced to third parties, comply with FDA product-specific guidance documents. The results of this testing are then documented and reported to us to determine whether the generic drug product and RLD are bioequivalent. Success, in this context, means that we are able to demonstrate that our product is comparable to the RLD because they are equal in the rate and extent to which the API becomes available at the site(s) of drug action and thus are therapeutically equivalent.

Bioequivalence and a stable formula are the primary requirements for a generic drug approval (assuming the manufacturing plant is in compliance with the FDA’s cGMP regulations). Lengthy and costly clinical trials proving safety and efficacy, which are required by the FDA for NDAs (and may include 505(b)(2)NDAs), are typically unnecessary for generic products. If the results are successful, we will continue the collection of information and documentation for assembly of the drug application.

- 4.) *Submission of the ANDA for FDA review and approval.* An ANDA is a comprehensive submission that contains, among other things, data and information pertaining to the proposed labeling, active pharmaceutical ingredient, excipients, container/closure system, drug product formulation, drug product manufacturing process, drug product testing specification, methodology and results, and drug product stability. Bioequivalence study reports are also included in the ANDA submission.

[Table of Contents](#)

Our ANDAs and NDAs are submitted to the FDA electronically using the most current Electronic Common Technical Document standards. Lannett strives to achieve a first cycle approval for each ANDA under the Generic Drug User Fee Amendments of 2012 (“GDUFA”) review metrics.

In fiscal year 2022, we launched several products from internal and external sources. The following summary contains more specific details regarding our latest product launches. Market data was obtained from IQVIA although actual generic market sizes are expected to be smaller.

Product Launch	Month of Launch	Equivalent Brand	Total Market Size as of June 2022 (\$ in millions)
1 Mycophenolate Mofetil Powder for Oral Suspension	September, 2021	Cellcept®	\$ 51.8
2 Baclofen Tablets 5mg	September, 2021	Lioresal®	\$ 23.1
3 Olmesartan Tablets	October, 2021	Benicar®	\$ 59.1
4 Febuxostat Tablets	November, 2021	Uloric®	\$ 37.0
5 Bupropion XL Tablets	June, 2022	Wellbutrin XL®	\$ 649.4

We have additional products of various dosage forms currently under development. Our developmental drug products are intended to treat a diverse range of indications. The products under development are at various stages in the development cycle—formulation, scale-up, clinical testing and/or FDA review.

The cost associated with each product that we are currently developing is dependent on numerous factors, including but not limited to, the complexity of the API chemical characteristics, the price of the raw materials and the FDA requirements for bioequivalence studies (as defined in the aforementioned product-specific guidance). With the introduction of GDUFA and additional guidance issued by the FDA, the cost to develop a new generic product varies but can total several million dollars.

In addition, we currently own several ANDAs for products that are not currently marketed and noted as Discontinued in FDA’s Orange Book. Occasionally, we review such discontinued products to determine if the market potential for any of these products has recently changed to make it attractive for us to reconsider manufacturing and selling. If we decide to commercially market one of these products, we evaluate the requirements necessary for commercial launch, including a filing strategy to properly report the relaunch to the FDA so that the product is moved to the Active section of the Orange Book.

In addition to the efforts of our internal product development group, we contract with outside firms for the formulation and development of several new generic drug products. These outsourced R&D products are at various stages in the development cycle—including formulation, analytical method development and testing and manufacturing scale-up. These products include various dosage forms that are intended to treat a diverse range of medical indications.

We intend to ultimately transfer the formulation technology and commercial manufacturing process for some of these R&D products to our own commercial manufacturing sites. We initiate outsourced R&D efforts to complement the progress of our own internal R&D efforts.

We recorded R&D expenses of \$22.4 million in fiscal year 2022, \$24.2 million in fiscal year 2021 and \$30.0 million in fiscal year 2020. These amounts included expenses associated with bioequivalence studies, internal development resources as well as outsourced development and licensing. While we manage all R&D from our principal executive office in Trevose, Pennsylvania, we have also been taking steps to leverage partners to capitalize on favorable development costs in other countries. We have strategic relationships with various companies that provide various development services, including, but not limited to, contract manufacturing and API supply. In addition, U.S.-based research organizations have been engaged for product development to enhance our internal development. Fixed payment arrangements are established between Lannett and these research organizations and in some cases include a royalty provision. Development payments are normally scheduled in advance, based on attaining development milestones.

Human Capital Management

We provide affordable medicines to improve the quality of life of our patients. It is our mission and the foundation of our Lannett Cares culture. Our mission guides the way we work and we strive to put people and patients at the forefront of what we do. We are thus committed to providing a positive, inclusive and team-oriented workplace. We encourage and promote open communication with our teams, aspire to strong social connections, and provide learning and growth opportunities to our employees. We want our people, our business and our corporate responsibility to reflect the core values of Lannett.

Lannett helps bring together employees with a wide variety of backgrounds, skills and cultures. Combining such a wealth of talent and resources creates the diverse and dynamic teams that consistently drive our success. As of June 30, 2022, we have more than 560 full-time employees. Employees identifying as female represent approximately 46% of our employee population and approximately 43% of employees at the leadership level (employees at manager and above) at June 30, 2022. These ratios are consistent with approximately 44% and approximately 41% respectively as of June 30, 2021. Approximately 30% of the employees holding positions at the Vice President level and above identify as female.

Employee rewards, growth and development

We strive to ensure that our employees are provided equal opportunity and equal treatment. With a focus on all our employees, we offer a variety of resources and rewards to support their health and well-being and career aspirations. Lannett is committed to attracting and retaining the best talent by providing competitive benefits, supporting continued learning for employees, and encouraging employees to gain exposure across many aspects of our business.

Lannett recognizes the importance, contributions and performance of its employees in pursuing, achieving and supporting the company's business objectives. Therefore, Lannett is committed to designing and maintaining compensation policies and programs that promote equitable job and position evaluation, and competitive and performance-based pay. We have an annual short-term incentive program for eligible employees to be rewarded, in part, based on their individual goal performance, rather than being based solely on the Company's financial performance. Under this program, an employee's potential bonus is a blend of corporate goals and individual goals. We are committed to remaining transparent on payout opportunities and, as part of the quarterly earnings release process, Lannett communicates progress toward our corporate goals. In addition to the annual short-term incentive opportunity, we are committed to rewarding employees for exceptional performance during the year including (1) celebrating length of service milestones, (2) granting recognition awards and (3) for eligible employees, an annual discretionary long-term incentive award.

In addition to bonus opportunities, we offer a competitive benefits package, including medical, dental, and vision care. We offer a variety of wellness programs including a personal health survey and individual health coaching, fitness challenges and incentives for incremental HSA contributions, on-site health screenings, and wellness webinars. We are also focused on supporting our employees in reaching their personal financial goals. We have a 401k defined contribution plan (the "Plan") available for substantially all employees, which includes a matching contribution during each Plan year, subject to certain eligibility requirements. Further, we offer an Employee Stock Purchase Program ("ESPP"), which allows eligible employees to purchase shares of the Company's stock at a discount to nurture an ownership mentality in everyone who works at the Company. Additionally, in 2022 and 2021, we provided access to financial wellness webinars with Morgan Stanley, which included a variety of topics including college planning, budgeting, investing and retirement.

Moreover, Lannett is committed to supporting our employees in their continued learning and career development. We offer employees training for their current positions and opportunities to access learning platforms. We also provide tuition reimbursement to eligible employees for all or a portion of the costs incurred by the employee to attend educational courses related to the successful performance of their duties. Employees are encouraged to seek advancement opportunities and obtain promotions, transfers and career guidance from all levels of management within Lannett and Human Resources.

We understand the importance of employee satisfaction and aim to improve the employee experience. We regularly conduct and share engagement surveys with employees to obtain feedback on various matters, including executive leadership effectiveness, communication, total rewards, and development and recognition. Various actions taken by management have been a direct result of suggestions provided as part of these surveys and follow-up focus groups. During the COVID-19 pandemic, for example, we spent time to gauge the pulse of our employees and their needs, including childcare needs, using surveys and Q&A sessions.

The Company's total employee turnover rate for fiscal year 2022, which the Company defines as the ratio of the number of separated employees during the year to the average active employees during fiscal year 2022, was approximately 27%, down from approximately 37% in fiscal year 2021. The turnover rate at our Philadelphia, PA locations was approximately 25%, up from approximately 17% in fiscal year 2021. At the Seymour, IN facility, the turnover rate was approximately 28%, down from approximately 47% in fiscal year 2021. The turnover rate in fiscal year 2021 was higher than our historical average primarily as a result of competing demands for manufacturing skills. Prior to the sale of the facility, which included retention of employees by Chartwell Pharmaceuticals, the turnover rate in Carmel, NY was 11%, which is consistent with fiscal year 2021. The Company continues to focus on employee retention by establishing a purpose-driven and inclusive culture, investing in our employees, and providing transparency and opportunities for feedback to management.

Employee safety

A safe, healthy and secure work environment is among our top priorities for all employees, contractors and visitors. Our goal is to conduct business with minimal injuries and incidents and maintain compliance with applicable rules and codes. Management, as well as the Board of Directors, regularly review and monitor metrics on our safety performance. We also use these metrics to identify hazards for correction before an incident or injury occurs. If employees have concerns regarding safety, they are expected to report the concerns to their manager, to a member of the executive team, or by contacting the Company's anonymous whistleblower hotline.

In response to the COVID-19 pandemic, we have continued to prioritize safety and follow local, state, federal and Centers for Disease Control and Preventions ("CDC") mandates. When possible, employees have been directed to work from home throughout the duration of the pandemic. Employees are required to adhere to the CDC guidelines, social distancing and any employee experiencing any symptoms of COVID-19 has been informed by the Company to stay home and seek medical attention. We will continue to monitor COVID-19 protocols and the safety of our employees, contractors, and visitors as CDC recommendations evolve and restrictions are lifted or raised in our various states of operations.

Corporate social responsibility

Lannett believes that it is important to invest in the communities where we live, work and operate. Every year, Lannett and its employees give time and money to registered charities, schools, service clubs and community organizations. Our Charitable Contributions Policy focuses on employee involvement and is structured to provide (1) direct cash donations, (2) monetary matching for cash or goods donated by employees, and (3) monetary matching for time volunteered by employees. Lannett and our employees have participated in various charitable events throughout fiscal year 2022, including virtual charity walks, clothing and food drives, and blood drives. In addition, we have partnered with various charitable organizations to donate excess and short-dated product that would otherwise be unused. In the last two years, Lannett and its employees have raised or donated over \$2 million of pharmaceutical products, valued at wholesale acquisition cost, to a variety of worthy organizations, with our most recent emphasis on assisting local communities impacted by COVID-19. We believe in giving back to the people, causes and organizations that make a difference in the lives of others and that inspire our employees.

Environmental Matters

Lannett desires a more sustainable future with a reduced environmental footprint, effective use of natural resources and a multi-pronged approach to managing carbon intensity that strengthens our quality-oriented focus of providing affordable medicines to patients who depend on them. As the manufacturer of high-quality generic medicines, we are focused on developing, manufacturing and distributing safe and cost-effective medicines in the United States. Because we operate primarily in the U.S., our supply chain is more compact and resilient than many of our competitors and has a smaller corresponding carbon footprint. As a U.S.-based, publicly traded company, we are also subject to various strict U.S. compliance requirements. We follow regulations issued by the Environmental Protection Agency (“EPA”), Occupational Safety and Health Administration (“OSHA”), and various state environmental agencies in the U.S. We have consistently had a good record of compliance with these agencies. The majority of our large competitors that manufacture and are headquartered abroad are not always subject to the same set of requirements.

Our product portfolio has been migrating to lower relative volume products that, as a result of their market and production requirement, have a smaller environmental impact than higher relative volume products. We still strive to reduce the amount of natural resources consumed and minimize the amount of facility and pharmaceutical-related waste generated and disposed of in our communities. Measures include implementing projects that reduce the total amount of energy & natural resources utilized and improving manufacturing operations to improve production output per unit of resources used.

In addition, we participate in a drug takeback program, which provides channels for consumers to return unused prescriptions in an effort to divert waste from landfills and water supply. The Company works to reduce our environmental footprint with a general view towards reducing our effect on the climate while maintaining our focus on providing affordable medicines to our customers and ultimately the patients who depend on them. The Company has established core environmental, social and governance (“ESG”) aspirations and expects to monitor and review related goals and objectives as the ESG and climate change landscape and associated requirements and disclosure obligations evolve over time.

Government Regulation

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

Generally, FDA approval is required before a drug can be marketed. A new drug is one not generally recognized by qualified experts as safe and effective for its intended use and is submitted to the FDA as an NDA. The FDA review process for new drugs is very extensive and requires a substantial investment to research and test the drug candidate. A less burdensome approval pathway, the ANDA, is used for generic drug products. Typically, the investment required to develop a generic drug is less costly than the new drug. Some drug products may be submitted as a 505(b)(2) NDA, allowing some of the required research and testing to be waived by relying on FDA’s previous findings of safety and efficacy and literature. For additional information on the FDA approval pathways, refer to section 505(b)(1) and 505(b)(2) of the FD&C Act for NDAs, section 505(j) for ANDAs and resources available on the FDA website, www.fda.gov.

Manufacturing cGMP requirements

Among the requirements for a new drug approval, facilities identified in each application that perform operations related to the drug product, including drug substance manufacturers and outside contract facilities, must conform to FDA cGMP regulations. The FDA may perform general GMP and/or pre-approval inspections to assess a company's compliance with cGMP regulations. These inspections include reviews of procedures, operations, and data used to support the application and ongoing drug product manufacturing and testing. FDA's cGMP regulations require, among other things, quality control and quality assurance systems as well as the corresponding records and documentation. In complying with the evolving standards set forth in the cGMP regulations, we must continue to expend time, money and effort in many areas to ensure compliance.

Failure to comply with statutory and regulatory requirements subject a manufacturer to possible legal or regulatory action, including but not limited to, warning letters, consent decrees placing significant restrictions on or suspending manufacturing operations, injunctions, the seizure of non-complying drug products and/or civil and criminal penalties.

Adverse experiences with the product and certain non-compliance events may need to be reported to the FDA and could result in regulatory actions such as labeling changes or FDA request for application withdrawal or product removal.

Other regulatory requirements

With respect to post-market product advertising and promotion, the FDA imposes a number of regulations on entities that advertise and promote pharmaceuticals, which include, among others, standards for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the internet. The FDA has very broad enforcement authority under the FDCA and failure to abide by these regulations can result in penalties, including the issuance of a warning letter directing entities to correct deviations from FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA and state and/or federal civil and criminal investigations and prosecutions. Some of our products require participation in Risk Evaluation and Mitigation Strategies ("REMS") programs. A shared system REMS encompasses multiple prescription drug products and is developed and implemented jointly by two or more companies marketing the same products. These programs can add significant costs for the Company, depending on market share and complexity of the program.

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

DEA regulation

We maintain registrations and quota (limitations on purchases of controlled substances) with the DEA that enable us to receive, manufacture, store, develop, test and distribute controlled substances in connection with our operations. Controlled substances are those drugs that appear on one of five schedules promulgated and administered by the DEA under the CSA. The CSA governs, among other things, the distribution, recordkeeping, quota, handling, security and disposal of controlled substances. We are subject to periodic and ongoing inspections by the DEA and similar state drug enforcement authorities to assess our ongoing compliance with the DEA's regulations. Any failure to comply with these regulations could lead to a variety of sanctions, including the revocation or a denial of renewal of our DEA registration or quota, injunctions, or civil or criminal penalties. We are subject to an allocation of national (aggregate) quota for several products in our portfolio. Our quota requests require DEA approval in full for us to meet our forecasted customer demands. The DEA may or may not approve our quota requests in full based on factors that we do not control.

Fraud and abuse laws

Because of the significant federal and state funding involved in the provision of health care services, including Medicare and Medicaid funding, Congress and state legislatures have enacted, and federal and state prosecutors actively enforce, a number of laws whose purpose is to eliminate fraud, abuse, and corruption in the health care industry. Our business is subject to compliance with these laws, including both federal and state level anti-kickback laws and statutes aimed at eliminating false or fraudulent claims for payment. In addition, we are subject to the Foreign Corrupt Practices Act (“FCPA”), which prohibits offering, promising, authorizing, or making payments to any foreign government official to obtain or retain business. Because health care systems in many countries are run and funded at least in part by the government, the FCPA applies to interactions with most healthcare professionals and procurement representatives in many countries. Other countries have enacted similar anti-bribery laws.

Anti-kickback statutes

One of the primary federal laws aimed at curbing fraud and abuse in the federal health care programs is the Anti-Kickback Statute (“AKS”), which prohibits persons from knowingly and willfully soliciting, offering, receiving, or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service, for which payment may be made under a federal health care program such as Medicare, Medicaid or TRICARE. The definition of “remuneration” has been broadly interpreted to include anything of value, and can take many forms besides cash or compensation, including for example gifts and entertainment, certain discounts, the furnishing of free supplies, equipment or services, credit arrangements, rebates, and waivers of payments, including copayments. For example, under the AKS, a pharmaceutical company is prohibited from offering, directly or indirectly, any remuneration to induce Medicare patients to purchase the company’s drugs or to induce physicians to prescribe the company’s drugs. Several courts have interpreted the statute’s intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal health care covered business, the statute has been violated, regardless of the existence of other legitimate purposes for the remuneration. In addition, the AKS may not even require proof of a kickback recipient’s motivation for accepting an illegal payment, so long as he or she accepts the kickback knowingly and willfully. Penalties for AKS violations include criminal penalties and civil sanctions such as fines, imprisonment, and possible exclusion from Medicare, Medicaid, and other federal health care programs. In addition, claims for services or goods resulting from kickback arrangements are “false claims” within the meaning of the federal False Claims Act, discussed in more detail below.

The AKS is broad and prohibits many arrangements and practices that are lawful in businesses outside of the health care industry. Recognizing that the AKS is broad and may technically prohibit many innocuous or beneficial arrangements, Congress incorporated several statutory exceptions into the AKS’s framework, which protect certain types of business arrangements. Congress also authorized the Office of Inspector General of the U.S. Department of Health and Human Services (“OIG”) to issue a series of “regulatory safe harbors.” The “safe harbor” regulations describe various payment and business practices that, although they potentially implicate the AKS, are not treated as offenses under the statute. Both the statutory exceptions and regulatory safe harbors set forth requirements that, if met, assure health care providers and other parties to the arrangement that they will not be prosecuted under the AKS. The failure of a transaction or arrangement to fit precisely within one or more safe harbors does not necessarily mean that it is illegal. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities such as OIG.

Many states have adopted laws similar to the AKS. Some of these state prohibitions apply to referrals of patients for health care items or services reimbursed by any source, including commercial payers and private pay patients.

The federal government is aggressive and particularly active in pursuing suspected violations of the AKS against companies and certain sales, marketing, and executive personnel, for allegedly offering unlawful inducements to potential or existing customers in an attempt to procure their business (i.e. to promote drug sales). Additionally, a number of courts have ruled that a transaction that violates the AKS is unenforceable as against public policy.

In addition to applying federal and state anti-kickback statutes in enforcement actions involving the marketing of healthcare services and products, the federal government and various states also have enacted laws specifically regulating the sales and marketing practices of pharmaceutical companies. These laws and regulations may limit financial interactions between manufacturers and health care providers, require disclosure to the federal or state government and the public of such interactions (e.g. federal and state “Sunshine” laws), or require the adoption of compliance standards or programs. Many of these laws and regulations contain ambiguous requirements or require administrative guidance for implementation and, given the lack of clarity, our activities could be subject to the penalties under the pertinent laws and regulations.

False claims act statutes

The federal False Claims Act (“FCA”) imposes liability on any person or entity who, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment by a federal health care program. The Qui Tam provisions of the FCA allow private individuals with evidence of fraud to file suits on behalf of the federal government and to share in any monetary recovery. In recent years, the number of suits brought against health care providers by private individuals has increased dramatically, and in the federal government’s fiscal year 2021, the government recovered more than \$5 billion in judgements and settlements related to FCA violations in the health care industry. In addition to the FCA, various states have enacted false claims laws analogous to the FCA, which similarly enable private individuals to bring claims on behalf of a state or local government that has been defrauded. Because the Medicaid program is jointly funded by the federal government and the states, for example, qui tam plaintiffs frequently pursue both federal and state law claims.

When an entity is determined to have violated the FCA, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties in excess of \$22,000 per claim, as adjusted annually. Liability arises, primarily, when an entity knowingly submits or causes another to submit a false or fraudulent claim for payment to the federal government. The definition of a “false” claim is broad: In addition to actual or objective falsity, a claim may be considered “false” for purposes of liability under the FCA based on an express or implied certification that the person or company who submitted the claim has complied with all applicable statutes, regulations, or government contract provisions. For example, the federal government has used the FCA to assert liability on the basis of inadequate care, kickbacks, and other improper referrals; improper use of Medicare numbers by the provider of services; as well as allegations regarding misrepresentations with respect to the services rendered. In addition, the federal government has prosecuted companies under the FCA in connection with off-label promotion of products (because government health programs ordinarily do not cover “off-label” uses of medications). Our future activities relating to the reporting of wholesale or estimated retail prices of our products, the reporting of discount and rebate information and other information affecting federal, state, and third-party reimbursement of our products, and the sale and marketing of our products may be subject to scrutiny under these laws. We are unable to predict whether we will be subject to actions under the FCA or a similar state law, or the impact of such actions. However, the costs of defending such claims, as well as any sanctions imposed, could significantly affect our financial performance.

Foreign corrupt practices act

The U.S. Foreign Corrupt Practices Act of 1977, as amended, (the “FCPA”) and similar anti-bribery laws in other jurisdictions generally prohibit certain persons and entities, and their intermediaries, from providing anything of value to foreign government officials to obtain or retain business. In recent years, for example, pharmaceutical, medical device, and other health care companies have resolved FCPA allegations of bribing government procurement officials to win tenders and/or bribing public health care providers to prescribe products. If we are found to be liable for FCPA or other violations, we could suffer from civil and criminal penalties or other sanctions, including contract cancellations or debarment, and loss of our reputation, any of which could have a significant impact on our business, financial condition, and operations.

HIPAA and other fraud and privacy regulations

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) created two new federal crimes: health care fraud and false statements relating to health care matters. The HIPAA health care fraud statute prohibits, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any health care benefit program, including private payment programs. HIPAA’s extensive privacy and security regulations impose significant regulatory requirements on covered entities to acquire and implement information systems and to adopt business procedures and security measures designed to protect the privacy and security of patients’ protected health information. These particular HIPAA requirements have had a significant financial impact on many sectors of the health care industry because they impose extensive new requirements and restrictions on the use and disclosure of identifiable patient information, and the financial consequences of a data breach or unauthorized disclosure of patients’ protected health information, including data breaches caused by malicious third parties and inadvertent disclosures, can result in substantial civil fines, penalties and lawsuits, negative publicity, and costly remediation efforts imposed by the Office for Civil Rights of the U.S. Department of Health and Human Services. The HIPAA false statements statute prohibits knowingly and willfully falsifying, concealing, or covering up a material fact or making any materially false, fictitious, or fraudulent statement or representation in connection with the delivery of or payment for health care benefits, items, or services. A violation of this statute is a felony and may result in fines, imprisonment and/or exclusion from government-sponsored programs.

Pricing

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

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

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

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

Also, over the last few years, several states have passed legislation or have proposed legislation that have imposed price reporting requirements for both generic and brand pharmaceutical products and that include price transparency, price increase notification and supplement rebate requirements.

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

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

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

See Note 10 "Legal, Regulatory Matters and Contingencies" for a description of current state and federal anti-trust and price-fixing claims.

Other applicable laws

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

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

Employees

As of June 30, 2022, we had 564 full-time employees.

Securities and Exchange Act Reports

We maintain a website at www.lannett.com. We make available on or through our website our current and periodic reports, including any amendments to those reports, that are filed with the Securities and Exchange Commission ("SEC") in accordance with the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These reports include Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. This information is available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

The contents of our website are not incorporated by reference in this Form 10-K and shall not be deemed "filed" under the Exchange Act.

ITEM 1A. RISK FACTORS

Operational and Industry-specific Risks

The generic pharmaceutical industry is highly competitive.

We face strong competition in our generic product business. Revenues and gross profit derived from the sales of generic pharmaceutical products tend to follow a pattern based on certain regulatory and competitive factors.

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

If we are unable to successfully develop or commercialize new products on a timely basis, our revenues, gross margins and operating results will suffer.

Our future results of operations will depend to a significant extent upon our ability to successfully commercialize new generic products in a timely manner. There are numerous difficulties in developing and commercializing new products, including developing, testing and manufacturing products in compliance with regulatory standards in a timely manner; receiving requisite regulatory approvals for such products in a timely manner; the availability, on commercially reasonable terms, of raw materials, including APIs and other key ingredients; developing and commercializing a new product is time consuming, costly and subject to numerous factors that may delay or prevent the successful commercialization of new products; and commercializing generic products may be substantially delayed by unexpired patents covering the brand drug.

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

We have and will continue to enter into strategic alliances and collaborations with third parties, including companies based outside of the U.S., for the commercialization of some of our drug candidates. If those collaborations are not successful, we may not be able to capitalize on the market potential of these drug candidates.

We previously have and will continue in the future to seek third-party collaborators for the commercialization of some of our drug candidates on a selected basis, which adds a level of complexity to our supply network. If we do enter into any such arrangements with any third parties, we will likely have limited control over the amount and timing of resources that our collaborators dedicate to the development of our drug candidates. Our ability to generate revenues from these arrangements will depend on our collaborators' abilities and efforts to successfully perform the functions assigned to them in these arrangements. Many risks associated with relying on third-party collaborators for developing new products are beyond our control. For example, some of our collaboration partners may decide to make substantial changes to a product's formulation or design, may experience supply interruptions or financial difficulties or may have limited financial resources. Any of the foregoing may delay the development of new products or interrupt their market supply. In addition, if a third-party collaborator on a new product terminates our collaboration agreement or does not perform under the agreement, we may experience delays and additional costs in developing or replacing that product.

In addition, Lannett has multiple collaborations with partners outside of the U.S. and is subject to certain risks associated with having partners' operations located in foreign jurisdictions. It is difficult to predict the impact of geopolitical risks or other factors that may interrupt supply, regulatory approval and new product launches. Disruptions in our partners' operations or any deterioration in the geopolitical environment as a result of the above risks or otherwise could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The development, approval process, manufacture and commercialization of biosimilar products involve unique challenges and uncertainties, and our failure to successfully introduce biosimilar products could have a negative impact on our business, financial condition, results of operations and cash flows.

We and our partners and suppliers are actively working to develop and commercialize biosimilar products, including biosimilar Insulin Glargine and biosimilar Insulin Aspart. Although the Biologics Price Competition and Innovation Act (“BPCIA”) established a framework for the review and approval of biosimilar products and the FDA has begun to review and approve biosimilar product applications, there continues to be uncertainty regarding the regulatory pathway in the U.S., with the FDA continuing to issue and revise guidance related to its interpretation and implementation of the BPCIA. If we are unable to obtain FDA or other non-U.S. regulatory authority approval for our products, we will be unable to market them. Access to and the supply of necessary biological materials may be limited, and government regulations restrict access to and regulate the transport and use of such materials.

Even if our biosimilar products are approved for marketing, the products may not be commercially successful, may require more time than expected to achieve market acceptance, and may not generate profits in amounts that are sufficient to offset the amount invested to obtain such approvals. Market success of biosimilar products will depend on demonstrating to regulators, patients, physicians and payors (such as insurance companies) that such products are safe and effective and yet offer a more competitive price or other benefit over existing therapies. In addition, manufacturers of biologic products may try to dissuade physicians from prescribing or accepting biosimilar products. If our development efforts do not result in the development and timely approval of biosimilar products or if such products, once developed and approved, are not commercially successful, or if any of the above risks occur, our business, financial condition, results of operations and cash flows could be materially adversely affected.

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

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

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

Consistent with industry practice, the Company establishes provisions for chargebacks, rebates, returns and other adjustments to gross sales. The provisions are primarily estimated based on historical experience, future expectations, contractual arrangements with wholesalers and indirect customers and other factors known to management at the time of accrual. However, we cannot ensure that our reserves are adequate or that actual product returns, allowances and chargebacks will not exceed our estimates.

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

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

One such governmental program, known as the 340B Program, requires pharmaceutical manufacturers to enter into an agreement, called a pharmaceutical pricing agreement (“PPA”), with the Secretary of Health and Human Services. Under the PPA, the manufacturer agrees to provide front-end discounts on covered outpatient drugs purchased by specified providers, called “covered entities,” that serve the nation’s most vulnerable patient populations. Outpatient prescription drugs, over the counter drugs (accompanied by a prescription), and clinic-administered drugs within eligible facilities are covered.

In addition, legislative and regulatory proposals and enactments to reform health care and government insurance programs could significantly influence the manner in which pharmaceutical products and medical devices are prescribed and purchased. We expect there will continue to be federal and state laws and/or regulations, proposed and implemented, that could limit the amounts that federal and state governments will pay for health care products and services. The extent to which future legislation or regulations, if any, relating to the health care industry or third-party coverage and reimbursement may be enacted or what effect such legislation or regulation would have on our business remains uncertain. Since its enactment, there have been numerous judicial, administrative, executive, and legislative challenges to certain aspects of the Patient Protection and Affordable Care Act (“ACA”), and we expect there will be additional challenges and amendments to the ACA in the future. Additionally, the Trump administration issued various Executive Orders which eliminated cost sharing subsidies and various provisions that would impose a fiscal burden on states or a cost, fee, tax, penalty or regulatory burden on individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. Finally, Congress has introduced several pieces of legislation aimed at significantly revising or repealing the ACA. Although a number of these and other proposed measures may require authorization through additional legislation to become effective, and the Biden administration has reverse some of these measures, Congress has indicated that it will continue to seek new legislative measures to control drug costs. It is unclear whether the ACA will be overturned, repealed, replaced, or further amended, and how or whether it may affect our business in the future. We expect that changes to the ACA, the Medicare and Medicaid programs, changes allowing the federal government to directly negotiate drug prices and changes stemming from other healthcare reform measures, especially with regard to healthcare access, financing or other legislation in individual states, could have a material adverse effect on the healthcare industry and on our business, financial condition, results of operations, cash flows, and/or our stock price operations.

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

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

Our net sales may also be affected by fluctuations in the buying patterns of retail chains, mail order distributors, wholesalers and other trade buyers, whether resulting from pricing, wholesaler buying decisions or other factors.

Our three largest customers accounted for 24%, 19% and 14%, respectively, of our total net sales for Fiscal 2022 and 27%, 21% and 12%, respectively, of our total net sales for Fiscal 2021. The loss of any of these customers, any financial difficulties experienced by any of these customers or any delay in receiving payments from such customers could materially adversely affect our business, results of operations and financial condition and our cash flows. In addition, the Company generally does not enter into long-term supply agreements with its customers that would require them to purchase our products.

We expend resources on research and development efforts that may not lead to successful product introductions.

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

Risks Related to our Indebtedness

Our substantial indebtedness may adversely affect our financial health.

We have substantial indebtedness. As of June 30, 2022, we had total indebtedness of \$654.0 million, including \$350.0 million of 7.75% senior secured notes (the “Notes”), the \$190.0 million Second Lien Secured Loan Facility (the “Second Lien Facility”) and \$86.3 million aggregate principal amount of 4.50% Convertible Senior Notes (the “Convertible

Notes”). We also have access to \$43.4 million on the Amended ABL Credit Facility as of June 30, 2022, which includes use of the facility for letters of credit.

Our substantial indebtedness may have important consequences for us. For example, it may make it more difficult for us to make payments on our indebtedness; increase our vulnerability to general economic and industry conditions, including recessions and periods of significant inflation and financial market volatility; expose us to the risk of increased interest rates because any borrowings we make under the Amended ABL Credit Facility will bear interest at variable rates; require us to use a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures and other expenses; limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; increase our cost of future borrowing; place us at a competitive disadvantage compared to competitors that have less indebtedness; and limit our ability to borrow additional funds that may be needed to operate and expand our business.

The agreements and instruments governing our debt, contain restrictions and limitations that could significantly impact our ability to operate our business.

The operating and financial restrictions and covenants in the agreements and instruments that govern our indebtedness restrict, and future debt instruments may restrict, subject to certain important exceptions and qualifications, our and our subsidiaries’ ability to, among other things, incur or guarantee indebtedness; grant or permit liens on our assets; pay dividends on or make distributions in respect of our capital stock; make investments or acquisitions; prepay, repurchase or redeem certain other indebtedness; sell or otherwise transfer assets, including capital stock of our subsidiaries; merge, consolidate or transfer all or substantially all of our assets; enter into transactions with our affiliates; grant or permit dividend or other payment restrictions affecting certain of our subsidiaries; and change the business we conduct or enter into new lines of business.

In addition, the Amended ABL Credit Facility includes a minimum fixed charge coverage ratio of no less than 1.10 to 1.00, which is tested only when excess availability is less than 15.0% of the lesser of (A) the borrowing base and (B) the then effective commitments under the Amended ABL Credit Facility for three consecutive business days, and continuing until the first day immediately succeeding the last day of 30 consecutive days on which Excess Availability is in excess of such threshold, and the Second Lien Credit Facility requires us to maintain at least \$5.0 million in a deposit account subject at all times to control by the collateral agent for the Second Lien Lenders, and minimum liquidity of \$15.0 million as of the last day of each month. These covenants could adversely affect our ability to finance our future operations or capital needs, withstand a future downturn in our business or the economy in general, engage in business activities, including future opportunities that may be in our interest, and plan for or react to market conditions or otherwise execute our business strategies. Our ability to comply with these covenants may be affected by events beyond our control. A breach of any of these covenants could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders or holders of such indebtedness could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and proceed against any collateral securing that indebtedness. Acceleration of our other indebtedness could result in a default under the terms of the agreements that govern the Amended ABL Credit Facility and the Second Lien Credit Facility or the indentures governing the 4.50% Convertible Senior Notes and the Senior Notes. There is no guarantee that we would be able to satisfy our obligations if any of our indebtedness is accelerated.

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

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

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

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

As a result, we may not be able to refinance any of our indebtedness on commercially reasonable terms or at all. In such a case, we could be forced to sell assets, reduce or delay capital expenditures or issue equity securities to make up for any shortfall in our payment obligations under unfavorable circumstances. The terms of the indentures that govern the 4.50% Convertible Senior Notes and the Senior Notes and the agreements that govern the Amended ABL Credit Facility and the Second Lien Credit Facility limit our ability to sell assets. In addition, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations. Any failure to make scheduled payments of interest and principal on our outstanding indebtedness when due would permit the holders of such indebtedness to declare an event of default and accelerate the indebtedness, which in turn could lead to cross defaults under the instruments governing our other indebtedness. This could result in the lenders under the agreement that governs the Amended ABL Credit Facility terminating their commitments to lend us money and could result in the lenders under the agreement that governs the Amended ABL Credit Facility and the Second Lien Credit Facility foreclosing against the assets securing such facilities, and we could be forced into bankruptcy or other insolvency proceedings. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms.

Risks Related to our Financial Condition and Results

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

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

Factors that may cause our sales mix to vary include the number of new product introductions; marketing exclusivity, if any, which may be obtained on certain new products; the level of competition in the marketplace for certain products; the availability of raw materials and finished products from our suppliers; and the scope and outcome of governmental regulatory action that may involve us.

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

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

Sales of a limited number of our products from time to time represent a significant portion of our revenues, gross profit and net earnings. For the fiscal years ended June 30, 2022, 2021 and 2020, our top five products in terms of sales, in the aggregate, represented approximately 30%, 36% and 45%, respectively, of our total net sales. If the volume or pricing of our largest selling products decline in the future, our business, financial condition, results of operations, cash flows and/or share price could be materially adversely affected. See “Description of Business” above for more information on our top products.

Our tax returns and positions are subject to review and audit by the Internal Revenue Service and other tax authorities, and any adverse outcomes resulting from any examination of our tax returns could adversely affect our liquidity and financial condition.

The positions taken in our U.S. federal, state and local income tax return filings require significant judgments and the interpretation and application of complex tax laws. Our income tax returns are subject to examination by the U.S. Internal Revenue Service and other tax authorities. The Company's Fiscal 2015 through 2017, 2019, 2020 and 2021 federal returns are currently under examination by the Internal Revenue Service ("IRS"). For additional details on the returns under audit, see Note 16 "Income Taxes." While we believe our tax return positions are proper and supportable, certain positions could be successfully challenged. An unfavorable outcome of any current or future tax audit could result in our need to utilize available cash to satisfy such tax liabilities and any interest or penalties thereon rather than for our business operations. As a result, the occurrence of an unfavorable outcome with respect to any future tax audit could have a material adverse effect on our liquidity and financial condition.

We may incur additional tax liabilities related to our operations.

We are subject to income tax in the United States. We record liabilities for uncertain tax positions that involve significant management judgment as to the application of law. Our effective tax rate may also be adversely affected by numerous other factors, including changes in tax laws and regulations, and tax effects of the accounting for stock-based compensation (which depend in part on the price of our stock and, therefore, are beyond our control). The potential for U.S. tax law changes exists, including as a result of proposals to increase the income tax rate. Increases to the income tax rate or other changes to the tax law could materially impact our tax provision, cash tax liability, and effective tax rate. The pressure to generate tax revenue to offset economic relief measures due to the COVID-19 pandemic could increase the likelihood of adverse tax law changes being enacted. If changes in U.S. federal and applicable state income tax laws increase our U.S. federal or state income tax liability, we will be obligated to pay such increased U.S. federal and state income tax liability which would reduce our cash available for business operations. Changes to or the imposition of new U.S. federal, state, or local taxes could have a material adverse effect on our liquidity and financial condition.

If our intangible assets become impaired, we may be required to record a significant charge to earnings.

Under U.S. GAAP, we review our intangible assets for impairment if a triggering event occurs, which would indicate a potential change in market conditions or future outlook of value. We may be required to record additional significant charges to earnings in our financial statements during the period in which any impairment of our intangible assets is determined, resulting in a negative effect on our results of operations. Changes in market conditions or other changes in the future outlook of value may lead to further impairments in the future. In addition, we continue to review the potential divestment of certain assets as part of our future plans, which may lead to additional impairments. Future events or decisions may lead to asset impairments and/or related charges. For assets that are not impaired, we may adjust the remaining useful lives. Certain non-cash impairments may result from a change in our strategic goals, business direction or other factors relating to the overall business environment. Any significant impairment could have a material adverse effect on our results of operations.

Legal and Regulatory Risks

If we cannot regain compliance with the New York Stock Exchange's (the "NYSE") continued listing requirements and rules, the NYSE may delist our stock, which could negatively affect our company, the price of our common stock and our shareholders' ability to sell out common stock and may lead to potential events of default on existing debt instruments.

On March 2, 2022, we received notice from the NYSE that we were no longer in compliance with the NYSE continued listing standards, set forth in Section 802.01B of the NYSE's Listed Company Manual, because the Company's average global market capitalization over a consecutive 30 trading-day period was less than \$50.0 million and, at the same time, our shareholders' equity was less than \$50.0 million. If the Company's average global market capitalization over a consecutive 30 trading-day period drops below \$15.0 million, the NYSE will initiate delisting proceedings. As of July 31, 2022, the 30 trading-day average global market capitalization of the Company was approximately \$25.4 million, and the Company's absolute market capitalization was approximately \$25.0 million. In accordance with the NYSE listing requirements, we submitted a plan that demonstrates how we expect to return to compliance with Section 802.01B within 18 months. On May 26, 2022, the Company received notice from the NYSE that the plan was accepted. The NYSE will be performing quarterly reviews during the 18 months from the Company's receipt of the First Notice for

compliance with the goals and initiatives as outlined in the Company's plan. Failure to satisfy the requisite goals or initiatives may result in the Company being subject to NYSE trading suspension at that time. The Company is required to achieve the minimum continued listing standards of either average global market capitalization over a consecutive 30 trading-day period of \$50.0 million or total stockholders' equity of \$50.0 million at the completion of the 18-month plan period, and failure to achieve any of the minimum requirements at the end of the 18-month period may result in the Company being suspended by the NYSE, which may make an application to the SEC to delist the Company's Common Stock. There can be no assurances that the Company will maintain compliance with the plan.

In addition, on March 14, 2022, the Company received notice by the NYSE that it was not in compliance with the continued listing standard set forth in Section 802.01C of the NYSE's Listed Company Manual because the average closing price of the Company's common stock was less than \$1.00 per share over a consecutive 30 trading-day period. In order to regain compliance, on the last trading day of any calendar month during the cure period or on the last business day of the six-month cure period, the Company's shares of common stock must demonstrate (i) a closing price of at least \$1.00 per share and (ii) an average closing share price of at least \$1.00 over the 30 trading-day period ending on such date. The Company intends to cure the deficiency within a period permissible under Section 802.01C of the NYSE's Listed Company Manual. However, there can be no assurances that the Company will meet continued listing standards within the specified cure period.

If we are unable to satisfy the NYSE criteria for continued listing, our common stock would be subject to delisting. A delisting of our common stock could negatively impact us by, among other things, reducing the liquidity and market price of our common stock; reducing the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing; decreasing the amount of news and analyst coverage of the Company; limiting our ability to issue additional securities or obtain additional financing in the future; and leading to the acceleration of our debt maturities, which would put additional pressure on our liquidity and ability to continue to operate as a going concern. If the Company ceases to be listed or quoted on any of The NYSE, The Nasdaq Global Select Market or The Nasdaq Global Market (or any of their respective successors), holders of the outstanding Convertible Notes will have the option to require the Company to repurchase for cash all of such holder's notes at 100% of the principal amount, plus accrued and unpaid interest. In addition, delisting from the NYSE may negatively impact our reputation and, consequently, our business.

Governmental investigations into sales and marketing practices in the generic pharmaceutical industry and claims by private parties relating to such investigations may result in substantial penalties or settlements.

There has been increased press coverage and increased scrutiny from regulatory and enforcement agencies and legislative bodies with respect to matters relating to the pricing of generic pharmaceuticals, including publicity and pressure resulting from prices charged by our competitors. We have experienced and may continue to experience downward pricing pressure on the price of our products due to competitive pressure to lower the cost of drugs to the ultimate consumer, which could reduce our revenue and future profitability. This increased press coverage and public scrutiny have resulted in, and may continue to result in, investigations, and calls for investigations, by governmental agencies at both the federal and state level and have resulted in, and may continue to result in, claims brought against us by private parties or by regulators taking other measures that could have a negative effect on our business. For a description of current, federal, and state investigations and claims by private parties, see Note 10 "Legal, Regulatory Matters and Contingencies." Additional actions are possible. Responding to such investigations and claims is costly and involves a significant diversion of management attention. Such proceedings are unpredictable and may develop over lengthy periods of time. Future settlements may involve large monetary penalties. It is not possible at this time to predict the ultimate outcome of any such investigations or claims or what other investigations or lawsuits or regulatory responses may result from such assertions, or their impact on our business, financial condition, results of operations, cash flows, and/or our stock price. Any such investigation or claim could also result in reputational harm and reduced market acceptance and demand for our products, could harm our ability to market our products in the future, could cause us to incur significant expense, could cause our senior management to be distracted from execution of our business strategy, and could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Accompanying the press and media coverage of pharmaceutical pricing practices and public complaints about the same, there has been increasing U.S. federal and state legislative and enforcement interest with respect to drug pricing. In recent years, both the U.S. House of Representatives and the U.S. Senate have conducted numerous hearings with respect to pharmaceutical drug pricing practices, including in connection with the investigation of specific price increases by pharmaceutical companies, designed to, among other things, bring more transparency to drug pricing,

review the relationship between pricing and manufacturer patient support programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products. Any proposed measures will require authorization through additional legislation to become effective, and it is uncertain whether Congress or the Biden administration will seek new legislative and/or administrative measures to control drug costs. The Biden administration has indicated that lowering drug prices continues to be a legislative and political priority. In addition to the effects of any investigations or claims brought against us described above, our revenue and future profitability could also be negatively affected if any such inquiries, of us or of other pharmaceutical companies or the industry more generally, were to result in legislative or regulatory proposals that limit our ability to increase the prices of our products. Any of the events or developments described above could have a material adverse impact on our business, financial condition or results of operations, as well as on our reputation.

The recent enactment of Federal and State laws affecting the pricing of our products could have the effect of reducing our profitability.

Since 2016, several state legislatures have enacted laws regulating the pricing of various types of pharmaceutical products, including generic pharmaceutical products. These laws vary in applicability and scope, and generally require manufacturers to notify various state agencies of price increases over a given threshold for a given period of time, to include a justification for any price increases, and to provide price transparency. At least one state law (subsequently struck down by the court) authorized the state attorney general to seek civil penalties and disgorgement in the event a price increase is deemed unconscionable. To the extent these laws apply to our products, they could limit the prices which the company may charge for its products and reduce the company's profitability and could have a material adverse effect on our financial condition, results of operations and growth prospects.

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 into law. This legislation contains substantial drug pricing reforms, including the establishment of a drug price negotiation program within the U.S. Department of Health and Human Services that would require manufacturers to charge a negotiated "maximum fair price" for certain selected drugs or pay an excise tax for noncompliance, the establishment of rebate payment requirements on manufacturers of certain drugs payable under Medicare Parts B and D to penalize price increases that outpace inflation, and requires manufacturers to provide discounts on Part D drugs. The Inflation Reduction Act of 2022 also caps Medicare beneficiaries' annual out-of-pocket drug expenses at \$2,000 and caps Medicare beneficiaries' monthly insulin costs at \$35. Additional drug pricing proposals could appear in future legislation. The Inflation Reduction Act of 2022 could have the effect of reducing the prices we can charge and reimbursement we receive for our products, thereby reducing our profitability, and could have a material adverse effect on our financial condition, results of operations and growth prospects. The effect of Inflation Reduction Act of 2022 on our business and the generic pharmaceutical industry in general is not yet known.

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

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

The process for obtaining governmental approval to manufacture and market pharmaceutical products is rigorous, time-consuming and costly and we cannot predict the extent to which we may be affected by legislative and regulatory developments. We are dependent on receiving FDA and other governmental or third-party approvals prior to manufacturing, marketing and shipping our products. The FDA approval process for a particular product candidate can take several years and requires us to dedicate substantial resources to complete all activities necessary to secure approvals and we may not be able to obtain regulatory approval for our product candidates in a timely manner, or at all. In order to obtain approval of ANDAs for our generic product candidates, we must demonstrate that our drug product is therapeutically equivalent and bioequivalent to a drug previously approved by the FDA through the drug approval process, known as the RLD or reference standard drug ("RS"). Bioequivalence may be demonstrated in vivo or in vitro by comparing the generic product candidate to the innovator drug product. Approval of our drug products that vary in certain ways from a brand name version of that drug may require a different FDA review process and application known as a 505(b)(2) NDA. Such 505(b)(2) applications may require costly human clinical studies which may extend the time

for approval of such drug product. Moreover, the FDA may request additional information and studies to support approval of an application, which could delay approval of the product and impair our ability to compete with other versions of the generic drug product.

Consequently, there is always the chance that we will not obtain FDA or other necessary approvals, or that the rate, timing and cost of such approvals will adversely affect our product introduction plans or results of operations. We carry inventories of certain products in anticipation of launch and if such products are not subsequently launched, we may be required to write-off the related inventory. Furthermore, the FDA also has the authority to withdraw drug approvals previously granted after a hearing and require a firm to remove these products from the market for a variety of reasons, including a failure to comply with applicable regulations or the discovery of previously unknown safety problems with the product.

We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action. The policies and priorities of the Biden administration could materially impact the regulations governing our product candidates. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may be subject to enforcement action and there could be a material adverse effect on our business, financial condition, results of operations, cash flows, and/or the price of our common stock.

In addition, facilities used to manufacture and/or test materials and drug products we market are subject to periodic inspection of facilities by the FDA, the DEA and other authorities to confirm that firms are in compliance with all applicable regulations. The FDA conducts pre-approval and/or post-approval inspections to determine whether systems and processes are in compliance with cGMP and other FDA regulations. A Form 483 notice is generally issued at the conclusion of a FDA inspection and lists conditions the FDA inspectors believe may violate cGMP or other FDA regulations. If more serious violations are identified, the FDA may take additional action, such as issuing warning letters, import alerts, etc. The DEA and comparable state-level agencies also heavily regulate the manufacturing, holding, processing, security, record-keeping and distribution of drugs that are controlled substances. Lannett manufactures and/or distributes a variety of controlled substances. The DEA periodically inspects facilities for compliance with its regulations. If our manufacturing facilities or those of our suppliers fail to comply with applicable regulatory requirements, it could result in regulatory action and additional costs. All of our facilities as well as applicable contract/supplier facilities, rely on maintaining current FDA registration and other licenses to produce and develop generic drugs. If the Company does not successfully renew its FDA registrations, the financial results of Lannett would be negatively impacted. We and our third-party manufacturers are subject to periodic inspection by the FDA to assure regulatory compliance regarding the manufacturing, distribution, and promotion of pharmaceutical products. The FDA imposes stringent mandatory requirements on the manufacture and distribution of pharmaceutical products to ensure their safety and efficacy. If we or our partners receive similar notices of manufacturing and quality-related observations and correspondence in the future, and if we are unable to resolve these observations and address the FDA's concerns in a timely fashion, our business, financial results and/or stock price could be materially affected.

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

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

Many brand pharmaceutical companies have increasingly used state and federal legislative and regulatory means to delay generic competition. These efforts have included pursuing new patents for existing products which may be granted just before the expiration of one patent, which could extend patent protection for additional years or otherwise delay the launch of generics; using the Citizen Petition process to request amendments to FDA standards; seeking changes to U.S.

Pharmacopeia, an organization which publishes industry recognized compendia of drug standards; attaching patent extension amendments to non-related federal legislation; engaging in state-by-state initiatives to enact legislation that restricts the substitution of some generic drugs, which could have an impact on products that we are developing; persuading regulatory bodies to withdraw the approval of brand-name drugs for which the patents are about to expire and converting the market to another product of the brand company on which longer patent protection exists; limiting the availability of certain RLDs, with Risk Evaluation and Mitigation Strategies (“REMS”) distribution requirements, to generic companies for bioequivalence testing required for ANDA premarket approval for commercialization; entering into agreements whereby other generic companies will begin to market an AG, a generic equivalent of a branded product, at the same time or after generic competition initially enters the market; filing suits for patent infringement and other claims that may delay or prevent regulatory approval, manufacture and/or scale of generic products; and, introducing “next-generation” products prior to the expiration of market exclusivity for the reference product, which often materially reduces the demand for the generic or the reference product for which we seek regulatory approval.

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

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

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

Our commercial success will depend in part on not infringing or violating the intellectual property rights of others. The manufacture, use and sale of new products that are the subject of conflicting patent rights have been the subject of substantial litigation in the pharmaceutical industry. These lawsuits relate to the validity and infringement of patents or proprietary rights of third parties. We may have to defend against charges that we violated patents or proprietary rights of third parties. This is especially true in the case of generic products on which the patent covering the brand product is expiring, an area where infringement litigation is prevalent and in the case of new brand products in which a competitor has obtained patents for similar products. Our competitors, some of which have substantially greater resources than we do and have made substantial intellectual property investments in competing technologies, may have applied for or obtained, or may in the future apply for and obtain, patent rights and other intellectual property that will prevent, limit or otherwise interfere with our ability to make, use and sell our products. We may not be aware of whether our products do or will infringe existing or future patents or the intellectual property rights of others. In addition, patent applications can be pending for many years and may be confidential for a number of months after filing and because pending patent claims can be revised before issuance, there may be applications of others now pending of which we are unaware that may later result in issued patents that will prevent, limit or otherwise interfere with our ability to make, use or sell our products. Even if we prevail, litigation may be costly and time-consuming and could divert the attention of our management and technical personnel. Any potential intellectual property litigation also could force us to stop making, selling or using products or technologies that allegedly infringe the asserted intellectual property; lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property rights against others; incur significant legal expenses; pay substantial damages or royalties to the party whose intellectual property rights we may be found to be infringing; pay the attorney fees and costs of litigation to the party whose intellectual property rights we may be found to be infringing; redesign or rename, in the case of trademark claims, those products that contain the allegedly infringing intellectual property, which could be costly, disruptive and/or infeasible; or attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

Any litigation or claim against us, even those without merit, may cause us to incur substantial costs and could place a significant strain on our financial resources, divert the attention of management from our core business and harm our

reputation. If we are found to infringe the intellectual property rights of third parties, we could be required to pay substantial damages and/or substantial royalties and could be prevented from selling our products unless we obtain a license or are able to redesign our products to avoid infringement. If we fail to obtain any required licenses or make any necessary changes to our products or technologies, we may have to withdraw existing products from the market or may be unable to commercialize one or more of our products, all of which could have a material adverse effect on our business, results of operations and financial condition.

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

Our reporting and payment obligations related to our participation in U.S. federal healthcare programs, including Medicare, Medicaid and the Department of Veterans Affairs, are complex and often involve subjective decisions that could change as a result of new business circumstances, new regulations or agency guidance, or advice of legal counsel. Any failure to comply with those obligations could subject us to investigation, penalties, and sanctions.

U.S. federal laws regarding reporting and payment obligations with respect to a pharmaceutical company's participation in federal healthcare programs, including Medicare, Medicaid and the Department of Veterans Affairs ("VA"), are complex. Because our processes for calculating applicable government prices and the judgments involved in making these calculations involve subjective decisions and complex methodologies, these calculations are subject to risk of errors and differing interpretations. In addition, they are subject to review and challenge by the applicable governmental agencies, and it is possible that such reviews could result in changes that may have material adverse legal, regulatory, or economic consequences.

Any governmental agencies or authorities that have commenced, or may commence, an investigation of us relating to the sales, marketing, pricing, quality, or manufacturing of pharmaceutical products could seek to impose, based on a claim of violation of anti-fraud and false claims laws or otherwise, civil and/or criminal sanctions, including fines, penalties, and possible exclusion from federal healthcare programs, including Medicare, Medicaid and/or the VA. Some of the applicable laws may impose liability even in the absence of specific intent to defraud. Furthermore, should there be ambiguity with regard to how to properly calculate and report payments—and even in the absence of any such ambiguity—a governmental authority may take a position contrary to a position we have taken, and may impose or pursue civil and/or criminal sanctions. Governmental agencies may also make changes in program interpretations, requirements or conditions of participation, some of which may have implications for amounts previously estimated or paid. There can be no assurance that our submissions will not be found to be incomplete or incorrect by Centers for Medicare & Medicaid Services or the VA. Any failure to comply with the above laws and regulations, and any such penalties or sanctions could have a material adverse effect on our business, financial condition, results of operations, cash flows and/or stock price.

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

We are subject to various federal and state laws pertaining to health care fraud and abuse, including the federal Medicare and Medicaid AKS, which apply to our sales and marketing practices and our relationships with physicians and other referral sources. The AKS prohibits any person or entity from knowingly and willfully soliciting, receiving, offering, or paying any remuneration, including a bribe, kickback, or rebate, directly or indirectly, in return for or to induce the referral of patients for items or services covered by federal health care programs, or the furnishing, recommending, or arranging for products or services covered by such programs (which include plans and programs that provide health benefits funded by the federal government, including Medicare and Medicaid, among others). "Remuneration" has been broadly interpreted to include anything of value, including, for example, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash and waivers of payments. Several courts have interpreted the AKS's

intent requirement to mean that if even one purpose in an arrangement involving remuneration is to induce referrals or otherwise generate business involving goods or services reimbursed in whole or in part under federal health care programs, the statute has been violated, and in 2020, the Eleventh Circuit ruled that no proof of a payee's motivation for accepting a payment is required. The federal government has issued "safe harbor" regulations that set forth certain provisions which, if fully met, will assure parties that they will not be sanctioned under the AKS. The failure of a transaction or arrangement to fit within a specific safe harbor does not necessarily mean that the transaction or arrangement will be illegal or that prosecution under the AKS will be pursued, but such transactions or arrangements face an increased risk of scrutiny by government enforcement authorities and an ongoing risk of prosecution. If our sales and marketing practices or our relationships with physicians are considered by federal or state enforcement authorities to be knowingly and willfully soliciting, receiving, offering, or providing any remuneration in exchange for arranging for or recommending our products and services and such activities do not fit within a safe harbor, then these arrangements could be challenged under the AKS.

If our operations are found to be in violation of the AKS, we may be subject to civil and criminal penalties including criminal fines of up to \$25,000 per violation, civil monetary penalties of up to \$50,000 per violation, assessments of up to three times the amount of the prohibited remuneration, imprisonment and exclusion from participating in the federal health care programs. Violations of the AKS also may result in a finding of civil liability under the Federal False Claims Act ("FFCA") (as further discussed below) and the potential imposition of additional civil fines and monetary penalties that could be substantial. Falsely certifying compliance with the AKS in connection with a claim submitted to a federally funded insurance program is actionable under the FFCA. In addition, HIPAA and its implementing regulations prohibits, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any health care benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment and/or exclusion from government-sponsored programs. The HIPAA false statements statute prohibits, among other things, knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement or representation in connection with the delivery of or payment for health care benefits, items, or services.

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

Certain federal and state governmental agencies, including the U.S. Department of Justice and the U.S. Department of Health and Human Services, have been investigating issues surrounding pricing information reported by drug manufacturers and used in the calculation of reimbursements as well as sales and marketing practices. For example, many government and third-party payors, historically including Medicare and Medicaid, reimburse doctors and others for the purchase of certain pharmaceutical products based on the product's average wholesale price ("AWP") reported by pharmaceutical companies, although the Company has not used the term AWP since 2000. Medicare currently uses average sales price ("ASP") and wholesale acquisition cost ("WAC") when ASP data is unavailable. The federal government, certain state agencies and private payors are investigating and have begun to file court actions related to pharmaceutical companies' reporting practices with respect to AWP, alleging that the practice of reporting prices for pharmaceutical products has resulted in a false and overstated AWP, which in turn is alleged to have improperly inflated the reimbursement paid by Medicare beneficiaries, insurers, state Medicaid programs, medical plans and others to health care providers who prescribed and administered those products. In addition, some of these same payors are also alleging that companies are not reporting their "best price" to the states under the Medicaid program.

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

Company is not currently subject to any lawsuits, a challenge of our off-label promotional activities could materially adversely affect our business.

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

We are subject to state and federal laws that govern the submission of claims for reimbursement. The FFCA imposes civil liability on individuals or entities that knowingly submit, or cause to be submitted, false or fraudulent claims for payment to the government. Violations of the FFCA and other similar laws may result in criminal fines, imprisonment and substantial civil penalties for each false claim submitted (including civil penalties presently in excess of \$25,067 per claim, plus treble damages, plus liability for attorney's fees) and exclusion from federally funded health care programs, including Medicare and Medicaid. The FFCA also allows private individuals to bring a suit on behalf of the government against an individual or entity for violations of the FFCA. These suits, also known as Qui Tam or whistleblower actions, may be brought by, with only a few exceptions, any private citizen who has material information of a false claim that has not yet been previously disclosed. These suits have increased significantly in recent years because the FFCA allows an individual to share in the amounts paid to the federal government in fines or settlement as a result of a successful Qui Tam action, in addition to the recovery of legal fees in bringing such an action. If our past or present operations are found to be in violation of any of such laws or any other governmental regulations that may apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from federal health care programs and/or the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment, or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business.

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

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

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

Many government and third-party payers, including Medicare, Medicaid, HMOs and MCOs, have historically reimbursed doctors, pharmacies and others for the purchase of certain prescription drugs based on a drug's AWP or WAC. In the past several years, state and federal government agencies have conducted ongoing investigations of manufacturers' reporting practices with respect to AWP and WAC, in which they have suggested that reporting of inflated AWPs or WACs has led to excessive payments for prescription drugs. For a description of current and federal and state investigations and claims by private parties, see Note 10 "Legal, Regulatory Matters and Contingencies." Additional actions are possible. These actions, if successful, could adversely affect us and may have a material adverse effect on our business, results of operations, financial condition and cash flows.

We may incur product liability losses or recall expenses relating to the sale of products containing nitrosamines.

According to FDA guidance, nitrosamine impurities, including, among others, N-nitrosodimethylamine ("NDMA") may increase the risk of cancer if people are exposed to them above acceptable levels and over long periods of time, but a person taking a drug that contains nitrosamines at-or-below the acceptable daily intake limits every day for 70 years is not expected to have an increased risk of cancer. FDA published a guidance entitled "Control of Nitrosamine Impurities in Human Drugs" that recommends steps manufacturers of APIs and drug products should take to detect and prevent unacceptable levels of nitrosamine impurities in pharmaceutical products. Lannett initiated an internal risk assessment and control strategy for nitrosamines prior to issuance of the guidance. In some cases where its marketed products contain nitrosamines above published FDA acceptable levels (such as ranitidine), Lannett may be required to recall affected product, such as Lannett's ranitidine product, which was subject to an industry wide recall when NDMA was

discovered as a byproduct of the manufacturing process. Subsequent to the recall of its ranitidine product, Lannett was named a defendant in a series of product liability lawsuits. Product liability claims and lawsuits, safety alerts, product recalls or corrective actions, regardless of their ultimate outcome, could have a material adverse effect on our business and reputation and on our ability to attract and retain customers. We are unable to predict at this time if any other Lannett products will be adversely impacted by the global pharmaceutical nitrosamine review.

As part of our risk management policy, we carry third-party product liability insurance coverage; however, the insurance industry recently adopted an exclusion into its comprehensive general liability policies for nitrosamine impurities. To the extent that any of Lannett's products are subject to recall as a result of nitrosamine impurities and/or are subject to lawsuit arising out of the presence of nitrosamine impurities in its products, such losses may not be covered by insurance and could have a material adverse effect on our profitability and financial condition.

Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our ESG practices may impose additional costs on us or expose us to new or additional risks.

Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their ESG practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, climate change, health and safety, supply chain management, diversity, labor conditions and human rights, both in our own operations and in our supply chain. Increased ESG-related compliance costs for the Company as well as among our suppliers, vendors and various other parties within our supply chain could result in material increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, access to capital, and our stock price.

General Business Risks

Public health threats, including a pandemic, epidemic or outbreak of an infectious disease in the United States or elsewhere may adversely affect our business and financial results.

Our business may be adversely affected by public health threats, including any pandemic, epidemic or outbreak of an infectious disease occurring in the United States or worldwide. For example, the COVID-19 pandemic continues to have an impact on the global economy and the way companies operate. The virus may adversely impact our business, operations and financial results.

Any business shutdowns or other business interruptions affecting our suppliers or interruptions in global shipping affecting our suppliers could result in our inability to continue receiving sufficient amount of finished dosage products, API and other raw materials. Any business shutdowns or other business interruptions affecting our business development and other strategic partners could also cause delays in the regulatory approval process for and launching of some or all of our pipeline drug candidates. We cannot presently predict the duration and severity of any potential business shutdowns or disruptions, but if we or any of the third parties with whom we engage, including the partners and other third parties with whom we conduct business, were to experience shutdowns or other business disruptions, our ability to conduct our business in the manner and on the timelines presently planned could be materially and adversely impacted. Such delays may impact the Company's timing for filing applications for product approvals with the FDA as well as related timing of FDA approval of such filings.

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

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

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

Significant disruptions to our information technology systems or breaches of information security could adversely affect our business. We are increasingly dependent on information technology systems and infrastructure to operate our business. In the ordinary course of business, we collect, store and transmit large amounts of confidential information

(including trade secrets or other intellectual property, proprietary business information and personal information) and it is critical that we do so in a secure manner to maintain the confidentiality and integrity of such confidential information. We could be susceptible to third-party attacks on our information technology systems, which attacks are of ever-increasing levels of sophistication and are made by groups and individuals with a wide range of motives and expertise, including state and quasi-state actors, criminal groups, “hackers” and others. Maintaining the security, confidentiality and integrity of this confidential information (including trade secrets or other intellectual property, proprietary, business information and personal information) is important to our competitive business position. The Company maintains cyber security insurance and, as part of the renewal process, the carrier undertakes an assessment of the security system controls. Additionally, information security falls within the scope of the annual audit performed by our independent audit firm. The Audit Committee has oversight responsibilities over cybersecurity and meets at least quarterly with the Company’s IT management and an outside cybersecurity consulting firm, which performs an annual assessment of our cybersecurity controls. The Audit Committee also communicates with the Company’s independent audit firm frequently regarding their annual audit procedures. Nevertheless, there can be no assurance that we can prevent service interruptions or security breaches in our systems or the unauthorized or inadvertent wrongful use or disclosure of confidential information that could adversely affect our business operations or result in the loss, misappropriation and/or unauthorized access, use or disclosure of, or the prevention of access to, confidential information. A breach of our security measures or the accidental loss, inadvertent disclosure, unapproved dissemination, misappropriation or misuse of trade secrets, proprietary information, or other confidential information, whether as a result of theft, hacking, fraud, trickery or other forms of deception, or for any other cause, could enable others to produce competing products, use our proprietary technology or information and/or adversely affect our business position. Further, any such interruption, security breach, or loss, misappropriation and/or unauthorized access, use or disclosure of confidential information could result in financial, legal, business and reputational harm to us and could have a material adverse effect on our business, financial condition and results of operations.

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

The design, development, manufacture and sale of our products involve an inherent risk of product liability claims and the associated adverse publicity. The cost of insurance, including product liability as well as workers compensation and general liability insurance, has risen in recent years and may increase in the future. In response, we may increase deductibles and/or decrease certain coverage to mitigate these costs. These increases and our increased risk due to increased deductibles and reduced coverage, could have a negative impact on our results of operations, financial condition and cash flows.

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

ITEM 2. DESCRIPTION OF PROPERTY

The Company's 432,000 square foot Seymour, Indiana facility contains approximately 107,000 square feet of manufacturing space as well as a leased 116,000 square foot temperature/humidity-controlled storage warehouse. The Seymour facility has had satisfactory inspections conducted by the FDA and EMA and similar regulatory authorities of Japan, Taiwan, Brazil, China, Korea and Turkey. As of June 30, 2022, the facility has a production capacity of approximately 4.0 billion doses based on our current product mix and plant configuration.

Lannett owns two facilities in Philadelphia, Pennsylvania. The research and development facilities are located in a 31,000 square foot facility at 9000 State Road and a second, 63,000 square foot facility that is located within one mile of the State Road facility at 9001 Torresdale Avenue, Philadelphia, PA. The latter facility contains our analytical research and development and quality control laboratories. We have adopted many systems and processes to ensure adherence to FDA requirements and we believe we are operating our facilities in substantial compliance with the FDA's cGMP regulations.

During Fiscal 2022, the Company completed the sale of its 110,000 square foot manufacturing facility located in Carmel, New York. In connection with the sale, the buyer will continue to produce certain liquid products on behalf of the Company at the Carmel facility while the Company completes the transfer of such products to its Seymour, Indiana plant.

ITEM 3. LEGAL PROCEEDINGS

Information pertaining to legal proceedings can be found in Note 10 "Legal, Regulatory Matters and Contingencies" under Item 15. Exhibits and Financial Statement Schedule and is incorporated by reference herein.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II**ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Market Information**

The Company's common stock trades on the NYSE. The following table sets forth certain information with respect to the intraday high and intraday low sales prices per share of the Company's common stock during Fiscal 2022 and 2021, as quoted by the NYSE.

Fiscal Year Ended June 30, 2022

	<u>High</u>	<u>Low</u>
First quarter	\$ 4.98	\$ 2.88
Second quarter	\$ 3.03	\$ 1.53
Third quarter	\$ 1.85	\$ 0.71
Fourth quarter	\$ 0.90	\$ 0.45

Fiscal Year Ended June 30, 2021

	<u>High</u>	<u>Low</u>
First quarter	\$ 7.55	\$ 4.89
Second quarter	\$ 7.18	\$ 5.75
Third quarter	\$ 10.70	\$ 5.23
Fourth quarter	\$ 5.82	\$ 4.12

Holdings

As of June 30, 2022, there were 202 holders of record of the Company's common stock.

Dividends

The Company did not pay cash dividends in Fiscal 2022, Fiscal 2021 or Fiscal 2020. The Company intends to use available funds for working capital, to pay down outstanding debt, plant and equipment additions, various product extension ventures and merger and acquisition or other growth opportunities. The Company does not expect to pay, nor should stockholders expect to receive, cash dividends in the foreseeable future.

The following table sets forth certain information with respect to the Company's share repurchase activity in the fourth quarter of Fiscal 2022.

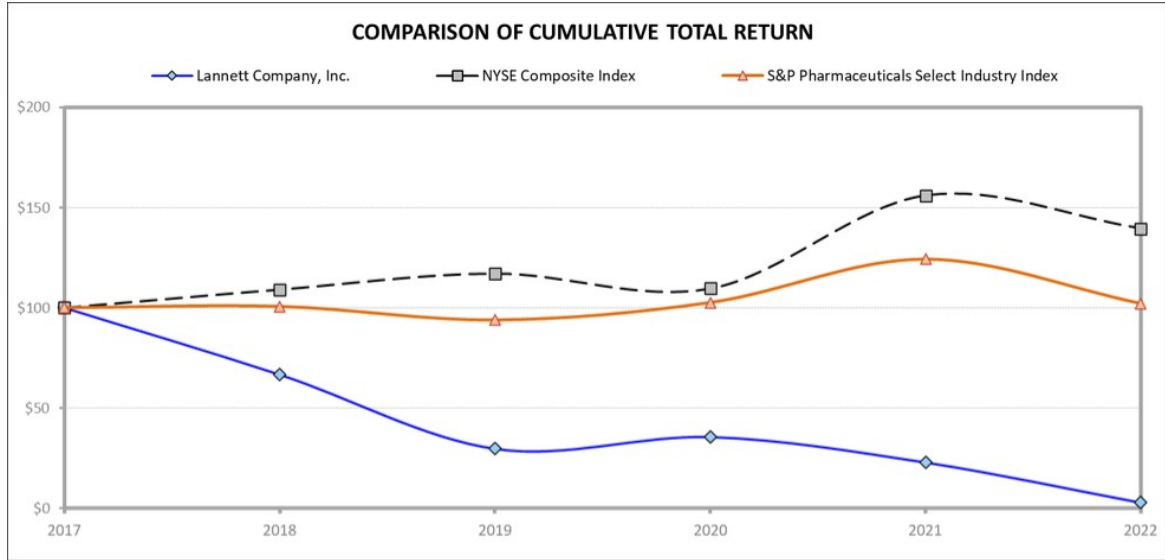
ISSUER PURCHASES OF EQUITY SECURITIES

Period (In thousands)	(a) Total Number of Shares (or Units) Purchased*	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2022	553	\$ 0.78	—	\$ —
May 1 to May 31, 2022	123	0.51	—	—
June 1 to June 30, 2022	113	0.61	—	—
Total	<u>789</u>	<u>\$ 0.71</u>	<u>—</u>	<u>—</u>

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

Stock Performance Chart

The following graph compares Lannett Company’s annual percentage change in cumulative total return on common shares over the past five years, commencing July 1, 2017 and ending June 30, 2022, with the cumulative total return of companies comprising the NYSE Composite Index and the S&P Pharmaceuticals Select Industry Index. The S&P Pharmaceuticals Select Industry Index is an industry index published by S&P Dow Jones Indices, a division of S&P Global, and is comprised stocks in the S&P Total Market Index that are classified in the GICS pharmaceuticals sub-industry. This presentation assumes that \$100 was invested in shares of the relevant issuers on June 30, 2017, and that dividends received were immediately invested in additional shares. The graph plots the value of the initial \$100 investment at one-year intervals for the fiscal years shown.



ITEM 6. [RESERVED]

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

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

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

We report financial information on a quarterly and fiscal year basis with the most recent being the fiscal year ended June 30, 2022. All references herein to a “fiscal year” or “Fiscal” refer to the applicable fiscal year ended June 30.

Company Overview

Lannett Company, Inc. (a Delaware corporation) and its subsidiaries (collectively, the “Company,” “Lannett,” “we” or “us”) primarily develop, manufacture, package, market and distribute solid oral and extended release (tablets and capsules), topical, liquids, nasal and oral solution finished dosage forms of drugs, generic forms of both small molecule and biologic medications, that address a wide range of therapeutic areas. Certain of these products are manufactured by others and distributed by the Company. Additionally, the Company is pursuing partnerships, research contracts and internal expansion for the development and production of other dosage forms including: ophthalmic, nasal, patch, foam, buccal, sublingual, suspensions, soft gel, injectable and oral dosages.

The Company operates a pharmaceutical manufacturing plant in Seymour, Indiana. During Fiscal 2022, the Company completed the sale of its Silax facility in Carmel, New York. In connection with the sale, the buyer will continue to produce certain products on behalf of the Company at the Carmel facility while the Company completes the transfer of such products to its Seymour, Indiana plant.

The Company’s customers include generic pharmaceutical distributors, drug wholesalers, chain drug stores, private label distributors, mail-order pharmacies, other pharmaceutical manufacturers, managed care organizations, hospital buying groups, governmental entities and health maintenance organizations.

Impact of COVID-19 Pandemic

In response to the COVID-19 pandemic, the Company has developed a comprehensive plan that enables it to maintain operational continuity with an emphasis on manufacturing, distribution and R&D facilities during this crisis, and to date, has not encountered any significant obstacles implementing its business continuity plans. However, the Company continually assesses COVID-19 related developments and adjusts its risk mitigation planning and business continuity activities as needed. The Company continues to follow CDC recommendations and adheres to state and local guidance where we operate. While employee absenteeism has not had any material effect on the Company’s business or its ability to manufacture and distribute products and plants continue to operate at normal capacity, there is a continuing risk of employee absenteeism as the pandemic continues to linger due to variants or other causes, which could materially impact the Company’s operations.

The pandemic has also contributed in part to global supply chain disruptions, shortages, and recent inflationary pressures. While the Company is still able to receive sufficient inventory of the key materials needed across its network, the Company has recently experienced pressure on its supply chain, including shipping delays, higher prices from suppliers, and reduced availability of materials, particularly excipients and packaging components. To date, the supply chain pressure has not had a material impact on the Company's results of operations. However, the Company is regularly communicating with its suppliers, third-party partners, customers, healthcare providers and government officials in order to respond rapidly to any issues as they arise. The longer the current situation continues, it is more likely that the Company may experience some sort of material interruption to our supply chain, and such an interruption could adversely affect our business, including but not limited to, our ability to timely manufacture and distribute our products.

As a result of the pandemic, certain clinical trials which were underway or scheduled to begin were temporarily placed on hold, although all such clinical trials were resumed and have been completed. Such delays impacted the Company's timing for filing applications for product approvals with the FDA as well as related timing of FDA approval of such filings. Additionally, the pandemic has slowed down the Company's efforts to expand its product portfolio through acquisitions and distribution opportunities, impacting the speed with which the Company is able to bring additional products to market.

Based on the foregoing, the Company cannot reasonably predict the ultimate impact of COVID-19 on our future results of operations due to the continued uncertainty around the duration and severity of the pandemic.

2021 Restructuring Plan

On November 1, 2021, the Board of Directors authorized a restructuring and cost savings plan to further optimize its operations, improve efficiencies and reduce costs. Under the 2021 Restructuring Plan, the Company is consolidating its manufacturing footprint by transferring certain liquid drug production from its Silarx facility in Carmel, New York to the Company's main plant in Seymour, Indiana. On March 31, 2022, the Company closed on the sale of the Silarx facility, which included equipment within the facility, certain ANDAs and other assets, to Chartwell Pharmaceuticals, LLC ("Chartwell") and its subsidiaries for total consideration of \$10.5 million. In connection with the sale, Chartwell is producing on behalf of the Company certain products at the Carmel facility for a period of up to 18 months while the Company completes the transfer of such products to its Seymour, Indiana plant. During the transition, the Company will scale back or phase out some small low-margin over-the-counter medicines from Carmel and continue to assess its portfolio, which may include introducing or discontinuing additional products.

In addition, the Company has scaled back two low-margin prescription products manufactured KUPI at its Seymour, Indiana facility as part of the restructuring program. The Company also scaled back its research and development operations and eliminated certain administrative positions that primarily supported the Silarx and research and development operations.

The actions contemplated under the 2021 Restructuring Plan are substantially complete as of June 30, 2022. The transfer of certain products from the Carmel facility to the Company's main plant in Seymour, Indiana is in process and expected to continue into Fiscal 2023. The plan is expected to generate annual cost savings of approximately \$20 million.

In connection with the sale of the Silarx facility, Chartwell has retained a majority of the employees at the facility. The Company has completed its reduction in headcount for the 2021 Restructuring Plan, which was approximately 140 positions and included the employees retained by Chartwell. The Company estimates that it will incur approximately \$3.5 million to \$4.5 million of total costs to implement the 2021 Restructuring Plan, comprised primarily of approximately \$2.5 million of severance and employee-related costs and approximately \$1.0 million to \$2.0 million of tech transfer costs. As of June 30, 2022, the Company has incurred \$2.8 million of costs related to the 2021 Restructuring Plan. See Note 3 "Restructuring Charges" for more information. The Company also expects to incur approximately \$2.0 million to \$3.0 million in capital expenditures to build out the liquid manufacturing business at the Seymour, Indiana facility.

Climate Change

The Company believes in a more sustainable future with a reduced environmental footprint and a general view towards reducing our effect on the climate while maintaining our focus on providing affordable medicines to our customers and ultimately the patients who depend on them. The Company has begun to consider climate-related risks that are pertinent to the Company. Our aspiration is to reduce our environmental footprint. However, related efforts may result in increased costs to the Company including, but not limited to, capital investments, additional management and compliance costs, and reduced output, all of which may be material. Costs incurred by our suppliers and vendors to comply with their own sustainability commitments may also be passed through the supply chain resulting in higher operational costs to the Company. Climate change and the associated risks and regulations are expected to continue to evolve over time and could materially impact the Company's results of operations and cash flows in any given year. The Company monitors such matters and strives to address them in a timely manner.

Results of Operations — Fiscal 2022 compared to Fiscal 2021

Net sales decreased 29% to \$340.6 million for the fiscal year ended June 30, 2022. The following table identifies the Company's net product sales by medical indication for the fiscal years ended June 30, 2022 and 2021.

(In thousands) Medical Indication	June 30,	
	2022	2021
Analgesic	\$ 15,737	\$ 14,684
Anti-Psychosis	11,790	43,720
Cardiovascular	45,376	65,987
Central Nervous System	78,325	95,115
Endocrinology	27,491	27,070
Gastrointestinal	51,026	67,540
Infectious Disease	28,009	67,761
Migraine	16,321	25,554
Respiratory/Allergy/Cough/Cold	8,961	9,258
Urinary	4,588	5,786
Other	41,285	35,312
Contract manufacturing revenue	11,670	20,991
Total net sales	\$ 340,579	\$ 478,778

The decrease in net sales was driven by a decrease in the selling price of products of \$93.8 million and a decrease in volumes of \$44.4 million. The decrease in the selling price of products was primarily driven by lower sales prices of Posaconazole, which is included within the Infectious Disease medical indication, Levothyroxine Tablets and Capsules, which are included in the Endocrinology medical indication, and Fluphenazine, which is included within the Anti-Psychosis medical indication. The pressure on sales prices across our portfolio is a reflection of the competitive environment in the generic drug industry. Overall volumes, particularly volumes of Posaconazole, Fluphenazine and Verapamil, which is included within the Cardiovascular medical indication, were also negatively impacted by the competitive environment. In addition, volumes, specifically within the Gastrointestinal medical indication, were lower as a result of certain product discontinuances in connection with the 2021 Restructuring Plan. However, the pressure was partially offset by increased volumes related to certain new product launches such as Levothyroxine Capsules.

In January 2017, a provision in the Bipartisan Budget Act of 2015 required drug manufacturers to pay additional rebates to state Medicaid programs if the prices of their generic drugs rise at a rate faster than inflation. The provision negatively impacted the Company's net sales by \$11.2 million and \$18.9 million in Fiscal 2022 and Fiscal 2021, respectively.

The following chart details price and volume changes by medical indication between Fiscal 2022 and Fiscal 2021:

Medical indication	Sales volume change %	Sales price change %
Analgesic	28 %	(21)%
Anti-Psychosis	(37)%	(36)%
Cardiovascular	(23)%	(8)%
Central Nervous System	(3)%	(15)%
Endocrinology	76 %	(74)%
Gastrointestinal	(18)%	(6)%
Infectious Disease	(17)%	(42)%
Migraine	(18)%	(18)%
Respiratory/Allergy/Cough/Cold	9 %	(12)%
Urinary	(12)%	(9)%

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

(In thousands) Customer Distribution Channel	June 30, 2022	June 30, 2021
Wholesaler/Distributor	\$ 269,829	\$ 390,356
Retail Chain	51,128	57,120
Mail-Order Pharmacy	7,952	10,311
Contract manufacturing revenue	11,670	20,991
Total net sales	\$ 340,579	\$ 478,778

The overall decrease in sales was primarily driven by lower sales of certain key products due to new competitors entering the market and the discontinuance of two low-margin prescription products as part of the 2021 Restructuring Plan. The Company has also seen increased competitive market pressure among the existing competitor base in recent years, which has resulted in an overall decrease in sales to the distribution channels above. We will continue to seek opportunities for additional launches to offset these competitive pressures.

Cocaine Hydrochloride Solution

In December 2017, a competitor received approval from the FDA to market and sell a cocaine hydrochloride topical product. In March 2018, in accordance with FDA guidance, the FDA requested that the Company cease manufacturing and distributing its unapproved cocaine hydrochloride solution product due to there being an approved product on the market. The Company committed to not manufacturing or distributing cocaine hydrochloride 10% solution, which was not sold during Fiscal 2019. The Company also ceased manufacturing its unapproved cocaine hydrochloride 4% solution on June 15, 2019 and ceased distributing the product on August 15, 2019.

The competitor filed a series of Citizen Petitions beginning in 2019, seeking to block approval of the Company's Section 505(b)(2) NDA for its cocaine hydrochloride solution product by claiming that the grant of the New Chemical Entity ("NCE") exclusivity issued to the competitor blocks the approval of the Company's application for five years. Following the FDA's rejection of the competitor's argument and approval of the Company's Section 505(b)(2) NDA, the competitor filed two lawsuits against the FDA (one in federal court in the District of Columbia and one in federal court in the District of Maryland) seeking a court order in two different federal courts directing the FDA to withdraw approval of the Section 505(b)(2) NDA. Neither court directed the FDA to withdraw the NDA. The Company intervened in both lawsuits and made cross motions for summary judgment in the case filed in federal court for the District of Columbia and a motion to dismiss the complaint filed in the federal court for the District of Maryland.

Separately, on June 6, 2020, the competitor filed a patent infringement complaint, since amended, in the United States District Court for the District of Delaware, asserting that the Company's approved cocaine hydrochloride product infringes six patents issued to the competitor. The Company filed an answer and counterclaim, alleging that the Company either does not infringe or that the six asserted patents and three additional unasserted patents are invalid. The competitor filed a motion to partially dismiss a portion of the counterclaim as to the unasserted patents.

On August 16, 2021, the Company and the competitor reached an agreement to amicably resolve all pending cases, including the cases in the federal courts in the District of Columbia, District of Maryland and District of Delaware. The parties executed settlement documents on October 15, 2021 and all cases against the Company have been dismissed with prejudice. The Company continues to market its approved cocaine hydrochloride solution product.

Levothyroxine Tablets

In August 2020, the Company commenced distributing Cediprof, Inc.'s ("Cediprof") Levothyroxine Tablets product under an interim exclusive supply and distribution agreement, which had been previously distributed by Sandoz, Inc. ("Sandoz") under a separate distribution contract. At around the same time, Sandoz filed several complaints and motions for temporary restraining orders against the Company and Sandoz to prevent the Company from distributing Cediprof's product. The complaints were subsequently dismissed, and the temporary restraining orders were denied. Cediprof subsequently proceeded against Cediprof in an arbitration in New York, where the Company has agreed to indemnify Cediprof. On August 5, 2022, the arbitrator issued a final award, finding that Cediprof had breached the Sandoz contract and determining that Sandoz is entitled to lost profits, among other damages. The portion of the award subject to indemnification from the Company amounted to \$10.9 million, which the Company has accrued as of June 30, 2022. The Company's indemnification obligation will only be triggered if and when Cediprof pays the award. See Note 10 "Legal, Regulatory Matters and Contingencies" for additional information regarding this matter.

Cost of Sales, including amortization of intangibles. Cost of sales, including amortization of intangibles, for Fiscal 2022 decreased 24% to \$307.4 million from \$403.2 million in the same prior-year period. Amortization expense included in cost of sales decreased to \$12.9 million in Fiscal 2022 compared to \$24.9 million for Fiscal 2021 as a result of intangible asset impairment charges incurred in both periods, which resulted in a lower amortizable base for certain assets. The Company has experienced increased competitive market pressure in recent years, which has resulted in overall decrease in sales volumes and, therefore, lower cost of sales in the current period. The 2021 Restructuring Plan resulted in lower overall headcount, which included the sale of the Silarx facility and transition of employees to Chartwell. In addition, in the second quarter of Fiscal Year 2021, the Company recorded \$17.2 million in write-downs for excess and obsolete inventory as a result of the decision to discontinue 23 lower margin product lines as well as \$5.0 million in consideration to renew the Company's distribution agreement with Recro Gainesville, LLC ("Recro"), which resulted in higher cost of sales in the prior-year period.

Gross Profit. Gross profit for Fiscal 2022 decreased 56% to \$33.2 million or 10% of total net sales. In comparison, gross profit for Fiscal 2021 was \$75.6 million or 16% of total net sales. The decrease in gross profit percentage was primarily attributable to decreases in the selling prices of our products as a result of increased competitive pressure.

Research and Development Expenses. Research and development expenses decreased 7% to \$22.4 million in Fiscal 2022 from \$24.2 million in Fiscal 2021. The decrease was primarily due to the timing of spend related to product development projects as well as overall reduced project spend and lower R&D headcount as a result of the 2021 Restructuring Plan.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 16% to \$81.0 million in Fiscal 2022 compared with \$68.1 million in Fiscal 2021. The increase was primarily driven by higher expenses related to the reimbursement of legal costs associated with a distribution agreement as well as a non-income tax credit received in the first quarter of Fiscal 2021. In Fiscal 2022, the reimbursement of legal costs included the accrual of the award to cover lost profits for Sandoz, Inc., which totaled \$10.9 million. See Note 10 "Legal, Regulatory Matters and Contingencies" for more information.

Asset impairment charges. In Fiscal 2022, the Company recorded various asset impairment charges totaling \$103.3 million.

In the fourth quarter of Fiscal 2022, the Company reviewed recent market trends and, consequently, anticipates additional competitive pressures on various key products within its intangible asset portfolio. Accordingly, the Company adjusted its expectations downward for these products, which represented a triggering event for several of its intangible assets. Prior to performing the impairment analysis, the Company reclassified \$4.0 million of KUPI in-process research and development (“IPR&D”) assets into KUPI product rights as a result of the FDA approval of the drug application and expected commercialization of the product in Fiscal 2023. As a result of the impairment analysis, the Company recorded a full impairment of its KUPI product rights portfolio, totaling \$39.1 million. In addition, the Company recorded impairment charges totaling \$16.1 million related to the other product rights category of definite-lived intangible assets, which included the intangible assets associated with the distribution and supply agreement with Cediprof, Inc., the products acquired in Fiscal 2018 from a subsidiary of Endo International plc, the distribution and supply agreement with Sinotherapeutics, Inc., the license agreement with Andor Pharmaceuticals, LLC, and one of the products acquired in Fiscal 2018 from UCB.

In November 2021, the Company announced the 2021 Restructuring Plan, which included the phase out of two low-margin prescription products at KUPI in Seymour, Indiana. Based on the impairment analysis performed as a result of this decision and continued competitive pressures in the market, the Company recorded an impairment charge of \$40.6 million related to the KUPI product rights intangible assets. The impairment charge is primarily a result of the decline in net sales and gross margin of certain product lines acquired in connection with the KUPI acquisition.

As part of the 2021 Restructuring Plan, the Company completed the sale of its Silarx facility in Carmel, New York and will transition certain products to the Company’s main plant in Seymour, Indiana. In the second quarter of Fiscal 2022, prior to the sale of the facility, the Company performed a fair value analysis to adjust the carrying value of the facility and certain equipment identified for sale to the fair value, which resulted in an \$8.4 million impairment charge.

See Note 8 “Intangible Assets” for more information.

Other Loss. Interest expense for the year ended June 30, 2022 totaled \$58.0 million compared to \$53.8 million for the year ended June 30, 2021. The weighted average interest rate for Fiscal 2022 and 2021 was 9.0% and 8.0%, respectively. The increase in interest expense and the weighted-average interest rate is attributable to the refinancing of the Company’s outstanding debt in April 2021, which resulted in higher interest rates on the Notes and the Second Lien Facility as discussed further below.

Income Tax. The Company recorded income tax benefit in Fiscal 2022 of \$2.3 million compared to income tax expense of \$60.6 million in Fiscal 2021. The effective tax rate for Fiscal 2022 was 1.0%, compared to (20.0)% for Fiscal 2021. The effective tax rate for Fiscal 2021 was lower compared to Fiscal 2022 primarily due to the valuation allowance recorded in Fiscal 2021.

Net Loss. For the year ended June 30, 2022, the Company reported net loss of \$231.6 million, or \$(5.74) per diluted share. Comparatively, net loss in the corresponding prior-year period was \$363.5 million, or \$(9.23) per diluted share.

Results of Operations — Fiscal 2021 compared to Fiscal 2020

Net sales decreased 12% to \$478.8 million for the fiscal year ended June 30, 2021. The following table identifies the Company’s net product sales by medical indication for the fiscal years ended June 30, 2021 and 2020.

(In thousands) Medical Indication	June 30,	
	2021	2020
Analgesic	\$ 14,684	\$ 8,680
Anti-Psychosis	43,720	104,934
Cardiovascular	65,987	88,576
Central Nervous System	95,115	77,256
Endocrinology	27,070	—
Gastrointestinal	67,540	73,477
Infectious Disease	67,761	73,237
Migraine	25,554	44,266
Respiratory/Allergy/Cough/Cold	9,258	11,576
Urinary	5,786	4,225
Other	35,312	35,013
Contract manufacturing revenue	20,991	24,504
Total net sales	\$ 478,778	\$ 545,744

The decrease in net sales was driven by a decrease in the selling price of products of \$90.1 million partially offset by increased volumes of \$23.1 million. The decrease in the selling price of products was primarily driven by lower sales prices of Fluphenazine, which is included within the Anti-Psychosis medical indication, and Posaconazole, which is included in Infectious Disease medical indication, due to new competitors entering the market, as well as lower average selling price across the remaining medical indications. Overall volumes increased primarily due to increased volumes of Posaconazole and from new product launches, including Levothyroxine Tablets and Capsules, partially offset by lower volumes of Fluphenazine. The Company has seen increased competitive market pressure in recent years, which has resulted in overall decreases in selling prices of products and sales volume across our product portfolio. We have partially offset these competitive pressures with new product launches and will continue to seek opportunities for additional launches.

In January 2017, a provision in the Bipartisan Budget Act of 2015 required drug manufacturers to pay additional rebates to state Medicaid programs if the prices of their generic drugs rise at a rate faster than inflation. The provision negatively impacted the Company’s net sales by \$18.9 million and \$35.7 million in Fiscal 2021 and Fiscal 2020, respectively, which contributed to the overall decreased average selling price.

The following chart details price and volume changes by medical indication between Fiscal 2021 and Fiscal 2020:

Medical indication	Sales volume change %	Sales price change %
Analgesic	73 %	(4)%
Anti-Psychosis	(29)%	(29)%
Cardiovascular	(17)%	(9)%
Central Nervous System	44 %	(21)%
Endocrinology	100 %	— %
Gastrointestinal	— %	(8)%
Infectious Disease	16 %	(23)%
Migraine	(17)%	(25)%
Respiratory/Allergy/Cough/Cold	(14)%	(6)%
Urinary	26 %	11 %

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

(In thousands) Customer Distribution Channel	June 30, 2021	June 30, 2020
Wholesaler/Distributor	\$ 390,356	\$ 429,824
Retail Chain	57,120	79,606
Mail-Order Pharmacy	10,311	11,810
Contract manufacturing revenue	20,991	24,504
Total net sales	<u>\$ 478,778</u>	<u>\$ 545,744</u>

The overall decrease in sales was primarily driven by lower sales of Fluphenazine and Posaconazole due to new competitors entering the market partially offset by sales from new product launches. The Company has seen increased competitive market pressure in recent years, which has resulted in overall decrease in sales to the distribution channels above. We have partially offset these competitive pressures with new product launches and will continue to seek opportunities for additional launches.

Cost of Sales, including amortization of intangibles. Cost of sales, including amortization of intangibles, for Fiscal 2021 increased 6% to \$403.2 million from \$380.5 million in the same prior-year period. The increase was attributable to an increase of \$13.2 million in write-downs for excess and obsolete inventory, which primarily relates to the Company's decision to discontinue 23 lower margin product lines, as well as additional volumes from new product launches. The Company also recorded \$5.0 million in consideration to renew the Company's distribution agreement with Recro during the second quarter of Fiscal Year 2021.

Gross Profit. Gross profit for Fiscal 2021 decreased 54% to \$75.6 million or 16% of total net sales. In comparison, gross profit for Fiscal 2020 was \$165.2 million or 30% of total net sales. The decrease in gross profit percentage was primarily attributable to lower volumes of Fluphenazine, which had higher than average gross profit margins, as well as overall lower average selling prices of our products. The Company also recorded an increase in the write-downs for excess and obsolete inventory as well as consideration to renew the distribution agreement with Recro in the second quarter of Fiscal 2021.

Research and Development Expenses. Research and development expenses decreased 19% to \$24.2 million in Fiscal 2021 from \$30.0 million in Fiscal 2020. The decrease was primarily due to lower R&D expenses as a result of timing of certain milestones related to product development projects as well as employee headcount reductions related to the 2020 Restructuring Plan.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 14% to \$68.1 million in Fiscal 2021 compared with \$79.5 million in Fiscal 2020. The decrease was primarily driven by a lower branded prescription drug fee, lower incentive-based compensation, lower expenses at the Company's Cody Labs subsidiary and other cost reduction initiatives.

Asset impairment charges. In Fiscal 2021, the Company recorded various asset impairment charges totaling \$216.6 million. The Company reviewed its product portfolio during Fiscal 2021 and decided to discontinue 23 lower gross margin product lines, including product lines that were acquired through various past business and product acquisitions. As a result of the discontinuance and the reduction in net sales and gross margin of certain other product lines, the Company recorded an impairment charge of \$193.0 million related to the KUPI product rights intangible assets. The impairment charge is primarily a result of the decline in net sales and gross margin of certain product lines acquired in connection with the KUPI acquisition, including those product lines being discontinued. In addition, the Company recorded a \$17.0 million impairment charge to its intangible asset for a distribution and supply agreement with Cediprof, Inc., which is included within the other product rights category of definite-lived intangible assets, as a result of increased competition and lower projected cash flows for the Levothyroxine product. The Company also recorded a \$5.0 million impairment charge to its KUPI in-process research and development intangible asset due to delays in the expected launch of a product within the portfolio, which results in reduced projected cash flows.

Other Loss. Interest expense for the year ended June 30, 2021 totaled \$53.8 million compared to \$66.8 million for the year ended June 30, 2020. The decrease was due to a lower average debt balance in Fiscal 2021 as compared to the prior-year as well as a lower weighted-average interest rate due to the full repayment of the outstanding Term Loan A in November 2020. The weighted average interest rate for Fiscal 2021 and 2020 was 8.0% and 8.8%, respectively. The Company also recorded a \$10.3 million loss on extinguishment of debt related to the payoff of the Term Loan B Facility during Fiscal 2021.

Income Tax. The Company recorded income tax expense in Fiscal 2021 of \$60.6 million compared to income tax benefit of \$15.3 million in Fiscal 2020. The effective tax rate for Fiscal 2021 was (20.0)%, compared to 31.4% for Fiscal 2020. The income tax expense recorded in Fiscal 2021 was primarily driven by the full valuation allowance recorded against the Company's deferred tax assets. See Note 16 "Income Taxes" for more information.

Net Income (Loss). For the year ended June 30, 2021, the Company reported net loss of \$363.5 million, or \$(9.23) per diluted share. Comparatively, net loss in the corresponding prior-year period was \$33.4 million, or \$(0.86) per diluted share.

Liquidity and Capital Resources

Cash Flow

The Company has historically financed its operations with cash flow generated from operations and has access \$43.4 million on the Amended ABL Credit Facility, which includes use of the facility for letters of credit and is discussed further below. At June 30, 2022, working capital was \$185.2 million as compared to \$263.1 million at June 30, 2021, a decrease of \$77.9 million.

Net cash used in operating activities of \$7.1 million for the fiscal year ended June 30, 2022 reflected net loss of \$231.6 million, adjustments for non-cash items of \$195.4 million, as well as cash provided by operating assets and liabilities of \$29.1 million. In comparison, net cash provided by operating activities of \$60.9 million for the fiscal year ended June 30, 2021 reflected net loss of \$363.5 million, adjustments for non-cash items of \$441.0 million, as well as cash used in operating assets and liabilities of \$16.6 million.

Significant changes in operating assets and liabilities from June 30, 2021 to June 30, 2022 are comprised of:

- A decrease in accounts receivable of \$42.6 million mainly due to lower gross sales in the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The Company's days sales outstanding ("DSO") at June 30, 2022, based on gross sales for the fiscal year ended June 30, 2022 and gross accounts receivable at June 30, 2022, was 77 days. The level of DSO at June 30, 2022 was comparable to the Company's expectation that DSO will be in the 70 to 85-day range based on customer payment terms.
- A decrease in royalties payable of \$8.1 million mainly due lower sales of distributed products, particularly Posaconazole and Levothyroxine Tablets and Capsules.

Significant changes in operating assets and liabilities from June 30, 2020 to June 30, 2021 are comprised of:

- A decrease in accounts receivable of \$26.9 million mainly due to the overall decrease in sales, as well as the timing of sales and cash receipts. The Company's DSO at June 30, 2021, based on gross sales for the fiscal year ended June 30, 2021 and gross accounts receivable at June 30, 2021, was 77 days. The level of DSO at June 30, 2021 was comparable to the Company's expectation that DSO will be in the 70 to 85-day range based on customer payment terms.
- An increase in income taxes receivable totaling \$20.4 million primarily due to additional estimated tax refunds related to provisions of the CARES Act and an anticipated Fiscal 2021 taxable loss, partially offset by income tax receipts of \$36.8 million.

- A decrease in rebates payable of \$19.2 million primarily due to lower sales of Fluphenazine in Fiscal 2021, which had higher than average government-related rebates.
- A decrease in royalties payable of \$7.1 million primarily due to lower sales of distributed products with royalty arrangements in Fiscal 2021.
- A decrease in accrued payroll and payroll-related costs of \$5.6 million primarily related to payments made in August 2020 in connection with incentive-based compensation accrued in Fiscal Year 2020 as well as lower incentive-based compensation accrued in Fiscal Year 2021.

Net cash provided by investing activities of \$2.1 million for the fiscal year ended June 30, 2022 was mainly the result of proceeds from the sale of assets, including the Silarx facility in Carmel, NY and the Cody API real estate, of \$12.6 million partially offset by purchases of property, plant and equipment of \$8.7 million and purchases of intangible assets of \$1.8 million. Net cash used in investing activities of \$14.8 million for the fiscal year ended June 30, 2021 was mainly the result of purchases of property, plant and equipment of \$10.4 million and purchases of intangible assets of \$4.5 million.

Net cash used in financing activities of \$0.5 million for the fiscal year ended June 30, 2022 was due to purchases of treasury stock totaling \$0.8 million, partially offset by proceeds from issuance of stock pursuant to stock compensation plans of \$0.3 million. Net cash used in financing activities of \$92.2 million for the fiscal year ended June 30, 2021 was primarily due to debt repayments of \$437.9 million and payment of debt issuance costs of \$10.1 million, partially offset by proceeds from issuance of long-term debt of \$356.2 million. The financing activities during Fiscal 2021 were primarily related to the refinancing in April 2021.

Credit Facility and Other Indebtedness

The Company has previously entered into and may enter future agreements with various government agencies and financial institutions to provide additional cash to help finance the Company's acquisitions, various capital investments and potential strategic opportunities. These borrowing arrangements as of June 30, 2022 are as follows:

7.750% Senior Secured Notes due 2026

On April 22, 2021, the Company issued \$350.0 million aggregate principal amount of the Notes in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") and outside the United States to persons other than U.S. persons in reliance upon Regulation S under the Securities Act. The Notes bear interest semi-annually in arrears on April 15 and October 15 of each year, beginning on October 15, 2021, at a rate of 7.750% per annum in cash. The Notes will mature on April 15, 2026, unless earlier redeemed or repurchased in accordance with their terms.

Second Lien Secured Loan Facility

On April 5, 2021, the Company entered into an Exchange Agreement with certain participating lenders to exchange a portion of their existing Term B Loans for Second Lien Loans pursuant to a new \$190.0 million Second Lien Secured Loan Facility (“Second Lien Facility”). On April 22, 2021, in connection with the issuance of the Notes and the entrance into the Amended ABL Credit Facility, which is discussed further below, the exchange between the Company and the participating lenders was consummated. From the Closing Date until the one-year anniversary of the Closing Date, the Second Lien Loans bear 10.0% PIK interest. Thereafter, the Second Lien notes will bear 5.0% cash interest and 5.0% PIK interest until maturity, except to the extent the Company elects to pay all or portion of the PIK interest in cash. To date, the Company has not paid any PIK interest in cash. The Second Lien Loans will mature on July 21, 2026. In connection with the Second Lien Facility, the Company issued to the Participating Lenders warrants to purchase up to 8,280,000 shares of common stock of the Company (Warrants”) at an exercise price of \$6.88 per share. The Warrants were issued on April 22, 2021 with an eight-year term. The Participating Lenders received registration rights with respect to the shares of common stock of the Company to be received upon exercise of the Warrants. The holders of the Warrants are entitled to receive dividends or distributions of any kind made to the common stockholders to the same extent as if the holder had exercised the Warrant into common stock. The Warrants are considered participating securities under ASC 260, *Earnings per share*.

In connection with the Second Lien Facility, the Company is required to maintain at least \$5.0 million in a deposit account at all times subject to control by the Second Lien Collateral Agent, and a minimum cash balance of \$15.0 million as of the last day of each month. At June 30, 2022, the Company classified the \$5.0 million required deposit account balance as restricted cash, which is included in other assets caption in the Consolidated Balance Sheet.

Amended ABL Credit Facility

On December 7, 2020, the Company entered into a credit and guaranty agreement, which provided for an asset-based revolving credit facility (the “ABL Credit Facility”) of up to \$30.0 million, subject to borrowing base availability, and included letter of credit and swing line sub-facilities. On April 22, 2021, the Company entered into an amendment to that certain Credit and Guaranty Agreement, dated as of December 7, 2020 (such agreement as so amended, the “Amended ABL Credit Agreement”), among the Company, certain of its wholly-owned domestic subsidiaries party thereto, as borrowers or as guarantors, Wells Fargo Bank, National Association, as administrative agent and as collateral agent, and the other lenders party thereto, for the purpose of, among other things, increasing the aggregate amount of the revolving credit facility from \$30.0 million to \$45.0 million and extending the maturity thereof to the fifth anniversary of the closing date of Notes Offering (subject to a springing maturity as set forth therein).

The Amended ABL Credit Agreement provides for a revolving credit facility (the “Amended ABL Credit Facility”) that includes letter of credit and swing line sub-facilities. Borrowing availability under the Amended ABL Credit Facility is determined by a monthly borrowing base collateral calculation that is based on specified percentages of eligible accounts receivable less certain reserves and subject to certain other adjustments as set forth in the Amended ABL Credit Agreement. Availability is reduced by issuance of letters of credit as well as any borrowings. Loans outstanding under the Amended ABL Credit Agreement bear interest at a floating rate measured by reference to, at the Company’s option, either an adjusted London Inter-Bank Offered Rate (“LIBOR”) (subject to a floor of 0.75%) plus an applicable margin of 2.50% per annum, or an alternate base rate plus an applicable margin of 1.50% per annum. Unused commitments under the Amended ABL Credit Facility are subject to a fee of 0.50% per annum, which fee increases to 0.75% per annum for any quarter during which the Company’s average usage under the Amended ABL Credit Facility is less than \$5.0 million.

4.50% Convertible Senior Notes due 2026

On September 27, 2019, the Company issued \$86.3 million aggregate principal amount of the Convertible Notes in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Convertible Notes are senior unsecured obligations of the Company and bear interest at an annual rate of 4.50% payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2020. The Convertible Notes will mature on October 1, 2026, unless earlier repurchased, redeemed or converted in accordance with their terms. The Convertible Notes are convertible into shares of the Company's common stock at an initial conversion rate of 65.4022 shares per \$1,000 principal amount of Convertible Notes (which is equivalent to an initial conversion price of approximately \$15.29 per share), subject to adjustments upon the occurrence of certain events (but will not be adjusted for any accrued and unpaid interest). The Company may redeem all or a part of the Convertible Notes on or after October 6, 2023 at a redemption price equal to 100% of the principal amount of the Convertible Notes redeemed, plus accrued and unpaid interest, if any, up to, but excluding, the redemption date, subject to certain conditions relating to the Company's stock price having been met. Following certain corporate events that occur prior to the maturity date or if the Company delivers a notice of redemption, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Convertible Notes in connection with such corporate event or notice of redemption. The indenture covering the Convertible Notes contains certain other customary terms and covenants, including that upon certain events of default occurring and continuing, either the trustee or holders of at least 25% in principal amount of the outstanding Convertible Notes may declare 100% of the principal of, and accrued and unpaid interest on, all the Convertible Notes to be due and payable. In addition, if the Company ceases to be listed or quoted on any of The NYSE, The Nasdaq Global Select Market or The Nasdaq Global Market (or any of their respective successors), holders of the outstanding Convertible Notes will have the option to require the Company to repurchase for cash all of such holder's notes at 100% of the principal amount, plus accrued and unpaid interest.

In connection with the offering of the Convertible Notes, the Company also entered into privately negotiated "capped call" transactions with several counterparties. The capped call transaction will initially cover, subject to customary anti-dilution adjustments, the number of shares of common stock that initially underlie the Convertible Notes. The capped call transactions are expected to generally reduce the potential dilutive effect on the Company's common stock upon any conversion of the Convertible Notes with such reduction subject to a cap which is initially \$19.46 per share.

Other Liquidity Matters

Along with executing on our existing pipeline products, we are continuously evaluating the potential for product and company acquisitions as a part of our future growth strategy. In conjunction with a potential acquisition, the Company may utilize current resources or seek additional sources of capital to finance any such acquisition, which could have an impact on future liquidity. The continued competitive pressures on our current portfolio may impact the ultimate success of existing pipeline projects, which may result in the Company exploring alternative opportunities for capital to support the launch of products in the future.

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

The Company files income tax returns in the United States federal jurisdiction and its Fiscal 2015 through 2017, 2019, 2020 and 2021 federal returns are currently under examination by the Internal Revenue Service ("IRS"). As part of a lengthy process, the Company has received various Information Document Requests ("IDRs") and Notices of Proposed Adjustment ("NOPAs") with respect to positions taken in certain income tax issues, including an accounting method change related to chargebacks and rebates that the IRS is proposing to disallow. We are in the process of assessing the impact of these notices and preparing a response to the IRS. We believe that it is more likely than not that our positions will ultimately be sustained upon further examination, and, if necessary, will contest any additional tax determined to be owed; however, an adverse outcome could have a material impact to the Company's Consolidated Statements of Operations and financial position.

Contractual Obligations

The following table represents material annual contractual obligations as of June 30, 2022:

(In thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 Years
Long-Term Debt (1)	\$ 631,950	\$ —	\$ —	\$ 631,950	\$ —
Interest on Obligations (1)	247,694	42,259	86,082	119,353	—
Operating Lease Obligations (2)	16,887	2,064	4,186	4,269	6,368
Asset Purchase Payment Obligations (3)	12,360	12,360	—	—	—
Total	\$ 908,891	\$ 56,683	\$ 90,268	\$ 755,572	\$ 6,368

- (1) Long-term debt amounts above relate to principal amounts due for the Notes, Second Lien Facility, and the Convertible Notes. Interest on obligations primarily consists of cash interest on the Notes, Second Lien Facility and the Convertible Notes. PIK interest on the Second Lien Facility is due upon maturity and is also included in the interest on obligations line above. However, following the one-year anniversary of the closing date of the Second Lien Facility, the Company may elect to pay in cash any interest required to be paid in the form of PIK interest. To date, the Company has not paid any PIK interest in cash. Refer to Note 9 “Long-Term Debt” for additional information.
- (2) Operating lease obligations primarily relate to an eight-year lease for the Company’s headquarters in Trevoze, Pennsylvania as well as a 116,000 square foot leased warehouse in Seymour, Indiana.
- (3) The asset purchase payment obligation above refers to the consideration due to Andor Pharmaceuticals, LLC for the AB-rated Methylphenidate Hydrochloride perpetual license agreement.

In the normal course of business, the Company may enter into noncancelable purchase orders for API and has various ongoing capital expenditure projects that may result in contractual obligations. Under the terms of the License and Collaboration Agreement with HEC to develop an insulin glargine product, the Company agreed to fund up to the initial \$32.0 million of the development costs and split 50/50 any development costs in excess thereof. As of June 30, 2022, the Company has incurred approximately \$8.2 million of development costs towards the \$32.0 million commitment made by the Company. Under the terms of a separate License and Collaboration Agreement with HEC and affiliates to develop a biosimilar insulin aspart product, the Company agreed to fund up to the initial \$32.0 million of the development costs, provided that if total development and other costs paid by Lannett are less than \$32.0 million then the difference will be paid to Sunshine over the first year of commercialization. As of June 30, 2022, the Company has incurred approximately \$1.0 million of costs towards the \$32.0 million commitment made by the Company. In conjunction with the HEC collaboration efforts to develop biosimilar insulin glargine and aspart, the Company also separately entered into Customization and Supply Agreements with Ypsomed AG (“Ypsomed”) to develop, manufacture and supply an injection device to be used with both insulin products. The Company is required to pay 14.0 million Swiss Francs (“CHF”) to Ypsomed over various future milestone dates to fund an expansion of their production capacity to meet the anticipated demand. As of June 30, 2022, the Company has paid 4.0 million CHF, equivalent to approximately \$4.3 million, towards this commitment. The remaining 4.0 million and 6.0 million CHF payments are to be paid in installments in calendar years 2023 and 2024, respectively. Refer to Note 11 “Commitments” for additional information.

Research and Development Arrangements

In the normal course of business, the Company has entered into certain research and development and other arrangements. As part of these arrangements, the Company has agreed to certain contingent payments, which generally become due and payable only upon the achievement of certain developmental, regulatory, commercial and/or other milestones. In addition, under certain arrangements, we may be required to make royalty payments based on a percentage of future sales, or other metric, for products currently in development in the event that the Company begins to market and sell the product. Due to the inherent uncertainty related to these developmental, regulatory, commercial and/or other milestones, it is unclear if the Company will ever be required to make such payments.

Critical Accounting Policies and Estimates

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

Management has identified the following as "Critical Accounting Policies and Estimates:" Revenue Recognition, Inventories, Income Taxes, and Valuation of Long-Lived Assets, including Intangible Assets.

Revenue Recognition

Under Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, the Company recognizes revenue when title and risk of loss of promised goods or services have transferred to the customer at an amount that reflects the consideration the Company is expected to be entitled. Our revenue consists almost entirely of sales of our pharmaceutical products to customers, whereby we ship product to a customer pursuant to a purchase order. Revenue contracts such as these do not generally give rise to contract assets or contract liabilities because: (i) the underlying contracts generally have only a single performance obligation and (ii) we do not generally receive consideration until the performance obligation is fully satisfied. The new revenue standard also impacts the timing of the Company's revenue recognition by requiring recognition of certain contract manufacturing arrangements to change from "upon shipment or delivery" to "over time." However, the recognition of these arrangements over time does not currently have a material impact on the Company's consolidated results of operations or financial position. The Company adopted ASC 606 using the modified retrospective method.

When revenue is recognized, a simultaneous adjustment to gross sales is made for estimated chargebacks, rebates, returns, promotional adjustments and other potential adjustments. These provisions are primarily estimated based on historical experience, future expectations, contractual arrangements with wholesalers and indirect customers and other factors known to management at the time of accrual. Accruals for provisions are presented in the Consolidated Financial Statements as a reduction to gross sales with the corresponding reserve presented as a reduction of accounts receivable or included as rebates payable, depending on the nature of the reserve.

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

Chargebacks

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

Rebates

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

Returns

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

Other Adjustments

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

Inventories

Inventories are stated at the lower of cost or net realizable value determined by the first-in, first-out method. Inventories are regularly reviewed and write-downs for excess and obsolete inventory are recorded based primarily on current inventory levels, expiration date and estimated sales forecasts. While estimated sales forecasts are subjective in nature, the projections allow management to reasonably predict the net realizable value of current inventory based on expected demand. A decrease in the estimated sales forecasts would indicate the need to write-down excess and obsolete inventory. Management continuously monitors the market activity and assesses inventory levels.

Income Taxes

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

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

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

Valuation of Long-Lived Assets, including Intangible Assets

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

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

Property, plant and equipment and definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances (“triggering events”) indicate that the carrying amount of the asset may not be recoverable. The nature and timing of triggering events by their very nature are unpredictable; however, management regularly considers the performance of an asset as compared to its expectations, industry events, industry and economic trends, as well as any other relevant information known to management when determining if a triggering event occurred.

If a triggering event is determined to have occurred, the first step in the impairment test is to compare the asset’s carrying value to the undiscounted cash flows expected to be generated by the asset. If the carrying value exceeds the undiscounted cash flows of the asset, then an impairment exists. An impairment loss is measured as the excess of the asset’s carrying value over its fair value, which in most cases is calculated using a discounted cash flow model. Discounted cash flow models are highly reliant on various assumptions which are considered Level 3 inputs, including estimates of future cash flows (including long-term growth rates), discount rates and the probability of achieving the estimated cash flows. Management regularly reviews estimated future cash flows for reasonableness and considers how recent activity, including a triggering event, may impact those projections. Management also compares various industry benchmarks when determining the discount rate to use in an impairment. A higher (lower) estimate of future cash flows and/or discount rate would result in a larger (smaller) impairment. assessment. The judgments made in determining the estimated fair value can materially impact our results of operations. There can be no assurances as to when, or if, future impairments may occur.

Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options and Derivatives and Hedging - Contracts in Entity’s Own Equity*, with changes to modify and simplify the application of U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, with early adoption permitted. The ASU requires adoption using either the retrospective basis or the modified retrospective basis. The Company is currently evaluating the impact of ASU 2020-06, but does not currently expect it to have a material impact on its Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the fiscal year ended June 30, 2021, the Company paid off our outstanding, variable-rate Senior Secured Credit Facility with cash and the proceeds from new fixed-rate debt. The Company has historically invested in equity securities, U.S. government agency securities and corporate bonds, which are exposed to market and interest rate fluctuations. The market value, interest and dividends earned on these investments may vary based on fluctuations in interest rate and market conditions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act, as amended, for financial reporting as of June 30, 2022. Based on that evaluation, our chief executive officer and chief financial officer concluded that these controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported as specified in SEC rules and forms and is accumulated and communicated to our management to allow timely decisions regarding required disclosures. There were no changes in these controls or procedures identified in connection with the evaluation of such controls or procedures that occurred during our last fiscal quarter, or in other factors that have materially affected, or are reasonably likely to materially affect these controls or procedures.

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

Management's Report on Internal Control over Financial Reporting

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

Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2022, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

The information included in this Item 9B is provided in lieu of filing such information on a Current Report on Form 8-K under Item 5.02. Compensatory Arrangements of Certain Officers.

On August 22, 2022, the Board of Directors (“Board”) of Lannett Company, Inc. (the “Company”) adopted changes to the Company’s short-term incentive (“STI”) and long-term incentive (“LTI”) compensation programs for its named executive officers (“NEOs”). The Board determined that these changes were in the best interests of the Company in order to retain members of the management team in recognition of the challenges facing the Company and the generic pharmaceutical industry as a whole and to reinforce current strategic priorities, while providing for performance-based incentives that align with key performance metrics and milestones and stockholder interests.

The target LTI incentives as a percentage of salary was increased for each of the Company’s NEOs, to 450% of base salary for the CEO and 195% of base salary for each other NEO, to align more closely with the 50th percentile of the Company’s peer group and broader market practice. Additionally, while historically the LTI compensation has been paid in the form of equity-based compensation, for Fiscal Year 2023 the LTI compensation will be paid in cash, with one-half of the LTI compensation to be paid to each NEO in September 2022 as a retention award (calculated based on the NEO’s Fiscal 2022 base salary), vesting in equal annual installments over the next three years. If an NEO terminates his or her employment other than for Good Reason or is terminated by the Company for Cause (as each term is defined in the NEO’s employment agreement with the Company), the NEO will be required to pay back to the Company the net after-tax amount of any unvested portion of the retention award. If the NEO’s employment is terminated due to death, disability, Change in Control (as defined in the NEO’s employment agreement with the Company), for Good Reason or is terminated without Cause, the NEO will not be required to pay back any unvested portion of the retention award.

For Fiscal Year 2023, the remaining one-half of the LTI compensation will be made a part of the STI compensation program, which for Fiscal Year 2023 will provide for quarterly payments based upon the Company being on target to meet performance metrics and milestones set by the Compensation Committee of the Board. If the Compensation Committee of the Board determines at the end of each calendar quarter that the Company is on target to meet one of the metrics or milestones, the NEO will receive a payment equal to fifty percent (50%) of the quarterly STI targeted payout for such performance metric or milestone, with the remaining fifty percent (50%) to be held back and payable at the end of the fiscal year, subject to the Company meeting such performance metrics or milestones in Fiscal Year 2023.

A copy of the form of retention award letter is attached as Exhibit 10.100 hereto and incorporated herein by reference. The foregoing description of the retention award letter does not purport to be complete and is qualified in its entirety by reference to the full text of such document.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

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

	Age	Position
<u>Directors:</u>		
Patrick G. LePore	67	Chairman of the Board
John C. Chapman	67	Director
Timothy C. Crew	61	Director
David Drabik	54	Director
Jeffrey Farber	61	Director
Melissa Rewolinski	52	Director
<u>Officers:</u>		
Timothy C. Crew	61	Chief Executive Officer
John Kozlowski	50	Vice President of Finance, Chief Financial Officer and Principal Accounting Officer
John M. Abt	57	Vice President and Chief Quality, Information Technology ("IT") and Operations Officer
Maureen M. Cavanaugh	62	Senior Vice President and Chief Commercial Operations Officer
Samuel H. Israel	60	General Counsel and Chief Legal Officer

Patrick G. LePore was appointed as a Director of the Company in July 2017. On July 1, 2018, Mr. LePore succeeded Mr. Farber as Chairman of the Board of Directors. Mr. LePore served as chairman, Chief Executive Officer and president of PAR Pharmaceuticals, Inc., until the company's acquisition by private equity investor TPG in 2012. He remained as chairman of the new company through the sale of the company to Endo Pharmaceuticals. Mr. LePore began his career with Hoffmann LaRoche. Later, he founded Boron LePore and Associates, a medical communications company, which he took public and was eventually sold to Cardinal Health. Mr. LePore is the Vice Chairman of the board of Matinas BioPharm. On September 10, 2020, Mr. LePore was appointed as a director of the board of VYNE Therapeutics, Inc. Mr. LePore earned his bachelor's degree from Villanova University and Master of Business Administration from Fairleigh Dickinson University.

The Governance and Nominating Committee concluded that Mr. LePore is well qualified to serve as a Director due, in part, to his understanding and experience as a Chief Executive Officer and Director of highly regarded companies within the pharmaceutical industry. Mr. LePore is an independent director as defined by the rules of the NYSE.

John C. Chapman was appointed as a Director of the Company in July 2018. Mr. Chapman is a retired audit partner for KPMG, having specialized in providing audit services to large complex multinational pharmaceutical and consumer market companies. During his tenure at KPMG, he served for six years as a member of the firm's board of directors and for several years as KPMG's global chair of pharmaceuticals and chemicals. Mr. Chapman also served as global lead partner for some of KPMG's largest clients, including Pfizer, Hoechst and PepsiCo, among others. Mr. Chapman, a certified public accountant, earned a Bachelor of Business Administration in accounting practice degree from Pace University, New York.

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

Timothy C. Crew was appointed as the Company's Chief Executive Officer and a Director of the Company in January 2018. Mr. Crew has more than 30 years of experience in the generic and branded pharmaceutical industries. Previously, he served as Chief Executive Officer of Cipla North America, a global pharmaceutical company based in Mumbai, India. Before Cipla, he worked for eight years at Teva Pharmaceuticals Industries Ltd. ("Teva"), where he ultimately served as Senior Vice President and Commercial Operating Officer of the North American Generics division, the world's largest generic operation with multibillion dollars of annual sales. Before that, he was Teva's Vice President, Alliances and Business Development. Mr. Crew was also an Executive Vice President, North America, for Dr. Reddy's Laboratories Ltd. Mr. Crew began his pharmaceutical career at Bristol-Myers Squibb, where he held a number of senior management positions in global marketing, managed healthcare, marketing, business development and strategic planning. Prior to his pharmaceutical roles, Mr. Crew served in the United States Army, where he rose to the rank of Captain. Mr. Crew earned a Bachelor of Arts degree in economics from Pomona College and a Masters of Business Administration degree from Columbia Business School.

The Governance and Nominating Committee concluded that Mr. Crew is well qualified to serve as a Director due, in part, to his understanding and experience as a Chief Executive Officer and Director of highly regarded companies within the pharmaceutical industry.

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

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

Jeffrey Farber was appointed a Director of the Company in May 2006 and was appointed Chairman of the Board of Directors in July 2012. In July 2018, Patrick LePore succeeded Jeffrey Farber as the Chairman of the Board. Jeffrey Farber joined the Company in August 2003 as Secretary. Since 1994, Mr. Farber has been President and the owner of Auburn Pharmaceutical ("Auburn"), a national generic pharmaceutical distributor. Prior to starting Auburn, Mr. Farber served in various positions at Major Pharmaceutical ("Major"), where he was employed for over 15 years. At Major, Mr. Farber was involved in sales, purchasing and eventually served as President of the Midwest division. Mr. Farber also spent time working at Major's manufacturing division, Vitarine Pharmaceuticals, where he served on its Board of Directors. Mr. Farber graduated from Western Michigan University with a Bachelor of Science Degree in Business Administration and participated in the Pharmacy Management Graduate Program at Long Island University.

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

Melissa Rewolinski was appointed as a Director of the Company in July 2019. Dr. Rewolinski is a National Association of Corporate Governance Fellow. Dr. Rewolinski currently serves as principal of MVR Consulting, where she specializes in providing counsel to small and mid-size biotechnology and pharmaceutical companies. Earlier she held a number of senior level R&D positions for Intercept, rising to Senior Vice President, Head of Technical Operations, and member of the Executive Team. Previously, she served as Senior Director, Development for Amira Pharmaceuticals, and before that as a Chemical Development Group Leader and a Pharmaceutical Sciences Project Team Leader for Pfizer Global R&D. Dr. Rewolinski began her career at Pharmacia & Upjohn as a post-doctoral research scientist. She is a member of the Board of Directors of ATCC (American Type Culture Collection), a private, nonprofit, global biological resource center and standards organization that provides scientists with the biomaterials and resources they need to conduct critical life science research. Dr. Rewolinski earned a Doctorate degree in Organic Chemistry and Bachelor of Science degree in Chemistry, magna cum laude, from Rice University.

The Governance and Nominating Committee concluded that Dr. Rewolinski is well qualified to serve as a Director due, in part, to her significant experience in operational and drug development roles within the pharmaceutical industry. Dr. Rewolinski is an independent director as defined by the rules of the NYSE.

John Kozlowski joined the Company in 2009 and was promoted in 2010 to Corporate Controller. In 2016, Mr. Kozlowski was promoted to Vice President Financial Operations & Corporate Controller. In October 2017, Mr. Kozlowski was promoted to Chief Operating Officer. In April 2018, Mr. Kozlowski was promoted to Chief of Staff and Strategy Officer. Mr. Kozlowski was appointed as the Vice President of Finance and Chief Financial Officer in August 2019. In July 2020, Mr. Kozlowski was also appointed the Principal Accounting Officer. Prior to joining the Company, Mr. Kozlowski served in senior finance and accounting roles for Optium Corporation and Finisar Australia. He earned a Bachelor of Arts degree in finance from James Madison University and a Masters of Business Administration degree from Rider University.

John M. Abt joined the Company in March 2015 as Vice President of Quality and was promoted to Vice President and Chief Quality and Operations Officer in April 2018. In December 2021, Mr. Abt was also appointed Chief IT Officer. Prior to joining the Company, Mr. Abt held senior level positions in both quality and operations and has extensive knowledge in pharmaceutical manufacturing, quality, strategy, business improvement and site transformation. Prior to joining the Company, he most recently served as Teva Pharmaceuticals' Vice President Global Quality Strategy, overseeing the development and implementation of strategy and associated initiatives for the global quality organization. Before that, he held a number of leadership positions of increasing responsibility in operations, continuous improvement, quality systems and compliance. He earned his Doctorate in Business Administration from Temple University, Masters of Administrative Science in Business Management from Johns Hopkins University and a Bachelor of Science in Biochemistry from Niagara University.

Maureen M. Cavanaugh joined the Company in May 2018 as Senior Vice President and Chief Commercial Operations Officer. Prior to joining the Company, Ms. Cavanaugh spent 11 years at Teva, most recently as Senior Vice President, Chief Commercial Officer, North American Generics. Earlier at Teva, Ms. Cavanaugh served as Senior Vice President and General Manager, U.S. Generics and before that held a variety of positions in sales, marketing and customer operations. Ms. Cavanaugh also previously served as Senior Director of Marketing at PAR Pharmaceuticals, as Director, Product Management and Marketing Research at Sandoz Inc., and held a number of finance, sales and marketing operations positions at Bristol Myers-Squibb. Ms. Cavanaugh earned a Bachelor of Science in Business Administration degree from LaSalle University and a Masters of Business Administration degree from Rider University.

Samuel H. Israel joined the Company in July 2017 as General Counsel and Chief Legal Officer. Prior to joining Lannett, Mr. Israel was a partner with Fox Rothschild LLP, a national, full-service law firm, with 29 offices that provide services in more than 70 practice areas, since 1998. He served as chair of the firm's Pharmaceutical and Biotechnology Practice and handled a variety of commercial litigation matters. Mr. Israel earned a Bachelor of Science degree in Chemical Engineering from the University of Pennsylvania and a Juris Doctor degree with honors from Rutgers University School of Law.

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

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act ("Section 16") requires the Company's directors, executive officers and persons who own more than ten percent of the common stock of the Company, to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of common stock of the Company. Based solely on review of these reports, or written representations from these persons that no other reports were required to be filed with the SEC, the Company believes that all reports for the Company's directors, executive officers and ten percent shareholders that were required to be filed under Section 16 during the fiscal year ended June 30, 2022 were timely filed.

Code of Ethics

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

Audit Committee

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

Financial Expert on Audit Committee: The Board has determined that John Chapman, a current Director and Chairman of the Audit Committee, is the Audit Committee financial expert as defined in section 3(a)(58) of the Exchange Act and the related rules of the Commission for the year ended June 30, 2022.

Information Security Experience on Audit Committee: The Audit Committee is responsible for overseeing management's controls over information security. The Audit Committee meets at least quarterly with the Company's IT management and performs a review of our cybersecurity controls to ensure routine metrics, monitoring reports, and annual internal and external assessments are included. Additionally, the Audit Committee meets with the Company's independent auditors regarding their annual audit procedures, which include information security. John Chapman has information security experience. Pursuant to the Audit Committee charter, the Audit Committee is briefed periodically on the status of the Company's systems and processes to ensure that the Company's electronic information is not compromised. There have not been any breaches of Company information systems in the last three years and the Company, which maintains a cyber security insurance policy, has not paid any expenses or penalties related to any information breaches.

ESG Committee

The ESG Committee, which was formed in April 2021, is responsible for providing oversight of the Company's ESG activities. The members of the ESG Committee are Timothy Crew, John Chapman, David Drabik, and Melissa Rewolinski. Timothy Crew currently serves as the Chairman of the ESG Committee.

The Board is ultimately responsible for ESG activities and provides strategic direction based on input from management, the Board's ESG Committee and outside stakeholders. The ESG Committee's review of ESG activities may include, but is not limited to:

- a) Environmental impact on air, land, water, ecosystems, and human health that may be created by business activities, with a view toward avoiding or minimizing such impact.
- b) Social matters, including promoting health and safety, creating a diverse workforce, encouraging labor-management relations, protecting human rights in our supply chain and focusing on product integrity, in order to increase morale and reduce turnover and absenteeism.
- c) Governance matters, particularly addressing diversity and inclusion.

Corporate Governance

Other information required in this Item 10 was included in the 2022 Proxy Statement, which was filed with the SEC on December 10, 2021. The sections incorporated by reference in this Item 10 include: "*The Role of the Board and Risk Oversight*," "*Corporate Governance*," "*Board Leadership Structure*," "*Communicating with the Board of Directors*," "*Board Committees*," and "*Executive Sessions of Independent Directors*."

ITEM 11. EXECUTIVE COMPENSATION**Compensation Discussion and Analysis**

This Compensation Discussion and Analysis (“CD&A”) describes our Fiscal 2022 Executive Compensation Program. It provides an overview of the compensation program for the following Named Executive Officers (“NEOs”) and how the Compensation Committee of the Board of Directors (“the Committee”) made its decisions for our 2022 Fiscal Year.

NEO	Title/Role
Timothy C. Crew	Chief Executive Officer (“CEO”)
John Kozlowski	Vice President of Finance, Chief Financial Officer and Principal Accounting Officer
Maureen Cavanaugh	Senior Vice President and Chief Commercial Operations Officer
Samuel H. Israel	Chief Legal Officer and General Counsel
John Abt	Vice President and Chief Quality, IT and Operations Officer

Say on Pay Results in 2022

At our annual stockholders meeting in January 2022, our stockholders approved the “say-on-pay” proposal, with approximately 90% of votes cast in support of our executive compensation program.

Although this vote is non-binding, its outcome, along with stockholder feedback and the competitive business environment, plays an important role in how the Committee makes decisions about the program’s structure. To this end, the Committee periodically conducts reviews of the Executive Compensation Program, monitors industry practices and seeks feedback from some of our largest investors. Based in part on this feedback, the Committee introduced performance shares tied to the Company’s three-year total stockholder returns (“TSR”) relative to companies in the S&P Pharmaceuticals Select Industry Index as part of the long-term incentive program for NEOs in Fiscal 2018 and, has increased the weighting on performance-based long-term incentives over time. In Fiscal 2022, the Committee added additional metrics and increased the performance share weighting to 50% of total target award opportunities, with half tied to three-year relative TSR and half to strategic portfolio goals over the three-year measurement period. The Committee also added a provision for the relative TSR component capping performance share award funding at target if we outperform comparator companies but our absolute TSR is negative. To help manage equity plan share usage, a cash-based long-term incentive (“Cash LTIP”) component was also added to the long-term incentive program for NEOs in Fiscal 2022, with awards tied to absolute stock price performance over the three-year measurement period. The Fiscal 2022 Annual Bonus Plan for NEOs included a new component tied to the internal development of a report outlining the Company’s ESG strategy and practices. It also included a new component tied to various deferred strategic goals relating to product development and regulatory milestones. Our executive compensation program for NEOs continues to place a significant emphasis on performance-based variable pay tied to key strategic objectives. We also maintain stock ownership requirements for executive officers and non-employee Directors, and, in Fiscal 2021, our Board of Directors approved an expanded compensation recovery or “clawback” provision amending all executive officer employment contracts in the event of the need for a restatement of financial statement arising from fraud or misconduct. We believe these actions demonstrate our responsiveness to stockholder feedback and our ongoing commitment to aligning executive pay with performance and long-term value creation.

The following pages of this CD&A highlight performance results since Fiscal 2019 that have had a direct impact on the compensation paid to our NEOs over the same period of time. It looks specifically at the performance measures used in the short- and long-term incentive awards under the Executive Compensation Program that the Committee believes drive stockholder value. It also describes recently approved changes for Fiscal 2023 to further align our Executive Compensation Program with our objectives, near-term and longer-term strategic priorities, and best competitive practice.

A Word About Risk

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

Executive Summary

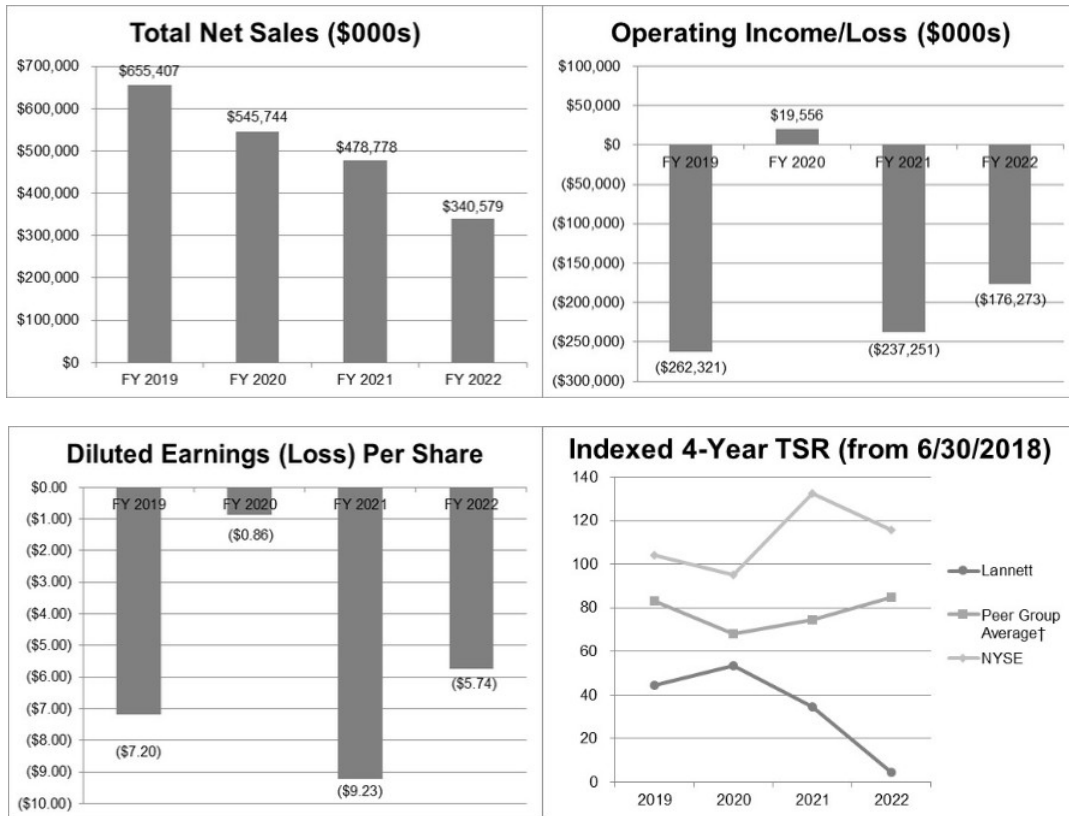
Business Highlights

Fiscal 2022 was another year of significant challenges as well as strategic accomplishments that we believe will position the Company for future growth and value creation. Our financial results and new product launches were adversely impacted by ongoing competitive pressures within the generic pharmaceuticals industry, organizational and portfolio restructuring actions, and, to a lesser extent, supply chain and inflationary pressures. We did not achieve budgeted financial goals, with year over year declines in net sales and profitability, which excludes certain impairment charges. As a result of a significant decline in our stock price, we received notice that we are no longer in compliance with the NYSE continued listing requirements. The NYSE has accepted our plan to regain compliance within an 18-month cure period and we plan to maintain regular contact with the exchange during that period. Despite these challenges, we continued to maintain and streamline our operations, rationalize our product portfolio and mix, and provide safe, high quality medications to customers and patients. We continued to successfully execute on our strategy of enhancing our core business, building our R&D pipeline, expanding strategic alliances, and reducing costs. We launched a total of five new products during Fiscal 2022, down considerably from double-digit annual launches in prior years due to market and financial pressures and our focus on advancing our longer-term durable product pipeline. During Fiscal 2022, we also fully implemented a new restructuring plan with expected annual savings of approximately \$20 million, which included the sale of our liquid drug manufacturing plant in Carmel, NY and the transfer of key products at that facility to our Seymour, IN facility. Under the restructuring plan, we also discontinued two lower-margin products in our portfolio, which, combined with the above-referenced macroeconomic challenges, adversely impacted near-term net sales but is expected to improve the longer-term profitability of the Company. These activities, combined with prior refinancing and restructuring actions in Fiscal 2021, strengthened our financial flexibility and ability to make ongoing investments in our business and product pipeline. We continue to execute on a number of key strategic initiatives as discussed below. We believe these actions will better position the Company for long-term profitable growth and stockholder value creation.

In addition, we continued to make important advances in product in-licensing and development. As of June 30, 2022, we had more than 100 products available to the market, with additional launches planned in Fiscal 2023 and beyond. We also continue to capitalize on our strategic partnerships, both domestically and internationally. Since January 2018, we acquired or in-licensed over 75 ANDA products and entered into several new strategic alliance agreements which diversified and enhanced our revenue streams. In Fiscal 2020 and 2021, we entered into commercialization agreements with several leading pharmaceutical companies that have the potential to significantly increase our future annual revenues. Included among these is a revised and expanded agreement with our strategic alliance partner, HEC Group, for insulin glargine, an insulin-based product, with significant market potential to treat type 1 and type 2 diabetes, which impacts approximately 34 million Americans, as well as a new agreement for a fast-acting, biosimilar insulin aspart product candidate with significant market potential. We initiated a pivotal clinical trial for our biosimilar insulin glargine candidate in March 2022, which, if successful, could lead to potential FDA approval and product launch in the first half of calendar 2024. We also entered into agreements with Respirant for additional inhalation products and met with the FDA in Fiscal 2022 to discuss requirements for a potential revised ANDA filing later in calendar 2022. We continue to make progress advancing these and other product candidates towards potential commercial launches over the next several years.

As noted above, our financial performance in Fiscal 2022 was adversely impacted by ongoing competitive pressures within the generic pharmaceutical industry and the broader market. Despite these challenges, our executive leadership and other employees made significant progress in executing our strategic plan and positioning the Company for future growth. The impact of these events and developments is reflected in our compensation decisions for Fiscal 2022, consistent with our pay for performance philosophy. For the second consecutive year, salary increases for NEOs were delayed (until October 2021 for Fiscal 2022), with no increase for Mr. Crew. Short-term incentive (annual bonus) payouts to NEOs for Fiscal 2022 were well below target, with no awards earned for components tied to corporate financial goals (representing 60% of total target award opportunities) due to below-threshold performance results, and partial achievement of awards tied to product development and regulatory milestones and certain other strategic objectives. Based on overall performance results, short-term incentive payouts for NEOs for Fiscal 2022 were earned at approximately 25% of total target award opportunities. Additionally, performance shares tied to three-year relative TSR cycles ending in September 2020, July 2021, and July 2022 were forfeited since our TSR results relative to comparator companies in the S&P Pharmaceuticals Select Industry Index were below the threshold level. We believe these actions demonstrate our commitment to aligning executive pay with performance. All outstanding stock options held by our NEOs are currently “underwater” and the value of all other outstanding equity awards are below grant date target values. Based on our interim relative TSR results through June 30, 2022, performance shares granted in Fiscal 2021 and the portion of 2022 grants tied to relative TSR are tracking below threshold levels which, if sustained over the applicable three-year performance periods, would result in no awards being earned by NEOs.

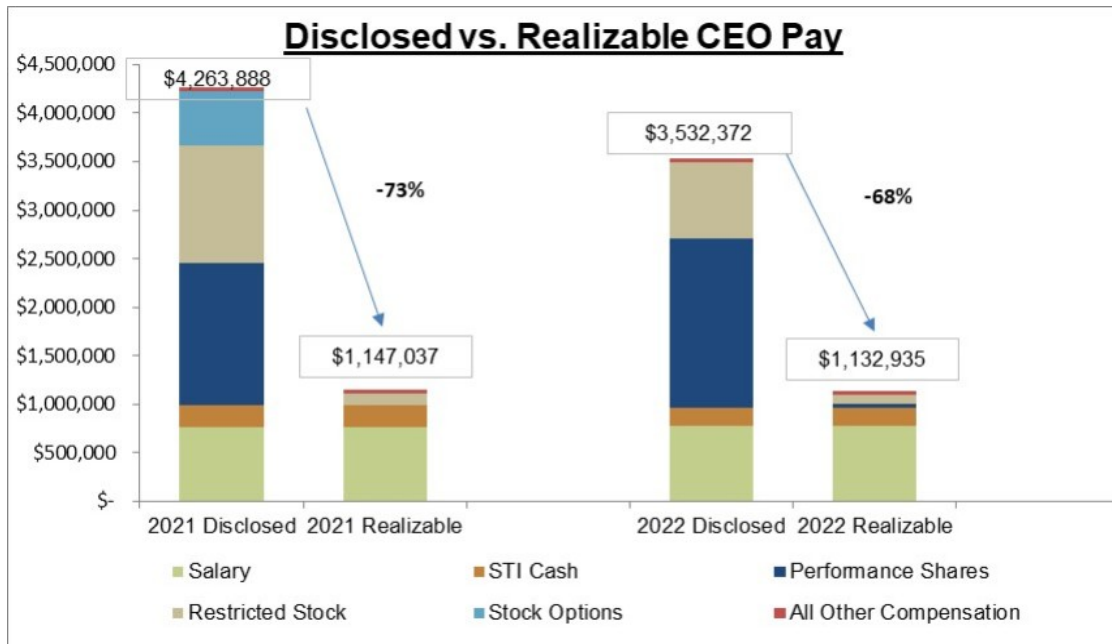
Key financial performance highlights, as reported in accordance with GAAP requirements, are shown below. GAAP-based results for Fiscal 2021 and Fiscal 2022 reflect asset impairments and certain other non-cash and/or non-recurring expenses that are excluded from adjusted profitability metrics. Year over year declines in net sales and negative profitability results reflect continued challenging market conditions within the generic pharmaceuticals industry, and for comparisons vs. Fiscal 2019 results, the non-renewal of the former distribution agreement with Jerome Stevens Pharmaceuticals (JSP), which expired in March 2019 and had significantly contributed to our prior net sales and profitability. See the section of our Form 10-K entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional details and discussion of Company performance.



† Peer Group average pertains to the Fiscal 2022 peer group.

Comparison of Disclosed Versus Realizable CEO Pay for Mr. Crew (Based on Summary Compensation Table)

Compared with values reported in the Summary Compensation Table for Mr. Crew, current realizable values are 73% lower for Fiscal 2021 and 68% lower for Fiscal 2022. Mr. Crew’s reported compensation for Fiscal 2021 includes actual base salary plus STI earned plus grant date accounting values for target equity grants for Fiscal 2021. Fiscal 2022 reported compensation includes actual base salary plus STI earned plus grant date accounting values for target equity grants for Fiscal 2022. Realizable pay reflects current intrinsic values for equity grants based on our stock price as of June 30, 2022, with assumed performance share award funding at 0% of target for the Fiscal 2021 grant and the portion of the Fiscal 2022 grant tied to relative TSR, based on interim relative TSR results from date of grant through June 30, 2022, and at 40% of target level, based on current estimates which are subject to change, for the portion of the Fiscal 2022 grant tied to strategic portfolio goals (to be achieved by the end of the three-year performance period). Disclosed and realizable values for Fiscal 2022 exclude the Cash LTIP component, which is reported in the Grants of Plan-Based Awards table, but will not be reported in the Summary Compensation table until the end of the three-year performance period in Fiscal 2024, to the extent earned.



Fiscal 2022 Executive Compensation Program Changes

As our Company grows, the Committee is committed to the evolution and improvement of our Executive Compensation Program to ensure alignment with our business strategy and stockholder interests, as well as best competitive practices. The Committee made the following adjustments to the program’s core compensation elements for 2022:

What’s Changed	How It’s Changed	Explanation
Short-Term Incentives (“Annual Bonus”)	<ul style="list-style-type: none"> • Reduced the weighting on Adjusted Operating Income from 30% to 20% and eliminated the individual performance component. • Added an ESG metric to the strategic objectives component. • Added a new deferred strategic objectives component tied to 4 product development / regulatory milestones, each weighted 5%, payable upon attainment. 	Revised performance metrics place increased emphasis on strategic objectives, especially as relates to key product development / regulatory milestones and ESG initiatives, while the majority of target award opportunities continue to be tied to financial performance. The deferred strategic objectives component also provides additional flexibility in terms of payout timing, recognizing that certain milestones may be achieved more quickly than others. No changes were made to target award opportunities expressed as percentages of base salary.
Long-Term Incentives	<ul style="list-style-type: none"> • Revised target value mix for NEOs to 50% performance shares, 30% time-based restricted stock, and 20% Cash LTIP (in lieu of stock options) with value tied to changes in stock price over a three-year performance period. • Added strategic portfolio metrics for performance shares, with a 50% weighting, with the other half tied to three-year relative TSR vs. same comparator group as for prior grants. • Added provision for relative TSR performance shares capping award funding at target if the Company outperforms comparators but three-year absolute TSR is negative. 	Revised mix increases the emphasis on at-risk compensation, consistent with our pay for performance philosophy. Newly-added strategic portfolio metrics align with our strategic priority to advance the development of our durable product pipeline as well as other product candidates. Replacing stock options with a Cash LTIP component helps manage equity plan share usage. Capping relative TSR performance shares at target if we outperform comparators but absolute TSR is negative aligns with best governance practices and shareholder advisory group preferences. The revised mix for Fiscal 2022 grants continues to tie a majority of award opportunities to multi-year performance and/or stock price appreciation. For grants made in July 2021, no changes were made to target award opportunities, expressed as percentages of base salary.

Our Commitment to Sound Corporate Governance

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

What We Do	What We Don't Do
· Emphasize variable incentives to align pay with performance	· Provide multi-year pay guarantees within employment agreements
· Tie incentive compensation to multiple performance metrics that reinforce key business objectives	· Allow stock option repricing without stockholder approval
· Place primary emphasis on equity compensation to align executive and stockholder interests	· Permit stock hedging or pledging activities
· Use stock ownership guidelines for executive officers and non-employee directors	· Provide uncapped incentive and performance share awards
· Maintain a clawback policy allowing for the recoupment of excess compensation in the event of a material financial restatement and fraud or misconduct	· Pay tax gross-ups on any awards
· Engage an independent compensation consultant to advise the Compensation Committee	· Provide excessive executive perquisites

Executive Officer Stock Ownership Guidelines

To further encourage alignment with stockholder interests, the Board has established stock ownership and retention requirements for executive officers. Within five years of first being subject to guidelines in their current role, each executive officer is required to achieve and maintain ownership levels, based on a multiple of base salary, as noted in the following table.

Position	Base Salary Multiple Ownership Requirement
CEO	3.0X (300%) annual base salary
All Other Executive Officers	1.5X (150%) annual base salary

Until guidelines are met, executive officers must retain 50% of net after-tax shares received from equity grants, including net after-tax shares received from stock option exercise or vesting of restricted stock and performance shares, until they are in compliance. If guidelines are not met within the five-year compliance period, the holding requirement increases to 100% of net after-tax shares from equity grants until achieved. Shares owned outright by executive officers or their spouse, as well as shares held in retirement plans and unvested time-based restricted stock count towards ownership requirements. Unearned performance shares and outstanding stock options do not count towards ownership. Non-employee Directors are also subject to stock ownership and holding requirements, as described in the “Compensation of Directors” section of this 10-K.

Overview of the Executive Compensation Program

Our Philosophy

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

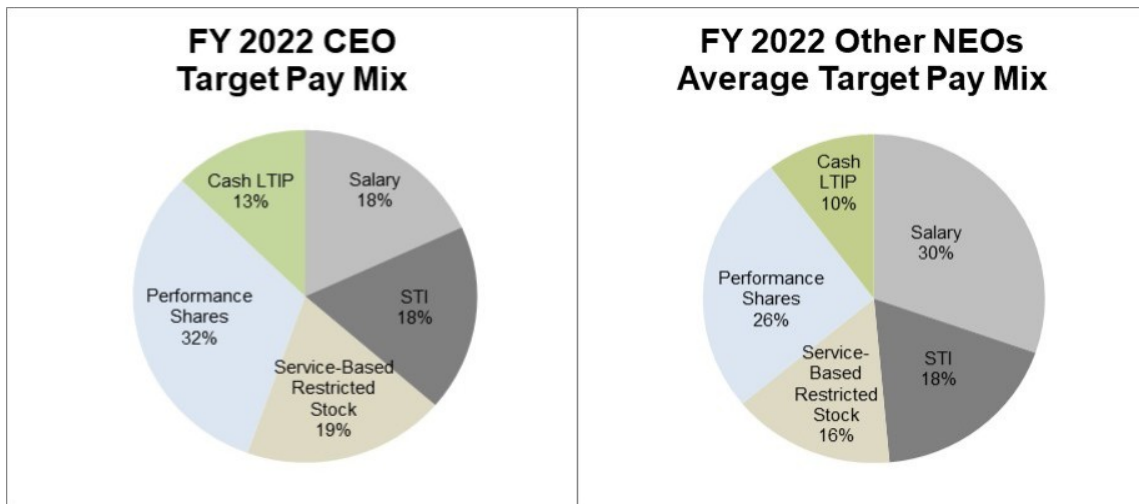
- **Pay for performance:** A significant portion of compensation should be variable and directly linked to corporate and individual performance goals and results.
- **Competitiveness:** Compensation should be sufficiently competitive to attract, motivate and retain an executive team fully capable of driving exceptional performance.
- **Alignment:** The interests of executives should be aligned with those of our stockholders through equity-based compensation and performance measures that help to drive stockholder value over the long term.

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

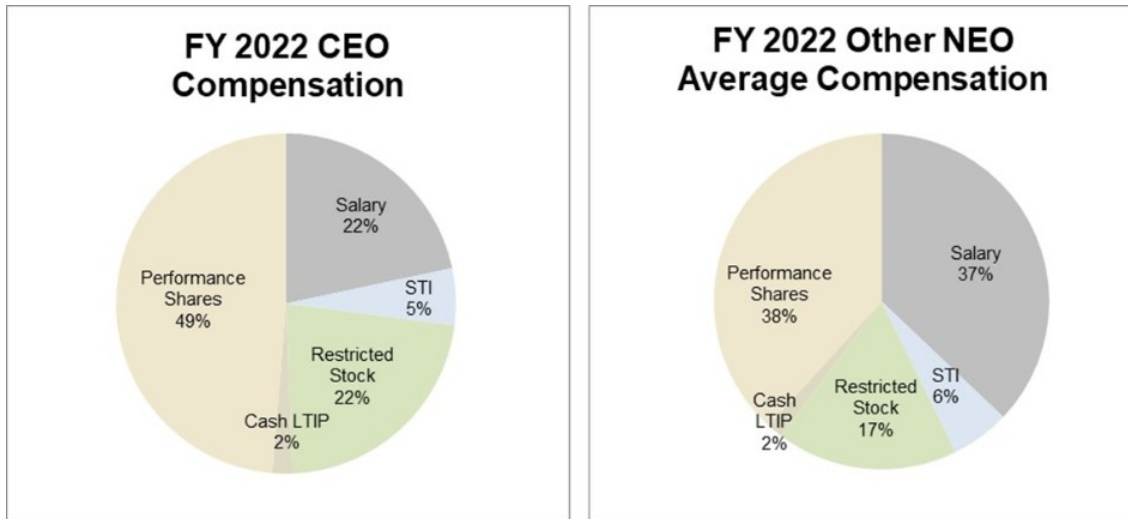
Pay Element	Form	Purpose
Base Salary	Cash (Fixed)	Provides a competitive level of compensation that reflects position responsibilities, strategic importance of the position and individual experience.
Short-Term Incentives (Annual Bonus)	Cash (Variable)	Provides a cash-based award that recognizes the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

Target Compensation Mix

The charts below show that most of our NEO’s target compensation for Fiscal 2022 is variable (82% for our CEO and an average of 70% for our other current NEOs). Variable pay includes the target value of short-term cash incentives (“STI”), performance shares, Cash LTIP, and restricted stock.



Based upon Fiscal 2022 compensation as reported in the Summary Compensation Table on page 85 of this 10-K plus pro-forma realizable values for Cash LTIP as of June 30, 2022, variable pay represents approximately 78% of total pay for our CEO and 63% of average total pay for our other current NEOs. The Cash LTIP is not included in the Summary Compensation table; however, it is included in the variable pay below for comparative purposes versus the target pay mix. This mix reflects below-target short-term incentives earned at an average of 25% of target award levels in Fiscal 2022 under the Annual Bonus Plan (shown as STI), below-target Cash LTIP (tracking at approximately 12% of target based on our closing stock price at June 30, 2022), and the grant date accounting fair value of target performance share and restricted stock grants in Fiscal 2022.



How Compensation Decisions Are Made

- **The Role of the Compensation Committee.** The Committee, composed entirely of independent Directors, is responsible for making executive compensation decisions for the NEOs. The Committee works closely with its independent compensation consultants, including Pearl Meyer & Partners (“Pearl Meyer”) and, as it relates to the Fiscal 2023 NEO compensation program design, Willis Towers Watson (“WTW”), and management to examine pay and performance matters throughout the year. The Committee’s charter, which sets out its objectives and responsibilities, can be found at our website at www.lannett.com under the “Investors” section.

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

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

Timing of Committee Meetings and Grants; Option and Share Pricing

The Committee meets as necessary to fulfill its responsibilities, and the timing of these meetings is established during the year. The Committee holds special meetings from time to time as its workload requires. Annual equity grants occur after finalizing fiscal year end performance results, typically within the July/August time frame. Individual grants (for example, associated with the timing of a new NEO or promotion to an NEO position) and special recognition awards may occur at any time of year. The exercise price of each stock option and fair value of restricted stock awarded to our NEOs is the closing price of our common stock on the date of grant.

- **The Role of the CEO.** The CEO does not play any role in the Committee's determination of his own compensation. However, he presents the Committee with recommendations for each element of compensation including base salaries and short- and long-term incentive awards for the other NEOs, as well as non-executive employees who are eligible for equity grants. The CEO bases these recommendations upon his assessment of each individual's performance, as well as market practice. The Committee has full discretion to modify the recommendations of the CEO in the course of its approvals.
- **The Role of the Independent Consultant.** The Committee consults, as needed, with an outside compensation consulting firm. As it makes decisions about executive compensation, the Committee reviews data and advice from its consultant about current compensation practices and trends among publicly traded companies in general and comparable generic pharmaceutical companies in particular. The Committee also periodically reviews recommendations from its outside consultant and makes recommendations to the Board about the compensation for non-employee Directors.

In Fiscal 2021, Pearl Meyer was retained by the Committee, as its independent consultant, to review the competitiveness of the Executive Compensation Program. Pearl Meyer provided the Committee with compensation data with respect to similarly sized biopharmaceutical and life sciences companies and consulted with the Committee about a variety of issues related to competitive compensation practices and incentive plan designs. Pearl Meyer was also retained by the Committee in Fiscal 2022 to provide ongoing advice relating to the Fiscal 2022 Executive Compensation Program. During Fiscal 2022, WTW was retained by the Committee to review NEO pay competitiveness and to assist in the design of the Fiscal 2023 Executive Compensation Program. Pearl Meyer was not involved in the design of the Fiscal 2023 Executive Compensation Program. The Committee assessed the independence of Pearl Meyer and WTW pursuant to the SEC rules and concluded that no conflict of interest exists that would prevent Pearl Meyer and WTW from independently advising the Committee.

Peer Group & Benchmarking

The Committee evaluates industry-specific and general market compensation practices and trends to ensure the Executive Compensation Program is appropriately competitive. When making decisions about the program for Fiscal 2022, the Committee considered publicly available data, as well as a market study conducted by Pearl Meyer in May 2021. The Pearl Meyer study developed market values using a blend of peer group proxy pay data for the companies shown below as well as published survey data for the broader life sciences industry. Using this information, the Committee compared our program to the compensation practices of other companies which the Committee believes are comparable to the Company in terms of size, scope and business complexity (the “peer group”). As shown below, the Company ranked near the 50th percentile (and in the upper half when the study was conducted in Fiscal 2021) in terms of employee headcount and net sales and below the 25th percentile for enterprise value as of fiscal year end.

Company Name	Fiscal Year End # of Employees	Enterprise Value 6/30/2022 (\$mm)	Fiscal Year End Operating Income (\$mm)	Fiscal Year End Sales (\$mm)	Cumulative 1 YR TSR 6/30/2022	Cumulative 3 YR TSR 6/30/2022	Cumulative 5 YR TSR 6/30/2022
Acorda Therapeutics, Inc.	118	\$ 175	\$ (71)	\$ 129	(90.1)%	(99.0)%	(99.7)%
Amneal Pharmaceuticals, Inc.	7,000	\$ 3,181	\$ 217	\$ 2,094	(37.9)%	(55.6)%	(80.6)%
Amphastar Pharmaceuticals, Inc.	1,761	\$ 1,517	\$ 72	\$ 438	72.6 %	64.8 %	128.0 %
ANI Pharmaceuticals, Inc.	601	\$ 678	\$ (13)	\$ 216	(15.3)%	(63.9)%	(55.6)%
Assertio Therapeutics, Inc.	19	\$ 139	\$ 20	\$ 112	89.1 %	(78.6)%	(88.9)%
Coherus BioSciences, Inc.	332	\$ 677	\$ (264)	\$ 327	(47.7)%	(67.2)%	(48.3)%
Prestige Consumer Healthcare Inc.	535	\$ 4,329	\$ 335	\$ 1,087	12.9 %	85.6 %	53.2 %
Supernus Pharmaceuticals, Inc.	575	\$ 1,525	\$ 107	\$ 580	(6.1)%	(12.6)%	(51.7)%
United Therapeutics Corporation	965	\$ 7,884	\$ 687	\$ 1,686	31.3 %	201.9 %	108.3 %
Lannett Company, Inc.	564	\$ 541	\$ (174)	\$ 341	(87.6)%	(90.4)%	(95.7)%
Percentile Rank	44%	22%	11%	44%	11 %	11 %	11 %

The Committee uses external market data as a reference point to ensure the Company’s executive compensation program is sufficiently competitive to attract, retain, and motivate highly experienced and talented NEOs. The Committee generally seeks to position target total direct compensation for NEOs at or near 50th percentile market values for comparable positions but does not utilize a purely formulaic benchmarking approach. Based on the May 2021 Pearl Meyer study, target total direct compensation, including the sum of base salary plus target short-term and long-term incentives, was within the competitive range (defined as +/- 15%) of 50th percentile market values for all NEOs other than Mr. Abt, who was above the range, and equal to 97% of the 50th percentile in the aggregate. Actual total direct compensation, which included Fiscal 2021 annualized base salaries and short-term incentives earned well-below target, and grant date values for Fiscal 2021 equity grants (with performance shares valued at target based on the grant date closing price), was below a competitive range of 50th percentile market values for Ms. Cavanaugh and Messrs. Kozlowski and Israel, within a competitive range and below the 50th percentile for Mr. Crew, and above the range for Mr. Abt, and equal to 87% of the 50th percentile in the aggregate. As previously noted, when evaluating our executive compensation program, the Committee considers a variety of other factors in addition to external market data, such as Company and individual performance, and each NEO’s qualifications, skill sets, and past and expected future contributions towards our success.

2022 Executive Compensation Program Decisions

Base Salary

We attribute much of our success to our highly experienced executive management team, and the strength of their leadership has been clearly demonstrated by our exceptional long-term performance results and strategic accomplishments. In order to remain competitive among our industry peers, the Committee believes it should set compensation at market-competitive levels that reflect the executive's experience, role and responsibilities. Based on Pearl Meyer's 2021 study, Fiscal 2021 salaries were below 50th percentile market values for three of our five NEOs and within a competitive range (+/- 10%) of the 50th percentile for all incumbents other than Mr. Kozlowski, who was slightly below the range. The Committee approved a market adjustment equal to 10% of base salary for Mr. Kozlowski, to position him closer to the 50th percentile, and merit increases equal to 3% of base salary for all of our other NEOs for Fiscal 2022 except for Mr. Crew, who did not receive an increase. Mr. Abt also received an additional salary adjustment of 13% to align him more closely with other NEOs and recognize his role in leading certain restructuring activities. Due to ongoing challenging market conditions within the generic pharmaceuticals sector, the effective date of salary increases was delayed to October 2021 for all incumbents (excluding Mr. Crew who as noted above did not receive an increase), with no retroactive adjustments provided. The following table summarizes annualized salaries for Fiscal 2021 and 2022 for our NEOs. Annualized salaries differ from actual values received as reported in the Summary Compensation Table due to the timing of effective dates.

NEO	2021 Base Salary	2022 Base Salary	% Change
Timothy C. Crew	\$ 772,500	\$ 772,500	— %
John Kozlowski	\$ 410,000	\$ 451,000	10 %
Maureen Cavanaugh	\$ 451,140	\$ 464,670	3 %
Samuel H. Israel	\$ 424,360	\$ 437,090	3 %
John Abt	\$ 365,135	\$ 425,000	16 %

Short-Term Incentives (Annual Bonus)

The Company's NEOs participate in an annual bonus program, which is designed to reinforce the annual business plan and budgeted goals and to recognize yearly performance achievements focused primarily on financial and operating results as well as various key strategic objectives. Actual payouts can range from 0% (below threshold) to 200% (superior performance) of target awards for metrics (other than a newly-added deferred strategic goals component where awards are capped at the target level and payable upon achievement) and are paid in cash. The Committee sets each NEO's threshold, target and superior bonus opportunity as a percentage of base salary, as follows:

NEO	Metrics Excluding Deferred Strategic Goals (80% Weighting)			Deferred Strategic Goals (20% Weighting)	Total Combined Bonus Opportunity as a % of Salary		
	Threshold (50% of Target)	Target (100% of Target)	Superior (200% of Target)	Target/Superior (100% of Target)	Threshold (40% of Target)	Target (100% of Target)	Superior (180% of Target)
Timothy C. Crew	40 %	80 %	160 %	20 %	40 %	100 %	180 %
All Other NEOs	24 %	48 %	96 %	12 %	24 %	60 %	108 %

Expressed as percentages of salary, Fiscal 2022 target total award opportunities were the same as those established in Fiscal 2021 for all NEOs, while combined threshold award funding was reduced to 40% of target and combined superior (maximum) award funding was reduced to 180% of target (vs. 50% at threshold and 200% at superior in Fiscal 2021).

Performance metrics and weightings for the Fiscal 2022 annual bonus plan are shown in the following table:

<u>Performance Metric</u>	<u>Weighting (out of 100%)</u>
Adjusted Operating Income	20 %
Adjusted Earnings Per Share (“EPS”)	20 %
Net Sales	20 %
Strategic Objectives (for Fiscal 2022)	20 %
Deferred Strategic Goals	20 %

- **Corporate Financial Goals: 60% of the total target award opportunity** is tied to operating results versus targets established by the Committee to promote a focus on Company-wide profitable growth and collaboration. Fiscal 2022 performance metrics and weightings for corporate financial goals were identical to those established in Fiscal 2021 except that the weighting for Adjusted Operating Income was reduced to 20% (from 30% in Fiscal 2021) to allow for an increased emphasis on various strategic objectives.

Adjusted Operating Income and Adjusted EPS are defined as GAAP Operating Income and diluted EPS, respectively, excluding bonus and stock-based compensation expense, as further adjusted for certain unusual or non-recurring items.

- **Strategic Objectives for Fiscal 2022: 20% of the total target award opportunity** is based on the achievement of pre-established quantitative and qualitative goals to reinforce key strategic objectives. For Fiscal 2022, the strategic objectives component includes metrics relating to cost reduction goals (weighted 10% of total target award opportunities), Cash Flow from Operations as a percentage of Adjusted EBITDA goals (weighted 5%), and ESG goals tied to the internal development of a report outlining our ESG strategy and practices (weighted 5%). For competitive harm reasons, the Company does not disclose specific details on performance goals for strategic objectives.
- **Deferred Strategic Objectives: 20% of the total target award opportunity** is based on four product development and regulatory goals relating to the Company’s strategic portfolio. Each goal is separately measured, represents 5% of total target award opportunities, and is payable upon attainment to the extent achieved prior to the end of Fiscal 2024. Goals are measured on a “pass / fail” basis, with award funding capped at the target level. For competitive harm reasons, the Company does not disclose specific details on strategic portfolio performance goals.

2022 Short-Term Incentives (Annual Bonus): Results and Payouts

- **Corporate Financial Results (Collectively Weighted 60% of Total Target Award)** Fiscal 2022 Target goals were set above our 2022 internal budget for all three metrics, below Fiscal 2021 actual levels for Adjusted Operating Income and Adjusted EPS, and above Fiscal 2021 actual results for Net Sales, reflecting anticipated continued challenging market conditions within the generic pharmaceuticals sector. The Committee viewed the Fiscal 2022 performance hurdles as very challenging in light of then-current internal forecasts and industry and economic conditions, including the ongoing COVID-19 pandemic. The Committee established Threshold performance hurdles at 85% of Target goals and Superior hurdles at 120% of Target to account for stretch goals, challenging market conditions, and to align more closely with our historical performance range spreads. Fiscal 2022 financial performance goals and actual results are shown in the following table:

<u>Performance Metric</u>	<u>Weighting (Out of 60%)</u>	<u>Performance Goals</u>				
		<u>Threshold</u>	<u>Target</u>	<u>Superior</u>	<u>Actual</u>	
Adjusted Operating Income (\$ millions)	20 %	\$ 29.8	\$ 35.0	\$ 42.0	\$ (15.5)	
Adjusted EPS	20 %	\$ (0.38)	\$ (0.32)	\$ (0.26)	\$ (1.27)	
Net Sales (\$ millions)	20 %	\$ 425.0	\$ 500.0	\$ 600.0	\$ 340.6	

Actual Fiscal 2022 performance results were below the Threshold goal level for all three Corporate financial metrics, impacted by even more challenging market conditions within the generic pharmaceuticals sector than originally anticipated, use of stretch goals, inflationary and supply chain pressures, and the ongoing COVID-19 pandemic. Actual Adjusted Operating Loss for Fiscal 2022 excluded pre-tax items totaling approximately \$160.8 million, including restructuring expenses, impairments, and other unusual or non-recurring items. Actual Adjusted EPS excluded the same \$160.8 million in pre-tax items plus \$5.5 million primarily related to non-cash interest expense as well as the related tax effects for all of these items. For Fiscal 2022, the Net Sales result was the same as the GAAP-reported value, with no adjustments applied.

- Strategic Objectives for Fiscal 2022 (Collectively Weighted 20% of Total Target Award)** For Fiscal 2022, the strategic objectives component included operational efficiency / cost reduction goals (representing 10% of total target award opportunities), Cash Flow from Operations goals (representing 5% of total target award opportunities), and goals tied to the internal development of a report outlining our ESG strategy and practices (weighted 5% of total target award opportunities). For Fiscal 2022, we achieved the Target level for the operational efficiency component based on the successful implementation of the restructuring program. The Committee determined that the Company achieved the Target level for the ESG component, based on the internal development of a report outlining a formal ESG strategy during Fiscal 2022. We did not achieve the threshold performance level for the Cash Flow from Operations metric, resulting in no award funding for this component. Based on these results, NEOs earned target payouts for two of the three metrics within the strategic objectives component, collectively equal to 15% of total target award opportunities.
- Deferred Strategic Goals (Collectively Weighted 20% of Total Target Award)** During Fiscal 2022, we achieved two of the four strategic portfolio goals, including ANDA filings for several internal product candidates and an Investigational New Drug (IND) submission for one of our insulin-based product candidates. Each of the four goals represent 5% of total target award opportunities. As a result, each NEO received payouts equal to 10% of total target awards for this component. The other two remaining strategic portfolio goals will be payable upon achievement if they are met prior to the end of Fiscal 2024.

Total Annual Bonus

Based on our Fiscal 2022 performance results, calculated award funding levels were equal to approximately 25% of target for all NEOs. In evaluating these results, the Committee chose to not apply any discretion to calculated performance outcomes and award funding levels. Total Fiscal 2022 payouts for NEOs are summarized in the following table:

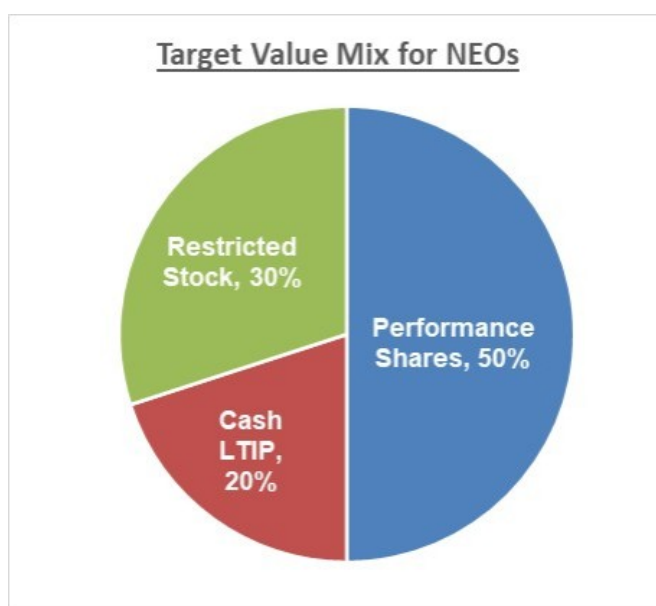
<u>Current NEO</u>	<u>Corporate Financial Component</u>	<u>Fiscal 2022 Strategic Objectives Component</u>	<u>Deferred Strategic Goals Component</u>	<u>Total Actual Bonus for Fiscal 2022</u>
Timothy C. Crew	\$ —	\$ 115,103	\$ 77,250	\$ 192,353
John Kozlowski	\$ —	\$ 40,319	\$ 27,060	\$ 67,379
Maureen Cavanaugh	\$ —	\$ 41,542	\$ 27,880	\$ 69,422
Samuel H. Israel	\$ —	\$ 39,076	\$ 26,225	\$ 65,301
John Abt	\$ —	\$ 37,995	\$ 25,500	\$ 63,495

Long-Term Incentives

NEOs participate in a performance-based long-term incentive program. Target award opportunities, expressed as percentages of base salary, for Fiscal 2022 grants are summarized in the following table:

<u>NEO</u>	<u>Target Award as % of Base Salary</u>
Timothy C. Crew	350 %
John Kozlowski	175 %
Maureen Cavanaugh	175 %
Samuel H. Israel	175 %
John Abt	175 %

The target value mix for our NEOs in Fiscal 2022 is summarized below:



Beginning in Fiscal 2021, all equity grants are made at target levels, to align more closely with market practice, provide for more consistent and predictable awards, and further enhance retention. For grants made in Fiscal 2022, the Committee chose to increase the weighting on the performance share component to 50% (vs. 35% in Fiscal 2021) of total target award opportunities, add Cash LTIP awards in lieu of stock options with a 20% weighting, and reduce the weighting on service-based restricted shares to 30% (vs. 45% in Fiscal 2021). Grants occur during the first quarter of each Fiscal Year, with restricted stock tied to continued service over the applicable vesting period, Cash LTIP values tied to changes in stock price over a three-year measurement period, and half of performance shares tied to three-year relative TSR vs. comparator companies and half to strategic portfolio product development / regulatory goals over a three-year measurement period.

Target Long-Term Incentive Grants Made in Fiscal 2022

For Fiscal 2022 grants, the Committee approved a target value mix equal to 50% for performance shares, 30% for service-based restricted shares, and 20% for Cash LTIP awards. The Committee approved the following performance share, restricted stock, and cash LTIP target grants, effective as of July 27, 2021:

NEO	Target Long-Term Incentive Grants		
	# of Performance Shares	# of Restricted Shares	Cash LTIP \$ Value
Timothy C. Crew	287,633	172,580	\$540,750
John Kozlowski	76,330	45,798	\$143,500
Maureen Cavanaugh	83,989	50,393	\$157,899
Samuel H. Israel	79,003	47,402	\$148,526
John Abt	58,266	34,960	\$127,797

Due to the delayed implementation of Fiscal 2022 salary increases to October 1, 2020 for all NEOs other than Mr. Crew, who did not receive an increase, long-term incentive grant levels were based on target award opportunities and Fiscal 2021 base salaries.

Restricted stock granted in Fiscal 2022 vests in three equal annual increments, beginning on the first anniversary of grant.

Target performance share grant levels were determined by dividing target award values by a closing stock price of \$4.70 per share on the date grant levels were approved by the Compensation Committee, consistent with the approach used to determine restricted stock grants. For accounting expense recognition and disclosure purposes, Fiscal 2022 performance shares tied to three-year relative TSR were valued at \$7.47 per share, based on a Monte Carlo binomial modeling valuation tool, as discussed in Note 14 “Share-based Compensation” of our Consolidated Financial Statements. Award vesting for these performance shares will be based on the Company’s TSR relative to companies in the S&P Pharmaceuticals Index for the three-year period ending June 30, 2024, as illustrated below, with no awards earned for below-Threshold results and maximum awards of up to 200% of target grants for Superior performance. To further align with best practice and shareholder interests, for relative TSR performance shares granted in Fiscal 2022, any earned awards will be capped at target share grant levels if our performance exceeds the comparator group 50th percentile but our three-year absolute TSR is negative.

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

The other half of performance shares granted in Fiscal 2022 are tied to five product development / regulatory goals for our strategic portfolio for the three-year period ending June 30, 2024, with each goal separately measured and representing 5% of total target long-term incentive award opportunities. Each goal has pre-established, quantitative Threshold, Target, and Superior performance hurdles, with no awards earned for below-Threshold results and maximum awards of up to 200% of target grants for Superior performance. For competitive harm reasons, the Company does not disclose specific details on strategic portfolio performance goals. The Compensation Committee believes the performance hurdles are challenging, with a realistic probability of attainment, and closely aligned with key strategic objectives in support of long-term value creation. For accounting expense recognition and disclosure purposes, performance shares tied to strategic portfolio goals were valued using the grant date closing price of \$4.61 per share.

Cash LTIP grants are denominated in and payable in cash, with payouts tied to continued service over the three-year vesting period as well as changes in the Company's stock price. For example, if our stock price increases by 25% over the three-year period, payouts would equal 125% of target values, while a 25% reduction in stock price would result in payouts equal to 75% of target. The Cash LTIP component was introduced to help manage equity plan dilution and share usage, enhance retention and to tie a portion of long-term incentives to multi-year changes in absolute stock price to further promote alignment with shareholder interests.

Compensation Recoupment (Clawback) Policy for Executive Officers

In early Fiscal 2021, our Board of Directors approved an expanded compensation recovery or "clawback" provision that will be incorporated into all executive officer employment contracts. Under the revised contracts, if the Company is required to issue a material financial restatement as a result of fraud or other misconduct, the Board may, in its discretion, seek to recoup any excess performance-based short-term or long-term incentive compensation awarded during the three-year period following the originally filed financial statement(s). The recoupment provision applies to any executive officer who is found to have participated in or knew or should have known about such fraud or misconduct and took no action to prevent it. In determining the amount of any excess performance-based incentives, the Board will compare the award received based on the original financial statement(s) against the amount that would have been earned based on the restated financial results. Prior to this new policy, the Company maintained a clawback policy under the Sarbanes-Oxley Act, with incentive awards for the CEO and CFO subject to recoupment in the event of a material financial restatement triggered by fraud or misconduct. Additionally, any employee who violates the provisions of the Company's Code of Business Conduct and Ethics is subject to disciplinary penalties that may include termination of employment. The Committee intends to comply with any regulatory requirements pertaining to clawback provisions under the Dodd-Frank Act once rules are finalized by the SEC and NYSE.

Other Policies, Programs and Guidelines

NEOs, like all other employees, have retirement programs and other benefits as part of their overall compensation package. The Committee believes that these programs and benefits support our compensation philosophy, part of which is to provide compensation that is sufficiently competitive to attract, motivate and retain an executive team fully capable of driving exceptional performance. The Committee periodically reviews these programs to validate that they are reasonable and consistent with market practice. Attributed costs of the personal benefits available to the NEOs are included in column (h) of the Summary Compensation Table on page 85.

- **Retirement Benefits.** Each of our NEOs is eligible to participate in a 401(k) plan that is available to all employees. Through December 2020, the Company provided matching contributions on a \$0.50 basis up to 8% of the contributing employee's base salary, subject to limitations of the 401(k) plan and applicable law. Beginning January 1, 2021, the Company reduced the portion of base salary eligible for the matching contribution from 8% to 4% of the contributing employee's base salary, subject to limitations of the 401(k) plan and applicable law.
- **Other Benefits.** Our NEOs are eligible to participate in the same health benefits available to all other employees. Lannett provides life insurance for NEOs which would, in the event of death, pay up to \$187,500 to designated beneficiaries. Premiums paid for coverage above \$50,000 are treated as imputed income. Lannett also provides short- and long-term disability insurance which would, in the event of disability, pay the NEO 100% of his base salary up to the plan limits of \$10,000 per week for short-term disability and \$15,000 per month for long-term disability. The NEOs are also provided with car allowances.

- **Post-Termination Pay.** The Committee believes that reasonable severance and change-in-control benefits are necessary in order to recruit and retain qualified senior executives and are generally required by the competitive recruiting environment within our industry and the marketplace in general. These severance benefits reflect the fact that it may be difficult for our NEOs to find comparable employment within a short period of time and are designed to alleviate concerns about the loss of his or her position without cause. The Committee also believes that a change-in-control arrangement will provide security that will likely reduce the reluctance of an NEO to pursue a change in control transaction that could be in the best interest of our stockholders. Lannett's severance plan is designed to pay severance benefits to a NEO for a qualifying separation. For the CEO, the severance plan provides for payment of three times base salary, plus a pro-rated annual cash bonus for the current year calculated as if all targets and goals are achieved. For the other NEOs, the severance plan currently provides for a payment of 18-months of base salary, plus a pro-rated annual cash bonus for the current year calculated as if all targets and goals are achieved for qualifying termination of employment scenarios not associated with a change in control. For qualifying termination of employment scenarios within 24 months following a change in control (as defined in the agreements), the severance payment would equal two times base salary for NEOs other than the CEO (whose severance payment would remain at three times base salary). Employment agreements with NEOs do not have any tax gross-up provisions and only provide for severance benefits upon a qualifying termination of employment by the Company without "Cause" (as defined in the agreements) or a voluntary resignation for "Good Reason" (as defined in the agreements). They also include non-compete, non-solicitation, and other restrictive covenants for designated time frames.
- **Tax and Accounting Implications.** Section 162(m) of the Internal Revenue Code of 1986, as amended, precludes the deductibility of an NEO's compensation that exceeds \$1,000,000 per year. The Tax Cuts and Jobs Act, which became effective as of January 1, 2018, modified Section 162(m) provisions, including the elimination of the "performance-based exception" that previously allowed certain performance-based compensation meeting specific requirements to qualify for full tax deductibility by the Company. The changes to Section 162(m) do not apply to certain compensation paid pursuant to a binding written contract that was in effect as of November 2, 2017. As a result of the tax law changes, compensation paid to designated "covered executives", including current and former NEOs, in excess of \$1,000,000 per individual will generally not be deductible, whether or not it is performance-based. Although the Committee has historically attempted to structure executive compensation to preserve deductibility, it also reserves the right to provide compensation that may not be fully deductible, in order to maintain flexibility in compensating NEOs in a manner consistent with our compensation philosophy, as deemed appropriate. The Committee believes that stockholder interests are best served by not restricting the Committee's discretion in this regard, even though such compensation may result in non-deductible compensation expenses to the Company.
- **Non-Qualified Deferred Compensation Plan.** Effective July 1, 2019, the Company established a non-qualified deferred compensation plan that allows NEOs and a select group of other senior management and highly compensated employees to elect to defer up to 50% of base salary and up to 100% of annual bonuses. Deferral elections must be made prior to the start of each calendar plan year, with participants selecting among a variety of investment alternatives. The Committee has the discretion to periodically authorize company contributions but is under no obligation to do so, and any such company contributions may be subject to vesting requirements. Participant compensation deferrals are immediately vested and will be credited to individual participant accounts, along with any company contributions (if applicable) and any investment returns. Distribution of the participant's accounts is triggered by the occurrence of the applicable event (i.e., separation from service, retirement, death, disability, a Change in Control, or pre-determined in-service distributions that are no earlier than three years after the year in which deferrals were made) under the terms of the plan, but the date on which payment is actually processed will be subject to timing requirements associated with Section 409A of the Internal Revenue Code ("409A"). The plan is unfunded and payouts will generally be made in one cash lump sum; however, subject to the 409A restrictions on initial and subsequent form of payment elections, participants will also be eligible to elect to receive payments in annual installments of up to five years for in-service distributions and up to ten years following retirement.

Looking Ahead: Executive Compensation Program Changes for Fiscal 2023

For Fiscal 2023, the Compensation Committee and Board recognized the importance of balancing the retention of employees, including our NEOs, with our desire to maintain a performance-based compensation program. In line with this objective, the Committee approved base salary increases to all NEOs, adjustments in the target long-term incentive values for our NEOs and modified the long-term incentive and short-term incentive designs as detailed below. The Fiscal 2023 design is intended to reinforce current strategic priorities, taking into consideration ongoing volatile and challenging market conditions, and retention concerns.

- **Base Salaries.** The Committee approved the following base salary adjustments for our NEOs, which reflect full-year annualized salaries and are effective beginning in the first quarter of Fiscal 2023.

NEO	2022 Base Salary	2023 Base Salary	% Change
Timothy C. Crew	\$ 772,500	\$ 795,675	3.0 %
John Kozlowski	\$ 451,000	\$ 464,530	3.0 %
Maureen Cavanaugh	\$ 464,670	\$ 478,615	3.0 %
Samuel H. Israel	\$ 437,090	\$ 450,204	3.0 %
John Abt	\$ 425,000	\$ 437,750	3.0 %

- **Long-Term Incentives.** The Committee and Board approved increases in the target long-term incentive awards for our NEOs based on the market compensation analysis completed by WTW. These increases were approved in order to align the target long-term incentive values and total direct compensation of our NEOs more closely with the 50th percentile of the competitive market. The following table details the approved Fiscal 2023 target long-term incentive opportunity for each of our NEOs.

NEO	FY2022 Target LTI % of Salary	FY2023 Target LTI % of Salary
Timothy C. Crew	350 %	450 %
John Kozlowski	175 %	195 %
Maureen Cavanaugh	175 %	195 %
Samuel H. Israel	175 %	195 %
John Abt	175 %	195 %

The target award value mix in Fiscal 2022 was 50% performance shares, 30% restricted stock, and 20% provided in the form of a cash-based incentive where the value varies based on changes in our stock price over the three-year period ending June 30, 2024. Given the importance of retaining our NEOs, and the potential dilution associated with granting equity incentives, the Committee approved the granting of 50% of the target long-term incentive for Fiscal 2023 (calculated based on the NEO's Fiscal 2022 salary) in the form of a cash-based retention award, to be paid in September 2022. These retention awards are subject to a 36-month service-based clawback. The clawback on one-third of the retention awards will expire annually based on continued service.

The following table details the cash retention award approved for each of our NEOs.

NEO	FY2023 Retention Award % of Salary
Timothy C. Crew	225.0 %
John Kozlowski	97.5 %
Maureen Cavanaugh	97.5 %
Samuel H. Israel	97.5 %
John Abt	97.5 %

The remaining 50% of the NEOs' target long-term incentive will be re-allocated to our performance-based Fiscal 2023 short-term incentive plan to further reinforce the critical importance of managing/enhancing near-term liquidity and operational excellence during a time of limited visibility and challenging market conditions.

- **Short-Term Incentives.** Under our Fiscal 2023 short-term incentive plan, the performance-based target incentive opportunities, expressed as a percentage of base salary, have been increased to include 50% of each NEO's approved target long-term incentive. The table below details the approved target incentive opportunities under the Fiscal 2023 short-term incentive plan. Actual payouts under the approved plan can range from 0% (below threshold) to 200% (superior performance) of the target awards.

<u>NEO</u>	<u>FY2022 Target STI % of Salary</u>	<u>FY2023 Target STI % of Salary</u>
Timothy C. Crew	100.0 %	325.0 %
John Kozlowski	60.0 %	157.5 %
Maureen Cavanaugh	60.0 %	157.5 %
Samuel H. Israel	60.0 %	157.5 %
John Abt	60.0 %	157.5 %

Given the importance of achieving short-term results, performance under the Fiscal 2023 short-term incentive plan will be measured quarterly based on our achievement of financial goals and product development-related milestones. The specific plan metrics and weightings are shown in the following table.

<u>Performance Metric</u>	<u>Weighting</u>
Incremental Adjusted EBITDA	50 %
Incremental Cash Flow	35 %
Product Development-Related Milestones	15 %

Short-term incentives will only be paid to the extent that the Company is on target to meet the performance metrics and milestones. Fifty percent of any incentive earned based on quarterly performance will be paid six weeks following the close of the quarter and will be capped at the Target amount. The remaining balance of any earned incentive will be paid after the end of the fiscal year based on, and subject to, a cumulative, full-year performance adjustment.

The Committee and Board believes the changes to the NEO compensation program for Fiscal 2023 strike an appropriate balance between the need to retain our experienced executives to address the industry challenges we face and provides meaningful performance-based incentives to achieve our critical short-term financial and product development-related objectives during Fiscal 2023.

REPORT OF THE COMPENSATION COMMITTEE

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

David Drabik, Chairman
John C. Chapman
Melissa Rewolinski

COMPENSATION OF EXECUTIVE OFFICERS

Overview

The tables and narratives set forth below provide specified information concerning the compensation of our Named Executive Officers (NEOs) for the fiscal year ended June 30, 2022.

Summary Compensation Table

This table summarizes all compensation paid to or earned by our Fiscal 2022 NEOs for the years indicated to the extent they were serving as NEOs.

Name and Principal Position (a)	Fiscal Year (b)	Salary (c)	Bonus (d)	Restricted Stock Awards (e)	Options Awards (f)	Non-equity incentive plan compensation (g) (1)	All Other Compensation (h)	Total (i)
Timothy Crew Chief Executive Officer	2022	\$ 772,500	\$ —	\$ 2,532,899	\$ —	\$ 192,353	\$ 34,620	\$ 3,532,372
	2021	760,385	—	2,676,916	558,264	231,750	36,573	4,263,888
	2020	748,269	735,000	1,605,283	840,603	619,390	27,768	4,576,313
John Kozlowski (2) Vice President of Finance, Chief Financial Officer and Principal Accounting Officer	2022	\$ 439,962	\$ —	\$ 672,162	\$ —	\$ 67,379	\$ 30,134	\$ 1,209,637
	2021	409,327	—	714,128	143,287	98,400	24,117	1,389,259
	2020	378,077	325,000	354,878	185,840	188,096	35,582	1,467,473
Maureen Cavanaugh Senior VP and Chief Commercial Operations Officer	2022	\$ 461,030	\$ —	\$ 739,607	\$ —	\$ 69,422	\$ 20,816	\$ 1,290,875
	2021	444,065	—	781,659	163,012	108,274	18,937	1,515,947
	2020	436,500	425,000	534,926	277,144	217,034	25,206	1,915,810
Samuel Israel Chief Legal Officer and General Counsel	2022	\$ 433,663	\$ —	\$ 695,700	\$ —	\$ 65,301	\$ 27,187	\$ 1,221,851
	2021	417,705	—	735,259	153,339	76,385	27,856	1,410,544
	2020	410,616	400,000	503,548	260,863	228,871	24,896	1,828,794
John Abt (3) Vice President, Chief Quality, IT and Operations Officer	2022	\$ 408,883	—	\$ 513,092	\$ —	\$ 63,495	\$ 19,150	\$ 1,004,620
	2021	359,409	—	596,369	113,090	65,724	19,611	1,154,203
	2020	353,346	344,500	283,703	131,340	175,659	25,080	1,313,628

(1) In Fiscal Year 2022, the non-equity incentive plan compensation only includes the short-term incentive (STI) earned and payable to each NEO. The Cash LTIP is not included in the Summary Compensation table and will be reported in the Summary Compensation table at the end of the three-year performance period in Fiscal 2024, to the extent earned.

(2) Mr. Kozlowski was appointed to the role of Vice President of Finance and Chief Financial Officer effective August 31, 2019. Mr. Kozlowski assumed the Principal Accounting Officer role effective July 13, 2020.

(3) Mr. Abt assumed the Chief IT Officer role in December 2021.

All Other Compensation

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

Name and Principal Position	Fiscal Year	Company Match Contributions 401(k) Plan	Auto Allowance	Pay in Lieu of Vacation	Wellness Benefit	Excess Life Insurance	Total
Timothy Crew Chief Executive Officer	2022	\$ 5,853	\$ 13,500	\$ 14,856	\$ —	\$ 411	\$ 34,620
	2021	5,625	13,500	14,856	2,250	342	36,573
	2020	9,750	13,500	—	4,250	268	27,768
John Kozlowski Vice President of Finance, Chief Financial Officer and Principal Accounting Officer	2022	\$ 10,542	\$ 10,800	\$ 8,673	\$ —	\$ 119	\$ 30,134
	2021	3,073	10,800	7,885	2,250	109	24,117
	2020	13,035	10,800	7,404	4,250	93	35,582
Maureen Cavanaugh Senior VP and Chief Commercial Operations Officer	2022	\$ 9,620	\$ 10,800	\$ —	\$ —	\$ 396	\$ 20,816
	2021	5,491	10,800	—	2,250	396	18,937
	2020	9,760	10,800	—	4,250	396	25,206
Samuel Israel Chief Legal Officer and General Counsel	2022	\$ 7,570	\$ 10,800	\$ 8,406	\$ —	\$ 411	\$ 27,187
	2021	7,935	10,800	6,529	2,250	342	27,856
	2020	9,588	10,800	—	4,250	258	24,896
John Abt Vice President, Chief Quality, IT and Operations Officer	2022	\$ 6,437	\$ 10,800	\$ 1,635	\$ —	\$ 278	\$ 19,150
	2021	6,303	10,800	—	2,250	258	19,611
	2020	9,832	10,800	—	4,250	198	25,080

Grants of Plan-Based Awards in Fiscal 2022

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards				Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of	Grant Date Fair Value of Stock and
		Short-term		Long-term (1)		Threshold (g)	Target (h)	Maximum (i)	Stocks or Units (#) (3) (j)	Options Awards (4) (k)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Target (\$) (f)					
Timothy Crew Chief Executive Officer	7/27/2021 7/27/2021 7/27/2021	\$ 309,000	\$ 772,500	\$ 1,390,500	\$ 540,750	71,908 71,909	143,816 143,817	287,632 287,634	172,580	\$ 662,992 \$ 1,074,313 \$ 795,594
John Kozlowski Vice President of Finance, Chief Financial Officer and Principal Accounting Officer	7/27/2021 7/27/2021 7/27/2021	\$ 98,400	\$ 270,600	\$ 442,800	\$ 143,500	19,083 19,083	38,165 38,165	76,330 76,330	45,798	\$ 175,941 \$ 285,093 \$ 211,129
Maureen Cavanaugh Senior VP and Chief Commercial Operations Officer	7/27/2021 7/27/2021 7/27/2021	\$ 108,274	\$ 278,802	\$ 487,231	\$ 157,899	20,997 20,998	41,994 41,995	83,988 83,990	50,393	\$ 193,592 \$ 313,703 \$ 232,312
Samuel Israel Chief Legal Officer and General Counsel	7/27/2021 7/27/2021 7/27/2021	\$ 101,846	\$ 262,254	\$ 458,309	\$ 148,526	19,751 19,751	39,502 39,501	79,004 79,002	47,402	\$ 182,104 \$ 295,072 \$ 218,523
John Abt Vice President, Chief Quality, IT and Operations Officer	7/27/2021 7/27/2021 7/27/2021	\$ 87,632	\$ 255,000	\$ 394,346	\$ 127,797	14,567 14,567	29,133 29,133	58,266 58,266	34,960	\$ 134,303 \$ 217,624 \$ 161,166

- (1) Cash LTIP awards are presented at target values, with actual payouts to be determined by multiplying the target value by the three-year cumulative percentage change in the Company's stock price as of 6/30/24.
- (2) Performance shares tied to three-year relative TSR are presented in the first row and performance shares tied to three-year strategic portfolio goals are presented in the second row.
- (3) All restricted stock grants vest in three equal annual increments.
- (4) Performance shares tied to three-year relative TSR were valued using a Monte Carlo binomial model. The assumptions used in fair value calculations are described in Note 14 "Share-based Compensation" of our Consolidated Financial Statements. The grant date fair value for other stock grants, including target shares for performance shares tied to three-year strategic portfolio goals, reflects the number of shares multiplied by the Company's closing stock price on the applicable date of grant.

Outstanding Equity Awards at 2022 Fiscal Year End

The following table sets forth information concerning the outstanding stock awards held at June 30, 2022 by each of the NEOs. The options were granted ten years prior to the option expiration date and vest over three or four years from that grant date. Restricted shares vest over three or four years from the date of grant.

Name (a)	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price (\$) (d)	Option Expiration Date (e)	Number of Shares or Units of Stock That Have Not Vested (#) (f)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (g)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (h)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (i)
Timothy Crew Chief Executive Officer	32,103 21,626 104,034 48,209	— — 104,036 96,419	\$ 23.65 \$ 12.20 \$ 6.57 \$ 5.95	1/1/2028 7/29/2028 7/28/2029 7/30/2030	373,387	\$ 216,564	516,702 \$	299,687
John Kozlowski Vice President of Finance, Chief Financial Officer and Principal Accounting Officer	4,000 9,334 4,200 9,953 23,000 12,373	— — — — 23,000 24,748	\$ 4.16 \$ 13.86 \$ 34.77 \$ 12.20 \$ 6.57 \$ 5.95	10/25/2022 9/4/2023 8/11/2024 7/29/2028 7/28/2029 7/30/2030	98,368	\$ 57,053	132,618 \$	76,918
Maureen Cavanaugh Senior VP and Chief Commercial Operations Officer	34,300 14,077	34,300 28,154	\$ 6.57 \$ 5.95	7/28/2029 7/30/2030	111,469	\$ 64,652	154,063 \$	89,357
Samuel Israel Chief Legal Officer and General Counsel	2,759 13,665 32,284 13,241	— — 32,286 26,484	\$ 17.40 \$ 12.20 \$ 6.57 \$ 5.95	9/21/2027 7/29/2028 7/28/2029 7/30/2030	104,866	\$ 60,822	144,937 \$	84,063
John Abt Vice President, Chief Quality, IT and Operations Officer	1,970 1,155 2,759 6,454 16,254 9,766	— — — — 16,256 19,532	\$ 59.20 \$ 31.30 \$ 17.40 \$ 12.20 \$ 6.57 \$ 5.95	7/21/2025 7/26/2026 9/21/2027 7/29/2028 7/28/2029 7/30/2030	81,805	\$ 47,447	101,410 \$	58,818

Options Exercised and Stock Vested During the Fiscal Year Ended June 30, 2022

The following table sets forth information concerning stock options exercised and stock awards that vested during Fiscal 2022 for each of the NEOs.

Name and Principal Position (a)	Options		Stock Awards	
	Number of Shares Acquired On Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Timothy Crew Chief Executive Officer	—	\$ —	106,181	\$ 494,300
John Kozlowski Vice President of Finance, Chief Financial Officer and Principal Accounting Officer	—	\$ —	28,942	\$ 132,593
Maureen Cavanaugh Senior VP and Chief Commercial Operations Officer	—	\$ —	30,537	\$ 142,226
Samuel Israel Chief Legal Officer and General Counsel	—	\$ —	32,382	\$ 150,755
John Abt Vice President, Chief Quality, IT and Operations Officer	—	\$ —	25,146	\$ 112,860

Employment and Separation Agreements

The Company has entered into employment agreements with its current NEOs. Each of the agreements provides for an annual base salary and eligibility to receive a bonus. The salary and bonus amounts of these executives are determined by the review and approval of the Compensation Committee in accordance with the Committee's charter as approved by the Board of Directors. Additionally, these executives are eligible to receive stock options and restricted stock awards. In 2018, the Company amended each of the employment agreements it has entered into with its current NEOs and with other employees to confirm and clarify that nothing in the employment agreements prohibits or limits the right of any employee from providing confidential information to or otherwise communicating with the SEC or any other governmental entity or self-regulatory organization or from accepting financial awards from the SEC or any other governmental entity or self-regulatory organization. Under the terms of the employment agreements, these executive employees may be terminated at any time with or without cause, or by reason of death or disability. In certain termination situations, the Company is liable to pay these executives severance compensation as discussed in the table below.

Potential Payments upon Termination or Change in Control

The following table summarizes potential payments or benefits upon various termination of employment scenarios for our current NEOs as of fiscal year end and assumes that the relevant triggering event occurred on June 30, 2022. The fair market values of share-based compensation (i.e. Stock Options and Restricted Stock) were calculated using the closing price of Lannett Company, Inc. stock (\$0.58) on June 30, 2022, which was the last trading day of Fiscal 2022. For purposes of this table, no values were assigned for accelerated exercisability of unvested stock options since all outstanding grants have exercise prices above the fair market value of Lannett Company's closing stock on June 30, 2022.

<u>Name</u>	<u>Base Salary Continuation</u>	<u>Annual Cash Bonus</u>	<u>Acceleration and Exercisability Of Unvested Stock Option Awards</u>	<u>Acceleration Of Unvested Restricted Stock</u>	<u>Insurance Benefit Continuation</u>	<u>Other Benefits</u>	<u>Total</u>
Timothy Crew							
Without Cause/ With Good Reason (1) (2)	\$ 2,317,500	\$ 183,136	\$ —	\$ 516,252	\$ 31,571	\$ 4,732	\$ 3,053,191
For Cause or Retirement / Death / Disability (3) (4)	\$ —	\$ 183,136	\$ —	\$ —	\$ —	\$ 4,732	\$ 187,868
Change in Control (5)	\$ 2,317,500	\$ 183,136	\$ —	\$ 516,252	\$ 31,571	\$ 4,732	\$ 3,053,191
John Kozlowski							
Without Cause/ With Good Reason (1) (2)	\$ 676,500	\$ 58,374	\$ —	\$ 133,972	\$ 21,721	\$ 5,880	\$ 896,447
For Cause or Retirement / Death / Disability (3) (4)	\$ —	\$ 58,374	\$ —	\$ —	\$ —	\$ 5,880	\$ 64,254
Change in Control (5)	\$ 902,000	\$ 58,374	\$ —	\$ 133,972	\$ 21,721	\$ 5,880	\$ 1,121,947
Maureen Cavanaugh							
Without Cause/ With Good Reason (1) (2)	\$ 697,005	\$ 61,408	\$ —	\$ 154,009	\$ 26,882	\$ 4,460	\$ 943,764
For Cause or Retirement / Death / Disability (3) (4)	\$ —	\$ 61,408	\$ —	\$ —	\$ —	\$ 4,460	\$ 65,868
Change in Control (5)	\$ 929,340	\$ 61,408	\$ —	\$ 154,009	\$ 26,882	\$ 4,460	\$ 1,176,099
Samuel Israel							
Without Cause/ With Good Reason (1) (2)	\$ 655,635	\$ 57,763	\$ —	\$ 144,886	\$ 3,973	\$ 5,300	\$ 867,557
For Cause or Retirement / Death / Disability (3) (4)	\$ —	\$ 57,763	\$ —	\$ —	\$ —	\$ 5,300	\$ 63,063
Change in Control (5)	\$ 874,180	\$ 57,763	\$ —	\$ 144,886	\$ 3,973	\$ 5,300	\$ 1,086,102
John Abt							
Without Cause/ With Good Reason (1) (2)	\$ 637,500	\$ 54,074	\$ —	\$ 106,265	\$ 50,880	\$ 5,428	\$ 854,147
For Cause or Retirement / Death / Disability (3) (4)	\$ —	\$ 54,074	\$ —	\$ —	\$ —	\$ 5,428	\$ 59,502
Change in Control (5)	\$ 850,000	\$ 54,074	\$ —	\$ 106,265	\$ 50,880	\$ 5,428	\$ 1,066,647

- (1) Each employment agreement ranges from 1-3 years and is automatically renewed unless notice is given by either party. Any non-renewal of the existing employment agreements by the Company and any resignation of the Executive with Good Reason both constitute a termination without Cause. Under the current employment agreements with our NEOs, base salary continuation for a period of 18-36 months (and ranging from 24-36 months for a qualifying termination following a Change in Control), pro-rated cash bonus as if all targets and goals were achieved subject to any applicable cap on cash payments, acceleration of exercisability of unvested stock option awards, acceleration of unvested restricted stock, and insurance benefit continuation for a period of 18 months (collectively “Severance Compensation”) will only be made if the Executive executes and delivers to the Company, in a form prepared by the Company, a release of all claims against the Company and other appropriate parties, excluding the Company’s performance obligation to pay Severance Compensation and the Executive’s vested rights under the Company sponsored retirement plans, 401(k) plans and stock ownership plans (“General Release”). Severance Compensation is paid in equal monthly installments over a 12-month period to commence on the 90th day following the Termination Date provided the Executive has not revoked the General Release prior to that date. Earned but unpaid base salary, accrued but unpaid annual bonus (if the Executive otherwise meets the eligibility requirements) and accrued but unpaid paid time off and other miscellaneous items are to be paid in a single lump sum in cash no later than the earlier of: (1) the date required under applicable law; or (2) 60 days following the Termination Date.
- (2) Under the existing employment agreements, Good Reason is defined as giving written notice of his resignation within thirty (30) days after Executive has actual knowledge of the occurrence, without the written consent of Executive, of one of the following events: (A) the assignment to Executive of duties materially and adversely inconsistent with Executive’s position or a material and adverse alteration in the nature of his duties, responsibilities and/or reporting obligations, (B) a reduction in Executive’s Base Salary or a failure to pay any such amounts when due; or (C) the relocation of Company headquarters more than 100 miles from its current location.
- (3) Under the existing employment agreements, if the Executive is terminated For Cause; by death; by disability; resigns without Good Reason; or retires; earned but unpaid base salary, accrued but unpaid annual bonus (if the Executive otherwise meets the eligibility requirements) and accrued but unpaid paid time off and other miscellaneous items are to be paid in a single lump sum in cash no later than the earlier of: (1) the date required under applicable law; or (2) 60 days following the Termination Date.
- (4) For Cause generally means Executive’s willful commission of an act constituting fraud, embezzlement, breach of fiduciary duty, material dishonesty with respect to the Company, gross negligence or willful misconduct in performance of Executive duties, willful violation of any law, rule or regulation relating to the operation of the Company, abuse of illegal drugs or other controlled substances or habitual intoxication, willful violation of published business conduct guidelines, code of ethics, conflict of interest or other similar policies, and Executive becoming under investigation by or subject to any disciplinary charges by any regulatory agency having jurisdiction over the Company (including but not limited to the DEA, the FDA or the SEC) or if any complaint is filed against the Executive by any such regulatory agency.
- (5) Under the existing employment agreements, a Change in Control is defined as a “change in ownership of the Company”, “a change in effective control of the Company”, or “a change in ownership of a substantial portion of the Company’s assets.” If the Executive is terminated by the Company without Cause or resigns with Good Reason within 24 months of a Change in Control event, the Executive shall be entitled to earned but unpaid base salary, accrued but unpaid annual bonus (if the Executive otherwise meets the eligibility requirements) and accrued but unpaid paid time off and other miscellaneous items. These items are to be paid in a single lump sum in cash no later than the earlier of: (1) the date required under applicable law; or (2) 60 days following the Termination Date. Additionally, the Executive shall be entitled to Severance Compensation to be paid in equal monthly installments over a 12-month period to commence on the 90th day following the Termination Date provided the Executive has not revoked the General Release prior to that date. A written notice that the Executive’s employment term is not extended within the 24-month period after a Change in Control shall be deemed a termination without Cause, unless the Executive and the Company execute a new employment agreement.

CEO Pay Ratio Disclosure

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations of the SEC, we are providing the following information about the annual total compensation of our employees and the annual total compensation of our current CEO, Timothy Crew. For the year ended June 30, 2022, Mr. Crew's total compensation, as reported in the Summary Compensation Table of this 10-K, was \$3,532,372 and total compensation for our median employee, as calculated in accordance with the requirements of Regulation S-K, was \$82,124, resulting in a ratio of 43.0 to 1. This pay ratio information has been calculated in a manner consistent with SEC regulations.

For purposes of determining the median employee for the fiscal year ending June 30, 2022, we determined that as of May 31, 2022, our employee population consisted of 562 individuals working at our company and its consolidated subsidiaries. For each of the 562 U.S.-based employees (other than Mr. Crew), we used their annualized base salary and target cash and equity incentive awards as of May 31, 2022 as a consistently applied compensation measure to identify the median employee. We used target cash and equity incentives since actual awards for Fiscal 2022 for each employee were not yet determined. We annualized values for employees hired after July 1, 2021, the start of our Fiscal Year.

Because the SEC rules permit significant flexibility in terms of approaches used to calculate compensation and identify the median employee, comparisons among companies may not be very meaningful, even for companies within the same industry.

COMPENSATION OF DIRECTORS

Our Board of Directors is actively involved in providing strategic direction and fiduciary oversight to the Company. During Fiscal 2022, we had a total of seven Board members (and a total of six members as of the end of Fiscal 2022) which resulted in a significant workload for our Directors. Our Board of Directors held numerous meetings and teleconferences in Fiscal 2022 in carrying out its responsibilities. The Board is actively involved in transactional due diligence, management succession planning, on-going reviews of business development activities and strategic initiatives to position the Company for future growth. The Board also continued to be actively involved in addressing the COVID-19 pandemic and ongoing challenges associated with the highly competitive generic pharmaceuticals sector.

For Fiscal 2022, our non-employee Directors received a cash retainer of \$90,000, unchanged from Fiscal 2021, payable in monthly increments of \$7,500, for Board and committee service. Mr. LePore also received an additional retainer of \$30,000 for serving as our Independent Non-Employee Board Chairman, and Mr. Drabik received an additional retainer of \$24,000 for his central role and for continued Board leadership work. No other cash retainers or meeting fees were provided during Fiscal 2022. As an executive director, Mr. Crew does not participate in the non-employee director compensation program.

Board members receive annual equity grants to recognize their service during the prior fiscal year. Grant levels may vary from year to year based on Company performance. Based on the Company's performance and the significant efforts and contributions of our Directors in Fiscal 2021, each non-employee Board member received an award of 56,819 common shares with a grant date value of \$200,003, immediately vested at grant in August 2021. These grants are shown in the table below, since they occurred in Fiscal 2022. Beginning with equity awards in Fiscal 2021, the Board moved the annual grant date from July to the end of August or early September, which is not during a "blackout" period, to allow Directors to immediately sell shares to fund tax liabilities.

Effective in July 2014, the Board of Directors approved stock ownership guidelines for non-employee Directors equal to three times their cash retainer. Non-employee Directors must meet required ownership levels within five years of first becoming subject to the guidelines and must hold 50% of all net after-tax shares from equity grants until ownership requirements are met (or 100% of such shares if ownership levels are not met by the end of the five-year compliance period). All Directors other than Dr. Rewolinski, who joined the Board in Fiscal 2020, met required ownership levels at or shortly after the end of Fiscal 2021. While ownership values were generally below required levels based on our stock price as of June 30, 2022, all Directors remained in compliance with the guidelines and applicable stock holding requirements during Fiscal 2022.

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

The following table shows compensation information for Fiscal 2022 for non-employee members of our Board of Directors.

DIRECTOR COMPENSATION

Name (a)	Fees Earned (b)	Stock Awards (c) (1)	Options Awards (d)	Non-Equity Incentive Plan Compensation (e)	Change in Pension Value and Nonqualified Deferred Compensation (f)	All Other Compensation (g)	Total (h)
Jeffrey Farber	\$ 90,000	\$ 200,003	—	—	—	—	\$ 290,003
David Drabik	\$ 114,000	\$ 200,003	—	—	—	—	\$ 314,003
Paul Taveira (2)	\$ 52,500	\$ 200,003	—	—	—	—	\$ 252,503
Patrick LePore	\$ 120,000	\$ 200,003	—	—	—	—	\$ 320,003
John Chapman	\$ 90,000	\$ 200,003	—	—	—	—	\$ 290,003
Melissa Rewolinski	\$ 90,000	\$ 200,003	—	—	—	—	\$ 290,003

(1) Reflects grant date award value for equity grants received in Fiscal 2022 to recognize Board service in Fiscal 2021.

(2) Mr. Taveira retired from the Board in January 2022.

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

The following table sets forth, as of July 31, 2022, information regarding the security ownership of the directors and certain executive officers of the Company and persons known to the Company to be beneficial owners of more than five (5%) percent of the Company’s common stock. Although grants of restricted stock under the Company’s 2014 and 2021 Long Term Incentive Plans (“LTIPs”) generally vest equally over time from the grant date, the restricted shares are included below because the voting rights with respect to such restricted stock are acquired immediately upon grant.

Name and Address of Beneficial Owner / Director / Executive Officer	Office	Excluding Options (*)			Including Options (**)		
		Shares Held Directly	Shares Held Indirectly	Total Shares	Percent of Class	Number of Shares	Percent of Class
John M. Abt 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	VP and Chief Quality, IT and Operations Officer	119,775	—	119,775 (1)	0.28 %	176,027 (1), (2)	0.41 %
Maureen Cavanaugh 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	Senior VP & Chief Commercial Operations Officer	143,896	—	143,896 (3)	0.33 %	223,500 (3), (4)	0.52 %
John Chapman 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	Director	154,324	—	154,324	0.36 %	154,324	0.36 %
Timothy Crew 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	Chief Executive Officer	589,291	—	589,291 (5)	1.37 %	895,490 (5), (6)	2.08 %
David Drabik 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	Director	108,332	—	108,332	0.25 %	108,332	0.25 %
Jeffrey Farber 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	Director	2,206,014	1,450,454	3,656,468 (7)	8.51 %	3,656,468 (7)	8.51 %
David Farber 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053		1,912,511	893,424	2,805,935 (8)	6.53 %	2,805,935 (8)	6.53 %
Samuel H. Israel 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	Chief Legal Officer and General Counsel	156,644	—	156,644 (9)	0.36 %	247,978 (9), (10)	0.58 %
John Kozlowski 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	VP of Finance, Chief Financial Officer and Principal Accounting Officer	138,954	—	138,954 (11)	0.32 %	225,688 (11), (12)	0.53 %
Patrick G. Lepore 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	Chairman of the Board, Director	487,145	—	487,145	1.13 %	487,145	1.13 %
Melissa Rewolinski 1150 Northbrook Drive, Suite 155 Trevose, Pennsylvania 19053	Director	62,100	—	62,100	0.14 %	62,100	0.14 %
All directors and executive officers as a group (10 persons)		4,166,475	1,450,454	5,616,929	13.07 %	6,237,052	14.52 %

- (1) Includes 50,063 unvested shares received pursuant to restricted stock awards granted in July 2019, July 2020, September 2020 and July 2021.
- (2) Includes 1,970 vested options to purchase common stock at an exercise price of \$59.20 per share, 1,155 vested options to purchase common stock at an exercise price of \$31.30 per share, 2,759 vested options to purchase common stock at an exercise price of \$17.40 per share, 6,454 vested options to purchase common stock at an exercise price of \$12.20 per share, 24,382 vested options to purchase common stock at an exercise price of \$6.57 per share and 19,532 vested options to purchase common stock at an exercise price of \$5.95.
- (3) Includes 64,134 unvested shares received pursuant to restricted stock awards granted in July 2019, July 2020 and July 2021.

[Table of Contents](#)

- (4) Includes 51,450 vested options to purchase common stock at an exercise price of \$6.57 per share and 28,154 vested options to purchase common stock at an exercise price of \$5.95.
- (5) Includes 214,458 unvested shares received pursuant to restricted stock awards granted in July 2019, July 2020 and July 2021.
- (6) Includes 32,103 vested options to purchase common stock at an exercise price of \$23.65 per share, 21,626 vested options to purchase common stock at an exercise price of \$12.20 per share, 156,052 vested options to purchase common stock at an exercise price of \$6.57 per share and 96,418 vested options to purchase common stock at an exercise price of \$5.95 per share.
- (7) Includes 764,412 shares held by the Jeffrey Farber Family Foundation which is managed by Jeffrey Farber. Jeffrey Farber disclaims beneficial ownership of these shares. Includes 30,000 shares held by the Jeffrey and Jennifer Farber Family Foundation which is managed by Jeffrey Farber. Jeffrey Farber disclaims beneficial ownership of these shares. Includes 73,408 shares held by Jeffrey Farber as custodian for his children and 82,634 shares held as joint custodian with David Farber for a relative. Jeffrey Farber disclaims beneficial ownership of these shares. Includes 500,000 shares held by a Grantor Retained Annuity Trust, in which Jeffrey Farber is the trustee.
- (8) Includes 652,630 shares held by David Farber as joint custodian with his children, 158,160 shares held as trustee for his children and 82,634 shares held as joint custodian with Jeffrey Farber for a relative. David Farber disclaims beneficial ownership of these shares.
- (9) Includes 60,334 unvested shares received pursuant to restricted stock awards granted in July 2019, July 2020 and July 2021.
- (10) Includes 2,759 vested options to purchase common stock at an exercise price of \$17.40 per share, 13,665 vested options to purchase common stock at an exercise price of \$12.20 per share, 48,427 vested options to purchase common stock at an exercise price of \$6.57 per share and 26,483 vested options to purchase common stock at an exercise price of \$5.95 per share.
- (11) Includes 58,484 unvested shares received pursuant to restricted stock awards granted in July 2019, July 2020, September 2020 and July 2021.
- (12) Includes 4,000 vested options to purchase common stock at an exercise price of \$4.16 per share, 9,334 vested options to purchase common stock at an exercise price of \$13.86 per share, 4,200 vested options to purchase common stock at an exercise price of \$34.77 per share, 9,953 vested options to purchase common stock at an exercise price of \$12.20 per share, 34,500 vested options to purchase common stock at an exercise price of \$6.57 per share and 24,747 vested options to purchase common stock at an exercise price of \$5.95 per share.

* Percent of class calculation is based on 42,959,959 outstanding shares of common stock at July 31, 2022.

** Assumes that all options exercisable within sixty days after July 31, 2022 have been exercised.

As of July 31, 2022, there are no other shareholders known to the Company to be beneficial owners of more than five percent (5%) of the Company's common stock.

Equity Compensation Plan Information

The following table summarizes the equity compensation plans as of June 30, 2022:

(In thousands, except for weighted average exercise price) Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity Compensation plans approved by security holders	935	\$ 8.94	1,527
Equity Compensation plans not approved by security holders	—	—	—
Total	935	\$ 8.94	1,527

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Review and Approval of Transactions with Related Persons

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

The Company had net sales of \$1.3 million, \$2.6 million and \$3.0 million during the fiscal years ended June 30, 2022, 2021 and 2020, respectively, to a generic distributor, Auburn. Jeffrey Farber, a current board member, is the owner of Auburn, which is a member of the Premier Buying Group. Accounts receivable includes amounts due from Auburn of \$0.3 million and \$0.4 million at June 30, 2022 and 2021, respectively.

As part of its review, the Audit Committee noted that the amount of net sales to Auburn approximated 0.4% of total net sales during the fiscal years ended June 30, 2022, 2021 and 2020, respectively.

The Audit Committee reviewed an analysis of sales prices charged to Auburn, which compared the average sales prices by product for Auburn sales to the average sales prices by product to other Lannett customers during the same period. As a result of this analysis, the Audit Committee ratified the net sales made to Auburn during the fiscal years ended June 30, 2022, 2021 and 2020.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Grant Thornton LLP served as the independent auditors of the Company during Fiscal 2022, 2021 and 2020. No relationship exists, other than the usual relationship between independent public accountant and client. The following table identifies the fees incurred for services rendered by Grant Thornton LLP in Fiscal 2022, 2021 and 2020.

<u>(In thousands)</u>	<u>Audit Fees</u>	<u>Tax Fees (1)</u>	<u>Total Fees</u>
Fiscal 2022:	\$ 1,082	\$ 15	\$ 1,097
Fiscal 2021:	\$ 1,413	\$ 72	\$ 1,485
Fiscal 2020:	\$ 1,510	\$ 211	\$ 1,721

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

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

1. *Consolidated Financial Statements:*

See accompanying Index to Consolidated Financial Statements.

2. *Consolidated Financial Statement Schedule:*

Lannett Company, Inc.
Schedule II - Valuation and Qualifying Accounts

For the years ended June 30:

Description (In thousands)	Balance at Beginning of Fiscal Year	Charged to (Reduction of) Expense	Deductions	Balance at End of Fiscal Year
Allowance for Doubtful Accounts				
2022	\$ 701	\$ 444	\$ (161)	\$ 984
2021	1,103	374	(776)	701
2020	1,223	386	(506)	1,103
Deferred Tax Asset Valuation Allowance				
2022	\$ 153,383	\$ 40,095	\$ —	\$ 193,478
2021	14,622	138,761	—	153,383
2020	13,549	1,073	—	14,622

3. *Exhibits:*

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

Exhibit Number	Description	Method of Filing
2.1	Stock Purchase Agreement by and among Lannett Company, Inc., Rohit Desai, the RD Nevada Trust, Silary Pharmaceuticals, Inc. and Stoneleigh Realty, LLC, dated as of May 15, 2015	Incorporated by reference to Exhibit 2.1 on Form 8-K dated May 18, 2015
2.2	Stock Purchase Agreement among UCB S.A., UCB Manufacturing, Inc. and Lannett Company, Inc. dated as of September 2, 2015	Incorporated by reference to Exhibit 2.2 on Form 8-K dated September 4, 2015
2.3	Amendment No. 2 to Stock Purchase Agreement	Incorporated by reference to Exhibit 2.3 on Form 8-K dated December 2, 2015
3.1	Certificate of Incorporation	Incorporated by reference to the Proxy Statement filed with respect to the Annual Meeting of Shareholders held on December 6, 1991 (the "1991 Proxy Statement").

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
3.2	By-Laws, as amended	Incorporated by reference to the 1991 Proxy Statement.
3.3	Amendment No. 1 to Amended and Restated By-Laws	Incorporated by reference to Exhibit 3.3 on Form 8-K dated January 16, 2014
3.4	Amendment No. 2 to Amended and Restated By-Laws	Incorporated by reference to Exhibit 3.4 on Form 8-K dated July 17, 2014
3.5	Updated and Amended Certificate of Incorporation	Incorporated by reference to Exhibit 3.5 to the Annual Report on 2014 Form 10-K
3.6	Updated and Amended By-Laws	Incorporated by reference to Exhibit 3.6 to the Annual Report on 2014 Form 10-K
3.7	Amended and Restated Bylaws of Lannett Company Inc., as amended through January 21, 2015.	Incorporated by reference to Exhibit 3.7 on Form 8-K dated April 3, 2015
3.8	Amended and Restated Bylaws of Lannett Company Inc., as amended through July 6, 2015.	Incorporated by reference to Exhibit 3.8 on Form 8-K dated July 9, 2015
4	Specimen Certificate for Common Stock	Incorporated by reference to Exhibit 4(a) to Form 8 dated April 23, 1993 (Amendment No. 3 to Form 10-KSB for Fiscal 1992) (“Form 8”)
4.1	Lannett Company, Inc. Indenture, Wilmington Trust, National Association, Providing for the Issuance of Notes in Series	Incorporated by reference to Exhibit 4.1 on Form 8-K dated December 2, 2015
4.2	First Supplemental Indenture dated as of November 25, 2015	Incorporated by reference to Exhibit 4.2 on Form 8-K dated December 2, 2015
4.3	Supplemental Indenture in Respect of Subsidiary Guarantee	Incorporated by reference to Exhibit 4.3 on Form 8-K dated December 2, 2015
4.4	Description of Capital Stock of Lannett Company, Inc.	Incorporated by reference to Exhibit 4.4 on Form 10-K dated August 28, 2019
4.5	Indenture, dated as of September 27, 2019, between the Company and Wilmington Trust, National Association, as trustee (including form of 4.50% Convertible Senior Notes due 2026)	Incorporated by reference to Exhibit 4.5 on Form 8-K dated September 27, 2019
10.1	Line of Credit Note dated March 11, 1999 between the Company and First Union National Bank	Incorporated by reference to Exhibit 10(ad) to the Annual Report on 1999 Form 10-KSB
10.2	Philadelphia Authority for Industrial Development Taxable Variable Rate Demand/Fixed Rate Revenue Bonds, Series of 1999	Incorporated by reference to Exhibit 10(ae) to the Annual Report on 1999 Form 10-KSB

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
10.3	Philadelphia Authority for Industrial Development Tax-Exempt Variable Rate Demand/Fixed Revenue Bonds (Lannett Company, Inc. Project) Series of 1999	Incorporated by reference to Exhibit 10(af) to the Annual Report on 1999 Form 10-KSB
10.4	Letter of Credit and Agreements supporting bond issues between the Company and First Union National Bank	Incorporated by reference to Exhibit 10(ag) to the Annual Report on 1999 Form 10-KSB
10.5*	2003 Stock Option Plan	Incorporated by reference to the Proxy Statement for Fiscal Year Ending June 30, 2002
10.6*	Employment Agreement with Kevin Smith	Incorporated by reference to Exhibit 10.6 to the Annual Report on 2003 Form 10-KSB
10.7*	Employment Agreement with Arthur Bedrosian	Incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q dated May 12, 2004.
10.9	Agreement between Lannett Company, Inc and Siegfried (USA), Inc.	Incorporated by reference to Exhibit 10.9 to the Annual Report on 2003 Form 10-KSB
10.10	Agreement between Lannett Company, Inc and Jerome Stevens Pharmaceuticals, Inc.	Incorporated by reference to Exhibit 2.1 to Form 8-K dated May 5, 2004
10.11*	Terms of Employment Agreement with Stephen J. Kovary	Incorporated by reference to Exhibit 10.11 to the Annual Report on 2009 Form 10-K
10.12	Agreement of Sale Between Anvil Construction Company, Inc. and Lannett Company, Inc.	Incorporated by reference to Exhibit 10.12 to the Annual Report on 2009 Form 10-K
10.13*	2006 Long Term Incentive Plan	Incorporated by reference to the Proxy Statement dated January 5, 2007
10.15*	2011 Long Term Incentive Plan	Incorporated by reference to the Proxy Statement dated January 19, 2011
10.16*	Terms of Employment Agreement with Martin P. Galvan	Incorporated by reference to Exhibit 10.1 on Form 8-K dated August 11, 2011
10.17	Amended and Restated Loan Agreement dated April 29, 2011 between the Company and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 10.17 to the Annual Report on 2011 Form 10-K
10.18	Loan Agreement dated May 26, 2011 between the Company, the Pennsylvania Industrial Development Authority (“PIDA”) and PIDC Financing Corporation	Incorporated by reference to Exhibit 10.18 to the Annual Report on 2011 Form 10-K
10.19*	Second Amended and Restated Employment Agreement of Arthur P. Bedrosian	Incorporated by reference to Exhibit 10.19 on Form 8-K dated January 3, 2013
10.20*	Amended and Restated Employment Agreement of Martin P. Galvan	Incorporated by reference to Exhibit 10.20 on Form 8-K dated January 3, 2013

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
10.21*	Amended and Restated Employment Agreement of William F. Schreck	Incorporated by reference to Exhibit 10.21 on Form 8-K dated January 3, 2013
10.22*	Amended and Restated Employment Agreement of Kevin Smith	Incorporated by reference to Exhibit 10.22 on Form 8-K dated January 3, 2013
10.23*	Amended and Restated Employment Agreement of Ernest J. Sabo	Incorporated by reference to Exhibit 10.23 on Form 8-K dated January 3, 2013
10.24*	Amended and Restated Employment Agreement of Robert Ehlinger	Incorporated by reference to Exhibit 10.24 on Form 8-K dated January 3, 2013
10.25	Amendment to Agreement dated March 23, 2004 by and between Lannett Company, Inc. and Jerome Stevens Pharmaceuticals, Inc.	Incorporated by reference to Exhibit 10.25 on Form 8-K dated August 19, 2013
10.26	Credit Agreement dated as of December 18, 2013 among Lannett Company Inc., as the Borrower, Certain Financial Institutions as the Lenders and Citibank, N.A., as Administrative Agent	Incorporated by reference to Exhibit 10.26 on Form 8-K dated December 19, 2013
10.27	Guaranty and Security Agreement dated as of December 18, 2013, among Lannett Company, Inc., the Subsidiaries of Lannett Company, Inc. identified therein and Citibank, N.A., as Administrative Agent	Incorporated by reference to Exhibit 10.27 on Form 8-K dated December 19, 2013
10.28*	Employment Agreement of Michael Bogda dated December 1, 2014	Incorporated by reference to Exhibit 10.28 on Form 8-K dated December 5, 2014
10.29	Lender Joinder and First Amendment to Credit Agreement dated as of April 21, 2015 among Lannett Company, Inc., as the Borrower, Certain Financial Institutions as the Lenders and Citibank, N.A., as Administrative Agent	Incorporated by reference to Exhibit 10.29 on Form 8-K dated April 24, 2015
10.30*	Employment Agreement of John Abt	Incorporated by reference to Exhibit 10.30 on Form 10-Q dated May 8, 2015
10.31*	Employment Agreement of Rohit Desai	Incorporated by reference to Exhibit 10.31 to the Annual Report on 2015 Form 10-K
10.32*	Employment Agreement of Dr. Mahendra Dedhiya	Incorporated by reference to Exhibit 10.32 to the Annual Report on 2015 Form 10-K
10.33	Project Orion Commitment Letter	Incorporated by reference to Exhibit 10.33 on Form 8-K dated September 4, 2015
10.34*	Separation Agreement and General Release between William F. Schreck and Lannett Company, Inc., dated September 11, 2015	Incorporated by reference to Exhibit 10.34 on Form 8-K dated September 15, 2015
10.35	Project Orion Amended and Restated Commitment Letter	Incorporated by reference to Exhibit 10.35 on Form 8-K dated September 25, 2015

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
10.36	Credit and Guaranty Agreement dated as of November 25, 2015	Incorporated by reference to Exhibit 10.36 on Form 8-K dated December 2, 2015
10.37	Credit Agreement Joinder	Incorporated by reference to Exhibit 10.37 on Form 8-K dated December 2, 2015
10.38	Pledge and Security Agreement dated as of November 25, 2015	Incorporated by reference to Exhibit 10.38 on Form 8-K dated December 2, 2015
10.39	Supplement No. 1 to the Pledge and Security Agreement	Incorporated by reference to Exhibit 10.39 on Form 8-K dated December 2, 2015
10.40	Warrant to Purchase Common Stock	Incorporated by reference to Exhibit 10.40 on Form 8-K dated December 2, 2015
10.41	Registration Rights Agreement	Incorporated by reference to Exhibit 10.41 on Form 8-K dated December 2, 2015
10.42*	Separation Agreement and General Release between Michael Bogda and Lannett Company, Inc., dated April 11, 2016	Incorporated by reference to Exhibit 10.42 on Form 8-K dated April 12, 2016
10.43	Amendment No. 1 to Credit and Guaranty Agreement dated June 17, 2016	Incorporated by reference to Exhibit 10.43 on Form 8-K dated June 20, 2016
10.44	Amendment No. 2 to Credit and Guaranty Agreement dated June 17, 2016	Incorporated by reference to Exhibit 10.44 on Form 8-K dated June 20, 2016
10.45*	Employment Agreement of Samuel H. Israel	Incorporated by reference to Exhibit 10.45 on Form 8-K dated July 19, 2017
10.46*	Restated Employment Agreement of John Kozlowski dated October 26, 2017	Incorporated by reference to Exhibit 10.46 on Form 8-K dated November 1, 2017
10.47*	Employment Agreement of Timothy C. Crew effective as of January 2, 2018	Incorporated by reference to Exhibit 10.47 on Form 8-K dated December 21, 2017
10.48*	Separation Agreement and General Release by and between Arthur P. Bedrosian and Lannett Company, Inc. dated January 19, 2018	Incorporated by reference to Exhibit 10.48 on Form 8-K dated January 24, 2018
10.49*	Addendum to Employment Agreement of Timothy C. Crew dated March 28, 2018	Incorporated by reference to Exhibit 10.49 on Form 8-K dated April 2, 2018
10.50*	Employment Agreement of Maureen M. Cavanaugh effective as of May 7, 2018	Incorporated by reference to Exhibit 10.50 on Form 8-K dated April 23, 2018
10.51*	Separation Agreement and General Release by and between Kevin Smith and Lannett Company, Inc. dated June 20, 2018	Incorporated by reference to Exhibit 10.51 on Form 8-K dated June 22, 2018
10.52	Amendment No. 3 to the Credit and Guaranty Agreement, dated as of December 10, 2018, by and among Lannett Company, Inc., Morgan Stanley Senior Funding, Inc., and each lender party thereto.	Incorporated by reference to Exhibit 10.52 on Form 8-K dated December 12, 2018

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
10.53*	Form of Retention Plan Bonus Letter	Incorporated by reference to Exhibit 10.53 on Form 8-K dated December 18, 2018
10.54	Amneal Distribution and Transition Support Agreement	Incorporated by reference to Exhibit 10.54 on Form 10-Q dated February 7, 2019
10.55*	Separation Agreement and General Release by and between Martin Galvan and Lannett Company, Inc. dated May 22, 2019	Incorporated by reference to Exhibit 10.55 on Form 8-K dated May 24, 2019
10.56*	Second Amendment to Restated Employment Agreement of John Kozlowski, dated as of July 31, 2019	Incorporated by reference to Exhibit 10.56 on Form 8-K dated August 1, 2019
10.57	Form of Capped Call Confirmations	Incorporated by reference to Exhibit 10.57 on Form 8-K dated September 27, 2019
10.58	Cediprof Agreement	Incorporated by reference to Exhibit 10.58 on Form 10-Q dated November 7, 2019
10.59	Sinotherapeutics Distribution and Supply Agreement	Incorporated by reference to Exhibit 10.59 on Form 10-Q dated November 7, 2019
10.60*	Lannett Company, Inc. Non-Qualified Deferred Compensation Plan	Incorporated by reference to Exhibit 10.60 on Form 10-Q dated November 7, 2019
10.61	Collaboration and License Agreement by and among Lannett Company, Inc., North & South Brother Pharmacy Investment Co., Ltd and HEC GROUP PTY LTD, dated as of November 21, 2019	Incorporated by reference to Exhibit 10.61 on Form 10-Q dated February 6, 2020
10.62	Supply Agreement by and among North & South Brother Pharmacy Investment Co., Ltd, HEC GROUP PTY LTD and Lannett Company, Inc., dated as of November 21, 2019	Incorporated by reference to Exhibit 10.62 on Form 10-Q dated February 6, 2020
10.63	Amendment to Sinotherapeutics Distribution and Supply Agreement	Incorporated by reference to Exhibit 10.63 to the Annual Report on 2020 Form 10-K
10.64*	Third Addendum to Employment Agreement of Timothy Crew	Incorporated by reference to Exhibit 10.64 on Form 8-K dated August 28, 2020
10.65*	Third Amendment to Restated Employment Agreement of John Kozlowski	Incorporated by reference to Exhibit 10.65 on Form 8-K dated August 28, 2020
10.66*	Second Addendum to Employment Agreement of Maureen Cavanaugh	Incorporated by reference to Exhibit 10.66 on Form 8-K dated August 28, 2020
10.67*	Second Addendum to Employment Agreement of Samuel H. Israel	Incorporated by reference to Exhibit 10.67 on Form 8-K dated August 28, 2020
10.68*	Second Addendum to Employment Agreement of John Abt	Incorporated by reference to Exhibit 10.68 on Form 8-K dated August 28, 2020

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
10.69*	Second Addendum to Amended and Restated Employment Agreement of Robert Ehlinger	Incorporated by reference to Exhibit 10.69 on Form 8-K dated August 28, 2020
10.70	Credit and Guaranty Agreement, dated as of December 7, 2020, among Lannett Company, Inc., the subsidiary borrowers from time to time party thereto, the guarantors party thereto, the several banks and other financial institutions from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent and collateral agent.	Incorporated by reference to Exhibit 10.70 on Form 8-K dated December 10, 2020
10.71	Pledge and Security Agreement, dated as of December 7, 2020, made by Lannett Company, Inc. and certain of its subsidiaries from time to time party thereto, in favor of Wells Fargo Bank, National Association, as collateral agent and administrative agent.	Incorporated by reference to Exhibit 10.71 on Form 8-K dated December 10, 2020
10.72	ABL/Term Loan Intercreditor Agreement, dated as of December 7, 2020, among Alter Domus (US) LLC, as Term Loan Agent and Wells Fargo Bank, National Association, as ABL Agent.	Incorporated by reference to Exhibit 10.72 on Form 8-K dated December 10, 2020
10.73	Intellectual Property Security Agreement, dated as of December 7, 2020, made by Lannett Company, Inc.; Lannett Holdings, Inc.; and Cody Laboratories, Inc. in favor of Wells Fargo Bank, National Association, as collateral agent and administrative agent.	Incorporated by reference to Exhibit 10.73 on Form 8-K dated December 10, 2020
10.74	Amendment No. 4 to Credit and Guaranty Agreement, dated as of December 7, 2020, among Lannett Company, Inc., the lenders party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent.	Incorporated by reference to Exhibit 10.74 on Form 8-K dated December 10, 2020
10.75*	Fourth Addendum to Employment Agreement of Timothy C. Crew dated December 28, 2020	Incorporated by reference to Exhibit 10.75 on Form 8-K dated December 29, 2020
10.76	License and Supply Agreement with Alkermes Pharma Ireland Limited and Kremers Urban Pharmaceuticals Inc.	Incorporated by reference to Exhibit 10.76 on Form 10-Q dated February 4, 2021
10.77	Amendment No. 1 to License and Supply Agreement between Recro Gainesville LLC (as successor to Alkermes Pharma Ireland Limited) and Kremers Urban Pharmaceuticals, Inc.	Incorporated by reference to Exhibit 10.77 on Form 10-Q dated February 4, 2021
10.78	Amendment No. 2 to License and Supply Agreement between Recro Gainesville LLC (as successor to Alkermes Pharma Ireland Limited) and Kremers Urban Pharmaceuticals, Inc.	Incorporated by reference to Exhibit 10.78 on Form 10-Q dated February 4, 2021
10.79	Exchange Agreement dated April 5, 2021, among Lannett Company, Inc. and the participating lenders party thereto.	Incorporated by reference to Exhibit 10.79 on Form 8-K dated April 6, 2021

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
10.80	Amended and Restated Exchange Agreement dated April 8, 2021, among Lannett Company, Inc. and the participating lenders party thereto.	Incorporated by reference to Exhibit 10.80 on Form 8-K dated April 12, 2021
10.81	Second Lien Credit and Guaranty Agreement, dated as of April 22, 2021, among Lannett Company, Inc., the guarantors party thereto, the lenders from time to time party thereto and Alter Domus (US) LLC, as administrative agent and collateral agent.	Incorporated by reference to Exhibit 10.81 on Form 8-K dated April 26, 2021
10.82	Form of Warrant to Purchase Common Stock.	Incorporated by reference to Exhibit 10.82 on Form 8-K dated April 26, 2021
10.83	Registration Rights Agreement, dated as of April 22, 2021, by and among Lannett Company, Inc., Deerfield Partners, L.P., Deerfield Private Design Fund III, L.P. and BPC Lending II LLC.	Incorporated by reference to Exhibit 10.83 on Form 8-K dated April 26, 2021
10.84	Notes Pledge and Security Agreement, dated as of April 22, 2021, made by Lannett Company, Inc. and certain of its subsidiaries from time to time party thereto, in favor of Wilmington Trust, as collateral agent.	Incorporated by reference to Exhibit 10.84 on Form 8-K dated April 26, 2021
10.85	Second Lien Pledge and Security Agreement, dated as of April 22, 2021, made by Lannett Company, Inc. and certain of its subsidiaries from time to time party thereto, in favor of Alter Domus (US) LLC, as collateral agent and administrative agent.	Incorporated by reference to Exhibit 10.85 on Form 8-K dated April 26, 2021
10.86	Cash Flow Intercreditor Agreement, dated as of April 22, 2021, among Wilmington Trust, National Association, as Cash Flow Agent and Alter Domus (US) LLC, as Initial Junior Priority Agent.	Incorporated by reference to Exhibit 10.86 on Form 8-K dated April 26, 2021
10.87	Amendment Number One to Credit and Guaranty Agreement, dated as of April 22, 2021, by and among by Lannett Company, Inc.; the guarantors party thereto, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent and collateral agent.	Incorporated by reference to Exhibit 10.87 on Form 8-K dated April 26, 2021
10.88	Collaboration and License Agreement by and among Lannett Company, Inc. and Sunshine Lake Pharma Co., Ltd.	Incorporated by reference to Exhibit 10.88 on Form 10-Q dated May 6, 2021
10.89	Supply Agreement by and among Lannett Company, Inc. and Sunshine Lake Pharma Co., Ltd.	Incorporated by reference to Exhibit 10.89 on Form 10-Q dated May 6, 2021
10.90	Distribution Agreement Between Respirant Pharmaceuticals Co. Ltd. and Lannett Company, Inc.	Incorporated by reference to Exhibit 10.90 on Form 10-K dated August 26, 2021
10.91	Amendment No. 1 to Distribution Agreement Between Respirant Pharmaceuticals Co. Ltd. and Lannett Company, Inc.	Incorporated by reference to Exhibit 10.91 on Form 10-K dated August 26, 2021

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
10.92	Fourth Addendum to Employment Agreement of Timothy Crew	Incorporated by reference to Exhibit 10.92 on Form 8-K dated January 20, 2022
10.93	Fourth Amendment to Restated Employment Agreement of John Kozlowski	Incorporated by reference to Exhibit 10.93 on Form 8-K dated January 20, 2022
10.94	Third Addendum to Employment Agreement of Maureen Cavanaugh	Incorporated by reference to Exhibit 10.94 on Form 8-K dated January 20, 2022
10.95	Third Addendum to Employment Agreement of Samuel H. Israel	Incorporated by reference to Exhibit 10.95 on Form 8-K dated January 20, 2022
10.96	Third Addendum to Employment Agreement of John Abt	Incorporated by reference to Exhibit 10.96 on Form 8-K dated January 20, 2022
10.97	Contract of Sale-Office, Commercial and Multi-Family Residential Premises between Silarx Pharmaceuticals, Inc. and Chartwell Carmel Realty, LLC	Incorporated by reference to Exhibit 10.97 on Form 10-Q dated May 10,2022
10.98	Asset Purchase Agreement by and between Chartwell Carmel Assets, LLC, Chartwell Pharmaceuticals LLC, Silarx Pharmaceuticals, Inc., Lannett Company, Inc., and Lannett Holdings, Inc.	Incorporated by reference to Exhibit 10.98 on Form 10-Q dated May 10,2022
10.99	Manufacture and Supply Agreement by and between Chartwell Pharmaceuticals Carmel, LLC, Chartwell Pharmaceuticals LLC, and Lannett Company, Inc.	Incorporated by reference to Exhibit 10.99 on Form 10-Q dated May 10,2022
10.100	Form of Retention Award Letter	Filed Herewith
21.1	Subsidiaries of the Company	Filed Herewith
23.1	Consent of Grant Thornton, LLP	Filed Herewith
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
101.INS	XBRL Instance Document – the instance document does not appear within the Interactive Data File because its XRBL tags are embedded within the Inline XRBL Document	Filed Herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed Herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed Herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed Herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed Herewith

[Table of Contents](#)

Exhibit Number	Description	Method of Filing
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed Herewith
104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XRBL tags are embedded within the Inline XRBL document	Filed Herewith

SIGNATURES

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

LANNETT COMPANY, INC.

Date: August 25, 2022 By: /s/ Timothy C. Crew
Timothy C. Crew,
Chief Executive Officer

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

Date: August 25, 2022 By: /s/ John Kozlowski
John Kozlowski,
Vice President of Finance, Chief Financial Officer and
Principal Accounting Officer

Date: August 25, 2022 By: /s/ Patrick G. LePore
Patrick G. LePore,
Director, Chairman of the Board of Directors

Date: August 25, 2022 By: /s/ Timothy C. Crew
Timothy C. Crew,
Director, Chief Executive Officer, Chairman of
Environmental, Social and Governance Committee

Date: August 25, 2022 By: /s/ David Drabik
David Drabik,
Director, Chairman of Governance and Nominating
Committee, Chairman of the Compensation Committee

Date: August 25, 2022 By: /s/ Melissa Rewolinski
Melissa Rewolinski,
Director

Date: August 25, 2022 By: /s/ John C. Chapman
John C. Chapman,
Director, Chairman of Audit Committee

Date: August 25, 2022 By: /s/ Jeffrey Farber
Jeffrey Farber,
Director

Index to Consolidated Financial Statements

Management's Report on Internal Control Over Financial Reporting	111
Report of Independent Registered Public Accounting Firm (PCAOB ID Number 248)	112
Consolidated Balance Sheets as of June 30, 2022 and 2021	116
Consolidated Statements of Operations for the Fiscal Years Ended June 30, 2022, 2021 and 2020	117
Consolidated Statements of Comprehensive Loss for the Fiscal Years Ended June 30, 2022, 2021 and 2020	118
Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the Fiscal Years Ended June 30, 2022, 2021 and 2020	119
Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2022, 2021 and 2020	120
Notes to Consolidated Financial Statements	121

Management’s Report on Internal Control over Financial Reporting

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

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

Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control — Integrated Framework (2013) in conducting its assessment as of June 30, 2022. As a result of this assessment, management has concluded that, as of June 30, 2022, the Company’s internal control over financial reporting is effective.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Lannett Company Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Lannett Company, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of June 30, 2022 and 2021, the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity (deficit), and cash flows for each of the three years in the period ended June 30, 2022, and the related notes and financial statement schedule included under Item 15 (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Estimation of chargebacks and rebates reserves

As described in Notes 2 and 4 to the financial statements, when the Company recognizes sales, a simultaneous adjustment to gross sales is made for estimated chargebacks and rebates, among other adjustments. The estimates of the chargebacks and rebates reserves are primarily based on historical experience, future expectations, contractual arrangements with wholesalers and indirect customers and other factors known to management at the time the reserves are recorded and are presented in the financial statements as a reduction to gross sales with the corresponding reserves presented as reductions of accounts receivable or included as rebates payable, depending on the nature of the reserve. We identified the estimation of the chargebacks and rebates reserves as a critical audit matter.

The principal considerations for our determination that the estimation of the chargebacks and rebates reserves is a critical audit matter includes the high degree of estimation uncertainty and judgment involved in determining the reserve estimates. There is a high degree of subjectivity in management's assessment of the reasonableness of the chargebacks and rebates reserves, which leads to especially challenging and subjective auditor judgment in auditing these estimates. Further, variations in these estimates could have a significant impact on the recorded chargebacks and rebates reserves.

Our audit procedures related to this critical audit matter included the following, among others:

- We obtained an understanding of management's processes and controls over calculating the reserves for net sales adjustments, including understanding relevant inputs and assumptions.
- We evaluated the design and implementation of key controls relating to the calculation of the chargeback and rebates reserves, including key management review controls over the period-end chargebacks and rebates reserve estimates and key controls over the processing of chargebacks and rebates submitted by customers.
- We tested management's process for calculating the chargeback and rebates reserves. We tested key inputs and assumptions relevant to the reserves, such as contractual pricing and rebate arrangements with customers and inventory levels at wholesalers.
- We reviewed subsequent transactions occurring prior to the date of our audit report, which involved inspecting customer contracts and relevant source documents submitted by customers in conjunction with the chargeback or rebate claim.
- We performed a look back analysis to assess management's ability to estimate the chargebacks and rebates reserves through review of actual activity compared to previous estimates.

Measurement of KUPI product rights intangible asset impairment charge

As described further in Notes 2 and 8 to the financial statements, the Company's long-lived assets, including definite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances ("triggering events") indicate that the carrying amount of the asset may not be recoverable. In the second quarter of 2022, the Company determined that, as a result of the discontinuation of certain lower gross margin product lines and continued competitive pressures in the market, a triggering event was identified and a partial impairment charge totaling \$40.6 million was recorded related to the KUPI product rights intangible asset. The impairment loss was measured as the excess of the asset's carrying value over its fair value, which was calculated using a discounted cash flow model. We identified the measurement of the KUPI product rights intangible asset partial impairment charge as a critical audit matter.

The principal consideration for our determination that the measurement of the KUPI product rights intangible asset partial impairment charge is a critical audit matter is that the partial impairment assessment includes a high degree of estimation uncertainty due to significant judgments in regards to the assumptions used within the assessment, including the estimates of future cash flows, discount rates and the probability of achieving the estimated cash flows, and for which management utilized an independent valuation specialist ("management's valuation specialist"). There is a high degree of subjectivity in management's assessment of the inputs of the partial impairment assessment, which requires a heightened level of auditor judgment in auditing the estimates. Further, variation in these estimates could have a significant impact on the measurement of the partial impairment charge.

Our audit procedures related to this critical audit matter included the following, among others:

- We evaluated the design and implementation of controls relating to the Company’s quantitative impairment analysis processes, including controls related to the forecasted cash flows and management’s review of key assumptions which were prepared by management’s valuation specialists.
- We evaluated the level of knowledge, skill, and ability of management’s valuation specialists and their relationship to the Company.
- We compared the Company’s cash flows used in the forecast model to historical actual results, available industry data, and other corroborating documentation. With the assistance of internal valuation specialists, we performed audit procedures over the data, methods and assumptions utilized in performing the quantitative impairment assessment, which included reviewing supporting documents and assessing reasonableness by comparing to historical trends and industry expectations. Certain key inputs and assumptions tested by us included the following:
 - Long-term growth rates
 - Discount rates

Evaluation of the recognition and measurement of tax position related to chargebacks and rebates

As described further in Note 16 to the financial statements, the Company recognizes the tax benefit from an uncertain tax position claimed on a tax return only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Company has received two Information Document Requests (“IDRs”) from the Internal Revenue Service (“IRS”) relating to the treatment of chargebacks and rebates in the Company’s fiscal year 2017 tax return. The Company concluded that its tax position described in these IDRs is more likely than not to be fully sustained upon further examination by the IRS and accordingly has not recorded a liability related to this tax position. We identified the evaluation of the recognition and measurement of the tax position related to the treatment of chargebacks and rebates in the 2017 tax return as a critical audit matter.

The principal considerations for our determination that the evaluation of the recognition and measurement of the tax position related to the treatment of chargebacks and rebates in the 2017 tax return is a critical audit matter are that the evaluation required especially subjective and complex judgment to determine whether the tax position is more likely than not to be sustained based on its technical merits, given the complexity of the relevant tax laws and regulations and the degree to which such laws and regulations are subject to interpretation, and the subjectivity in determining the amount that is more likely than not to be realized.

Our audit procedures related to this critical audit matter included the following, among others:

- We evaluated the design and implementation of internal controls related to management’s evaluation of the recognition and measurement of tax positions, including the evaluation of the tax position related to the treatment of chargebacks and rebates in the 2017 tax return.
- We obtained and evaluated management’s written analyses, which covered both the technical merits of the tax position and the accounting conclusion. With the assistance of tax professionals with specialized skills and knowledge, we assessed the reasonableness of management’s conclusion that the position is more likely than not to be fully sustained by performing the following procedures:
 - We reviewed and evaluated the positions taken by the IRS as communicated in the IDRs.
 - We evaluated the technical merits of the tax position, including management’s interpretation of the relevant tax laws and regulations and evaluation of recent changes to the tax code.
 - We assessed the reasonableness of the amount that management has concluded is more-likely-than-not to be sustained.

- We performed inquiries with the Company's external tax professionals and internal and external legal counsel, including gaining an understanding of their experience in matters with similar facts and circumstances.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 1999.

Philadelphia, Pennsylvania
August 25, 2022

LANNETT COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2022	June 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 87,854	\$ 93,286
Accounts receivable, net	56,241	98,834
Inventories	95,158	109,545
Income taxes receivable	36,793	35,050
Assets held for sale	—	2,678
Other current assets	14,070	14,170
Total current assets	290,116	353,563
Property, plant and equipment, net	133,178	166,674
Intangible assets, net	32,179	137,835
Operating lease right-of-use assets	9,646	10,559
Other assets	19,316	15,106
TOTAL ASSETS	\$ 484,435	\$ 683,737
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 29,737	\$ 29,585
Accrued expenses	23,667	13,077
Accrued payroll and payroll-related expenses	8,342	10,680
Rebates payable	21,568	19,025
Royalties payable	5,677	13,779
Restructuring liability	490	8
Current operating lease liabilities	2,064	2,045
Other current liabilities	13,395	2,270
Total current liabilities	104,940	90,469
Long-term debt, net	614,948	590,683
Long-term operating lease liabilities	9,994	11,047
Other liabilities	5,616	19,009
TOTAL LIABILITIES	735,498	711,208
Commitments and contingencies (Notes 10 and 11)		
STOCKHOLDERS' DEFICIT		
Common stock (\$0.001 par value, 100,000,000 shares authorized; 42,269,137 and 40,913,148 shares issued; 40,704,572 and 39,576,606 shares outstanding at June 30, 2022 and June 30, 2021, respectively)	42	41
Additional paid-in capital	363,957	355,239
Accumulated deficit	(596,386)	(364,766)
Accumulated other comprehensive loss	(411)	(548)
Treasury stock (1,564,565 and 1,336,542 shares at June 30, 2022 and June 30, 2021, respectively)	(18,265)	(17,437)
Total stockholders' deficit	(251,063)	(27,471)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 484,435	\$ 683,737

The accompanying notes are an integral part of the Consolidated Financial Statements.

LANNETT COMPANY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Fiscal Year Ended June 30,		
	2022	2021	2020
Net sales	\$ 340,579	\$ 478,778	\$ 545,744
Cost of sales	294,482	378,335	348,508
Amortization of intangibles	12,931	24,850	32,016
Gross profit	33,166	75,593	165,220
Operating expenses:			
Research and development expenses	22,362	24,173	29,978
Selling, general and administrative expenses	81,023	68,078	79,467
Restructuring expenses	2,777	4,043	1,771
Asset impairment charges	103,277	216,550	34,448
Total operating expenses	209,439	312,844	145,664
Operating income (loss)	(176,273)	(237,251)	19,556
Other income (expense), net:			
Loss on extinguishment of debt	—	(10,341)	(2,145)
Investment income	150	236	1,646
Interest expense	(57,979)	(53,830)	(66,845)
Other	178	(1,664)	(840)
Total other expense, net	(57,651)	(65,599)	(68,184)
Loss before income tax	(233,924)	(302,850)	(48,628)
Income tax expense (benefit)	(2,304)	60,625	(15,262)
Net loss	\$ (231,620)	\$ (363,475)	\$ (33,366)
Loss per common share (1):			
Basic	\$ (5.74)	\$ (9.23)	\$ (0.86)
Diluted	\$ (5.74)	\$ (9.23)	\$ (0.86)
Weighted average common shares outstanding (1):			
Basic	40,350,522	39,391,589	38,592,618
Diluted	40,350,522	39,391,589	38,592,618

(1) See Note 13 "Loss Per Common Share" for details on calculation.

The accompanying notes are an integral part of the Consolidated Financial Statements.

LANNETT COMPANY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Fiscal Year Ended June 30,		
	2022	2021	2020
Net loss	\$ (231,620)	\$ (363,475)	\$ (33,366)
Other comprehensive income (loss):			
Foreign currency translation gain (loss)	137	79	(12)
Total other comprehensive income (loss)	137	79	(12)
Comprehensive loss	\$ (231,483)	\$ (363,396)	\$ (33,378)

The accompanying notes are an integral part of the Consolidated Financial Statements.

LANNETT COMPANY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity (Deficit)
	Shares Issued	Amount					
Balance, June 30, 2019	38,970	\$ 39	\$ 317,023	\$ 32,075	\$ (615)	\$ (14,481)	\$ 334,041
Shares issued in connection with share-based compensation plans	993	1	997	—	—	—	998
Share-based compensation	—	—	10,216	—	—	—	10,216
Purchase of treasury stock	—	—	—	—	—	(1,909)	(1,909)
Other comprehensive loss	—	—	—	—	(12)	—	(12)
Capped call transaction	—	—	(7,072)	—	—	—	(7,072)
Net loss	—	—	—	(33,366)	—	—	(33,366)
Balance, June 30, 2020	39,963	\$ 40	\$ 321,164	\$ (1,291)	\$ (627)	\$ (16,390)	\$ 302,896
Shares issued in connection with share-based compensation plans	950	1	663	—	—	—	664
Share-based compensation	—	—	9,037	—	—	—	9,037
Purchase of treasury stock	—	—	—	—	—	(1,047)	(1,047)
Issuance of warrant	—	—	24,375	—	—	—	24,375
Other comprehensive income	—	—	—	—	79	—	79
Net loss	—	—	—	(363,475)	—	—	(363,475)
Balance, June 30, 2021	40,913	\$ 41	\$ 355,239	\$ (364,766)	\$ (548)	\$ (17,437)	\$ (27,471)
Shares issued in connection with share-based compensation plans	1,356	1	308	—	—	—	309
Share-based compensation	—	—	8,410	—	—	—	8,410
Purchase of treasury stock	—	—	—	—	—	(828)	(828)
Other comprehensive income	—	—	—	—	137	—	137
Net loss	—	—	—	(231,620)	—	—	(231,620)
Balance, June 30, 2022	42,269	\$ 42	\$ 363,957	\$ (596,386)	\$ (411)	\$ (18,265)	\$ (251,063)

The accompanying notes are an integral part of the Consolidated Financial Statements.

LANNETT COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended June 30,		
	2022	2021	2020
OPERATING ACTIVITIES:			
Net loss	\$ (231,620)	\$ (363,475)	\$ (33,366)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	34,267	47,824	56,309
Deferred income tax expense (benefit)	—	117,890	(8,585)
Share-based compensation	8,410	9,037	10,216
Asset impairment charges	103,277	216,550	34,448
Loss (gain) on sale/disposal of assets	742	171	(159)
Gain on sale of intangible assets	(900)	—	—
Loss on extinguishment of debt	—	10,341	2,145
Accrual of payment-in-kind interest on Second Lien Credit Facility	18,380	3,642	—
Amortization of debt discount and other debt issuance costs	6,246	10,146	14,336
Provision for inventory write-downs	13,195	24,328	10,341
Accrual of contingent liability	10,946	—	—
Other noncash expenses	879	1,021	1,969
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable, net	42,593	26,854	39,064
Inventories	1,192	8,994	(9,237)
Income taxes receivable/payable	(1,724)	(20,437)	(14,465)
Other assets	(2,147)	2,509	4,095
Rebates payable	2,543	(19,150)	(8,000)
Royalties payable	(8,102)	(7,084)	4,648
Restructuring liability	482	(19)	(2,288)
Operating lease assets/liabilities	(955)	(194)	(1,464)
Accounts payable	152	(2,950)	19,042
Accrued expenses	(356)	(1,885)	2,213
Accrued payroll and payroll-related expenses	(2,338)	(5,624)	(3,620)
Other liabilities	(2,287)	2,362	(1,628)
Net cash (used in) provided by operating activities	<u>(7,125)</u>	<u>60,851</u>	<u>116,014</u>
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(8,739)	(10,415)	(18,330)
Proceeds from sale of property, plant and equipment	12,564	114	7,380
Advance to VIE	—	—	(250)
Purchases of intangible assets	(1,750)	(4,500)	(28,800)
Net cash provided by (used in) investing activities	<u>2,075</u>	<u>(14,801)</u>	<u>(40,000)</u>
FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	—	356,225	86,250
Purchase of capped call	—	—	(7,072)
Repayments of long-term debt	—	(437,926)	(146,700)
Proceeds from issuance of stock	309	664	998
Payment of debt issuance costs	—	(10,088)	(3,489)
Purchase of treasury stock	(828)	(1,047)	(1,909)
Net cash used in financing activities	<u>(519)</u>	<u>(92,172)</u>	<u>(71,922)</u>
Effect on cash and cash equivalents of changes in foreign exchange rates	137	79	(12)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	<u>(5,432)</u>	<u>(46,043)</u>	<u>4,080</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	<u>98,286</u>	<u>144,329</u>	<u>140,249</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	<u>\$ 92,854</u>	<u>\$ 98,286</u>	<u>\$ 144,329</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid	\$ 30,718	\$ 34,859	\$ 51,928
Income taxes (refunded) paid	\$ (580)	\$ (36,830)	\$ 7,787
Purchases of property, plant and equipment included in accounts payable	\$ 1,667	\$ 1,809	\$ 2,295
Issuance of warrant in connection with Second Lien Credit Facility	\$ —	\$ 24,375	\$ —

The accompanying notes are an integral part of the Consolidated Financial Statements.

LANNETT COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Business and Nature of Operations

Lannett Company, Inc. (a Delaware corporation) and its subsidiaries (collectively, the “Company” or “Lannett”) primarily develop, manufacture, package, market and distribute solid oral and extended release (tablets and capsules), topical, nasal and oral solution finished dosage forms of drugs that address a wide range of therapeutic areas. Certain of these products are manufactured by others and distributed by the Company.

The Company operates a pharmaceutical manufacturing plant in Seymour, Indiana. During Fiscal 2022, the Company completed the sale of its Silarx Pharmaceuticals, Inc. (“Silarx”) facility in Carmel, New York. In connection with the sale, the buyer will continue to produce certain products on behalf of the Company at the Carmel facility while the Company completes the transfer of such products to its Seymour, Indiana plant. Refer to Note 3 “Restructuring Charges” for further details of the sale of the Silarx facility.

The Company’s customers include generic pharmaceutical distributors, drug wholesalers, chain drug stores, private label distributors, mail-order pharmacies, other pharmaceutical manufacturers, managed care organizations, hospital buying groups, governmental entities and health maintenance organizations.

COVID-19 Update

The COVID-19 pandemic continues to have an impact on the global economy and the way companies operate. In light of the economic impacts of COVID-19, the Company reviewed the assets on our Consolidated Balance Sheets as of June 30, 2022 and 2021, including intangible and other long-lived assets. Based on our review, the Company determined that no impairments or other write-downs specifically related to COVID-19 were necessary during Fiscal Year 2022 and Fiscal 2021. Our assessments were based on information currently available and is highly reliant on various assumptions. Changes in market conditions could impact the Company’s future outlook and may lead to impairments in the future.

While COVID-19 has thus far not had a material impact on the Company’s operations, we cannot reasonably predict the ultimate impact of COVID-19 on our future results of operations and cash flows due to the continued uncertainty around the duration and severity of the pandemic.

NYSE Notices of Failure to Satisfy a Continued Listing Rule or Standard

On March 2, 2022, we received notice from the New York Stock Exchange (the “NYSE”) that we were no longer in compliance with the NYSE continued listing standards, set forth in Section 802.01B of the NYSE’s Listed Company Manual, because the Company’s average global market capitalization over a consecutive 30 trading-day period was less than \$50.0 million and, at the same time, our shareholders’ equity was less than \$50.0 million. If the Company’s average global market capitalization over a consecutive 30 trading-day period drops below \$15.0 million, the NYSE will initiate delisting proceedings. As of July 31, 2022, the 30 trading-day average global market capitalization of the Company was approximately \$25.4 million, and the Company’s absolute market capitalization was approximately \$25.0 million. In accordance with the NYSE listing requirements, we submitted a plan that demonstrates how we expect to return to compliance with Section 802.01B within 18 months. On May 26, 2022, the Company received notice from the NYSE that the plan was accepted. The NYSE will be performing quarterly reviews during the 18 months from the Company’s receipt of the First Notice for compliance with the goals and initiatives as outlined in the Company’s plan. Failure to satisfy the requisite goals or initiatives may result in the Company being subject to NYSE trading suspension at that time. The Company is required to achieve the minimum continued listing standards of either average global market capitalization over a consecutive 30 trading-day period of \$50 million or total stockholders' equity of \$50 million at the completion of the 18-month plan period, and failure to achieve any of the minimum requirements at the end of the 18-month period may result in the Company being suspended by the NYSE, which may make an application to the SEC to delist the Company’s Common Stock. There can be no assurances that the Company will maintain compliance with the plan.

In addition, on March 14, 2022, the Company received notice by the NYSE that it was not in compliance with the continued listing standard set forth in Section 802.01C of the NYSE's Listed Company Manual because the average closing price of the Company's common stock was less than \$1.00 per share over a consecutive 30 trading-day period. In order to regain compliance, on the last trading day of any calendar month during the cure period or on the last business day of the six-month cure period, the Company's shares of common stock must demonstrate (i) a closing price of at least \$1.00 per share and (ii) an average closing share price of at least \$1.00 over the 30 trading-day period ending on such date. The Company intends to cure the deficiency within a period permissible under Section 802.01C of the NYSE's Listed Company Manual. However, there can be no assurances that the Company will meet continued listing standards within the specified cure period.

If we are unable to satisfy the NYSE criteria for continued listing, our common stock would be subject to delisting. A delisting of our common stock could negatively impact us by, among other things, reducing the liquidity and market price of our common stock; reducing the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing; decreasing the amount of news and analyst coverage of the Company; limiting our ability to issue additional securities or obtain additional financing in the future; and leading to the acceleration of our debt maturities, which would put additional pressure on our liquidity and ability to continue to operate as a going concern. If the Company ceases to be listed or quoted on any of The NYSE, The Nasdaq Global Select Market or The Nasdaq Global Market (or any of their respective successors), holders of the outstanding 4.50% Convertible Senior Notes (the "Convertible Notes") will have the option to require the Company to repurchase for cash all of such holder's notes at 100% of the principal amount, plus accrued and unpaid interest. In addition, delisting from the NYSE may negatively impact our reputation and, consequently, our business.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements have been prepared in conformity with U.S. GAAP.

Principles of consolidation

The Consolidated Financial Statements include the accounts of Lannett Company, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of estimates

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

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

Foreign currency translation

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

Cash, cash equivalents and restricted cash

The Company considers all highly liquid investments with original maturities less than or equal to three months at the date of purchase to be cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates fair value, and consist of bank deposits and money market funds. The Company maintains its cash deposits and cash equivalents at well-known, stable financial institutions. Such amounts frequently exceed insured limits. In connection with the Second Lien Secured Loan Facility ("Second Lien Facility"), the Company is required to maintain at least \$5 million in a deposit account at all times, subject to control by the Second Lien Collateral Agent. At June 30, 2022 and 2021, the Company classified this balance as restricted cash, which is included in other assets on the Consolidated Balance Sheets.

Presented in the table below is a reconciliation of the cash, cash equivalents and restricted cash amounts presented on the Consolidated Balance Sheets to the sum of such amounts presented on the Consolidated Statements of Cash Flows for the periods ended June 30, 2022, 2021 and 2020.

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Cash and cash equivalents	\$ 87,854	\$ 93,286	\$ 144,329
Restricted cash, included in other assets	5,000	5,000	—
Cash, cash equivalents and restricted cash as presented on the Consolidated Statements of Cash Flows	<u>\$ 92,854</u>	<u>\$ 98,286</u>	<u>\$ 144,329</u>

Allowance for doubtful accounts

The Company complies with ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which requires the Company to recognize an allowance that reflects a current estimate of credit losses expected to be incurred over the life of the financial asset, including trade receivables. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time balances are past due, the Company's previous loss history, the customer's current ability to pay its obligations to the Company and the expected condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they are determined to be uncollectible.

Inventories

Inventories are stated at the lower of cost or net realizable value by the first-in, first-out method. Inventories are regularly reviewed and write-downs for excess and obsolete inventory are recorded based primarily on current inventory levels, expiration date and estimated sales forecasts.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the assets' estimated useful lives. Repairs and maintenance costs that do not extend the useful life of the asset are expensed as incurred.

Intangible Assets

Definite-lived intangible assets are stated at cost less accumulated amortization. Amortization of definite-lived intangible assets is computed on a straight-line basis over the assets' estimated useful lives, which commence upon shipment of the product. The Company continually evaluates the reasonableness of the useful lives of these assets. Indefinite-lived intangible assets, which includes in-process research and development ("IPR&D") products, are not amortized, but instead are tested at least annually for impairment. The Company assesses the reclassification of indefinite-lived intangibles to definite-lived intangible assets when the Food and Drug Administration ("FDA") approves drug applications, and the products are ready for commercialization. Costs to renew or extend the term of a recognized intangible asset are expensed as incurred.

Valuation of Long-Lived Assets, including Intangible Assets

The Company's long-lived assets primarily consist of property, plant and equipment and definite and indefinite-lived intangible assets. Property, plant and equipment and definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances ("triggering events") indicate that the carrying amount of the asset may not be recoverable. If a triggering event is determined to have occurred, the asset's carrying value is compared to the future undiscounted cash flows expected to be generated by the asset. If the carrying value exceeds the undiscounted cash flows of the asset, then impairment exists. Indefinite-lived intangible assets are tested for impairment at least annually during the fourth quarter of each fiscal year or more frequently if events or triggering events indicate that the asset might be impaired.

An impairment loss is measured as the excess of the asset's carrying value over its fair value, which in most cases is calculated using a discounted cash flow model. Discounted cash flow models are highly reliant on various assumptions which are considered Level 3 inputs, including estimates of future cash flows (including long-term growth rates), discount rates and the probability of achieving the estimated cash flows.

Segment Information

The Company operates in one reportable segment, generic pharmaceuticals. As such, the Company aggregates its financial information for all products. The following table identifies the Company’s net sales by medical indication for fiscal years ended June 30, 2022, 2021 and 2020.

(In thousands) Medical Indication	Fiscal Year Ended June 30,		
	2022	2021	2020
Analgesic	\$ 15,737	\$ 14,684	\$ 8,680
Anti-Psychosis	11,790	43,720	104,934
Cardiovascular	45,376	65,987	88,576
Central Nervous System	78,325	95,115	77,256
Endocrinology	27,491	27,070	—
Gastrointestinal	51,026	67,540	73,477
Infectious Disease	28,009	67,761	73,237
Migraine	16,321	25,554	44,266
Respiratory/Allergy/Cough/Cold	8,961	9,258	11,576
Urinary	4,588	5,786	4,225
Other	41,285	35,312	35,013
Contract manufacturing revenue	11,670	20,991	24,504
Total net sales	<u>\$ 340,579</u>	<u>\$ 478,778</u>	<u>\$ 545,744</u>

Customer, Supplier and Product Concentration

The following table presents the percentage of total net sales, for the fiscal years ended June 30, 2022, 2021 and 2020, for certain of the Company’s products, defined as products containing the same active ingredient or combination of ingredients, which accounted for at least 10% of total net sales in any of those periods:

	June 30, 2022	June 30, 2021	June 30, 2020
Product 1	6 %	12 %	10 %
Product 2	1 %	7 %	18 %

The following table presents the percentage of total net sales, for the fiscal years ended June 30, 2022, 2021 and 2020, for certain of the Company’s customers which accounted for at least 10% of total net sales in any of those periods:

	June 30, 2022	June 30, 2021	June 30, 2020
Customer A	24 %	27 %	25 %
Customer B	19 %	21 %	23 %
Customer C	14 %	12 %	11 %

Revenue Recognition

Under Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, the Company recognizes revenue when (or as) we satisfy our performance obligations by transferring a promised good or service to a customer at an amount that reflects the consideration the Company is expected to be entitled. Our revenue consists almost entirely of sales of our pharmaceutical products to customers, whereby we ship product to a customer pursuant to a purchase order. Revenue contracts such as these do not generally give rise to contract assets or contract liabilities because: (i) the underlying contracts generally have only a single performance obligation and (ii) we do not generally receive consideration until the performance obligation is fully satisfied. Under ASC 606, *Revenue from Contracts with Customers*, the Company recognizes certain contract manufacturing arrangements “over time.”

When revenue is recognized, a simultaneous adjustment to gross sales is made for estimated chargebacks, rebates, returns, promotional adjustments and other potential adjustments. These provisions are primarily estimated based on historical experience, future expectations, contractual arrangements with wholesalers and indirect customers and other factors known to management at the time of accrual. Accruals for provisions are presented in the Consolidated Financial Statements as a reduction to gross sales with the corresponding reserve presented as a reduction of accounts receivable or included as rebates payable, depending on the nature of the reserve.

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

Chargebacks

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

Rebates

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

Returns

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

Other Adjustments

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

Leases

Under ASC Topic 842, *Leases*, when the Company enters into a new arrangement, it must determine, at the inception date, whether the arrangement is or contains a lease. This determination generally depends on whether the arrangement conveys to the Company the right to control the use of an explicitly or implicitly identified asset for a period of time in exchange for consideration. Control of an underlying asset is conveyed to the Company if the Company obtains the rights to direct the use of and to obtain substantially all of the economic benefits from using the underlying asset. Once a lease has been identified, the Company must determine the lease term, the present value of lease payments and the classification of the lease as either operating or financing.

The lease term is determined to be the non-cancelable period including any lessee renewal options which are considered to be reasonably certain of exercise. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The present value of lease payments includes fixed and certain variable payments, less lease incentives, together with amounts probable of being owed by the Company under residual value guarantees and, if reasonably certain of being paid, the cost of certain renewal options and early termination penalties set forth in the lease arrangement. To calculate the present value of lease payments, we use our incremental borrowing rate based on the information available at commencement date, as the rate implicit in the lease is generally not readily available.

In making the determination of whether a lease is an operating lease or a finance lease, the Company considers the lease term in relation to the economic life of the leased asset, the present value of lease payments in relation to the fair value of the leased asset and certain other factors.

Upon the commencement of the lease, the Company will record a lease liability and right-of-use ("ROU") asset based on the present value of the future minimum lease payments over the lease term at commencement date. The ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred.

For operating leases, a single lease cost is generally recognized in the Consolidated Statements of Operations on a straight-line basis over the lease term unless an impairment has been recorded with respect to a leased asset. For finance leases, amortization expense and interest expense are recognized separately in the Consolidated Statements of Operations, with amortization expense generally recorded on a straight-line basis and interest expense recorded using the effective interest method. Variable lease costs not initially included in the lease liability and ROU asset impairment charges are expensed as incurred.

Cost of Sales, including Amortization of Intangibles

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

Research and Development

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

Contingencies

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

Restructuring Costs

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

Share-Based Compensation

Share-based compensation costs are recognized over the requisite service period, typically the vesting period, using a straight-line method, based on the fair value of the instrument on the date of grant less an estimate for expected forfeitures. The Company uses the Black-Scholes valuation model to determine the fair value of stock options, the stock price on the grant date to value restricted stock and the Monte-Carlo simulation model to determine the fair value of performance-based shares. The Black-Scholes valuation and Monte-Carlo simulation models include various assumptions, including the expected volatility, the expected life of the award, dividend yield and the risk-free interest rate as well as performance assumptions of peer companies. These assumptions involve inherent uncertainties based on market conditions which are generally outside the Company's control. Changes in these assumptions could have a material impact on share-based compensation costs recognized in the Consolidated Financial Statements.

Self-Insurance

The Company self-insures for certain employee medical and prescription benefits. The Company also maintains stop loss coverage with third party insurers to limit its total liability exposure. The liability for self-insured risks is primarily calculated using independent third-party actuarial valuations which take into account actual claims, claims growth and claims incurred but not yet reported. Actual experience, including claim frequency and severity as well as health-care inflation, could result in different liabilities than the amounts currently recorded. The liability for self-insured risks under this plan was \$0.5 million and \$0.8 million as of June 30, 2022 and 2021, respectively, and is recorded in the accrued payroll and payroll-related expenses caption in the Consolidated Balance Sheets.

Income Taxes

The Company uses the liability method to account for income taxes as prescribed by ASC 740, *Income Taxes*. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. Deferred tax expense (benefit) is the result of changes in deferred tax assets and liabilities. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates in the period during which they are signed into law. The Company evaluates the need for a valuation allowance each reporting period weighing all positive and negative evidence. The factors used to assess the likelihood of realization include, but are not limited to, the Company's forecast of future taxable income, historical results of operations, statutory expirations and available tax planning strategies and actions that could be implemented to realize the net deferred tax assets. Under ASC 740, *Income Taxes*, a valuation allowance is required when it is more likely than not that all or some portion of the deferred tax assets will not be realized.

The Company may recognize the tax benefit from an uncertain tax position claimed on a tax return only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The authoritative accounting standards also provide guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

Earnings (Loss) Per Common Share

The presentation of basic and diluted earnings (loss) per common share is required on the face of the Company's Consolidated Statements of Operations as well as a reconciliation of the computation of basic earnings (loss) per common share to diluted earnings (loss) per common share. In accordance with ASC 260, *Earnings per share*, the Company computes earnings (loss) per share using the two-class method, which requires an allocation of earnings between the holders of common stock and the Company's participating security holders. The warrants issued in connection with the Second Lien Secured Loan Facility (the "Warrants") are considered participating securities, as discussed further in Note 12 "Warrants." Basic earnings (loss) per share is calculated by dividing net income (loss) available to common stockholders, which excludes the income allocated to participating security holders, by the basic weighted average common shares outstanding.

For purposes of determining diluted earnings per share, the Company further adjusts the basic earnings per share to include the effect of potentially dilutive shares outstanding, including options and restricted stock awards, the Convertible Notes, and the Warrants. In this calculation, the Company reallocates net income based on the rights of each potentially dilutive share and will report the most dilutive earnings (loss) per share. The weighted average number of diluted shares is adjusted for the potential dilutive effect of the exercise of stock options, treats unvested restricted stock and performance-based shares as if it were vested, and assumes the conversion of the 4.50% Convertible Senior Notes. The Company uses the “if-converted” method to compute earnings (loss) per share when assuming the conversion of the Convertible Notes, which is calculated by dividing the adjusted “if-converted” net income by the adjusted weighted average number of shares of common stock outstanding during the period. The adjusted “if-converted” net income is adjusted for interest expense and amortization of debt issuance costs, both net of tax, associated with the Convertible Notes. Because the Warrants do not participate in losses, the Company will allocate undistributed earnings when calculating basic and diluted earnings per share in periods of net income only. Anti-dilutive securities are excluded from the calculation. Dilutive shares are also excluded in the calculation in periods of net loss because the effect of including such securities would be anti-dilutive.

Comprehensive Income (Loss)

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

Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt - Debt with Conversion and Other Options and Derivatives and Hedging - Contracts in Entity’s Own Equity*, with changes to modify and simplify the application of U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, with early adoption permitted. The ASU requires adoption using either the retrospective basis or the modified retrospective basis. The Company is currently evaluating the impact of ASU 2020-06, but does not currently expect it to have a material impact on its Consolidated Financial Statements.

Note 3. Restructuring Charges

2021 Restructuring Plan

On November 1, 2021, the Board of Directors authorized a restructuring and cost savings plan (the “2021 Restructuring Plan”) to further optimize its operations, improve efficiencies and reduce costs. Under the 2021 Restructuring Plan, the Company is consolidating its manufacturing footprint by transferring certain liquid drug production from its Silarx facility in Carmel, New York to the Company’s main plant in Seymour, Indiana. On March 31, 2022, the Company closed on the sale of the Silarx facility, which included equipment within the facility, certain ANDAs and other assets, to Chartwell Pharmaceuticals, LLC (“Chartwell”) and its subsidiaries for total consideration of \$10.5 million. In connection with the sale, Chartwell is producing on behalf of the Company certain products at the Carmel facility for a period of up to 18 months while the Company completes the transfer of such products to its Seymour, Indiana plant. During the transition, the Company will scale back or phase out some small low-margin over-the-counter medicines from Carmel and continue to assess its portfolio, which may include introducing or discontinuing additional products.

In addition, the Company has scaled back two low-margin prescription products manufactured by Kremers Urban Pharmaceuticals, Inc. (“KUPI”) at its Seymour, Indiana facility as part of the restructuring program. The Company also scaled back its research and development operations in Philadelphia, PA and eliminated certain administrative positions that primarily supported those operations as well as the Silarx operations.

The actions contemplated under the 2021 Restructuring Plan are substantially complete as of June 30, 2022. The transfer of certain products from the Carmel facility to the Company's main plant in Seymour, Indiana is in process and expected to continue into Fiscal 2023. The plan is expected to generate annual cost savings of approximately \$20 million.

In connection with the sale of the Silarx facility, Chartwell has retained a majority of the employees at the facility. The Company has completed its reduction in headcount for the 2021 Restructuring Plan, which was approximately 140 positions and included the employees retained by Chartwell. The Company estimates that it will incur approximately \$3.5 million to \$4.5 million of total costs to implement the 2021 Restructuring Plan, comprised primarily of approximately \$2.5 million of severance and employee-related costs and approximately \$1.0 million to \$2.0 million of tech transfer costs. The Company also expects to incur approximately \$2.0 million to \$3.0 million in capital expenditures to build out the liquid manufacturing business at the Seymour, Indiana facility.

A reconciliation of the charges in restructuring liabilities associated with the 2021 Restructuring Plan from June 30, 2021 through June 30, 2022 is set forth in the following table:

(In thousands)	Employee Separation Costs	Tech Transfer Costs	Total
Balance at June 30, 2021	\$ —	\$ —	\$ —
Restructuring charges	2,529	248	2,777
Payments	(2,039)	(248)	(2,287)
Balance at June 30, 2022	<u>\$ 490</u>	<u>—</u>	<u>\$ 490</u>

Note 4. Accounts Receivable

Accounts receivable consisted of the following components at June 30, 2022 and 2021:

(In thousands)	June 30, 2022	June 30, 2021
Gross accounts receivable	\$ 199,242	\$ 239,271
Less: Chargebacks reserve	(54,501)	(69,564)
Less: Rebates reserve	(26,921)	(16,272)
Less: Returns reserve	(46,478)	(38,395)
Less: Other deductions	(14,117)	(15,505)
Less: Allowance for doubtful accounts	(984)	(701)
Accounts receivable, net	<u>\$ 56,241</u>	<u>\$ 98,834</u>

For the fiscal year ended June 30, 2022, the Company recorded a provision for chargebacks, rebates, returns and other deductions of \$437.7 million, \$98.4 million, \$33.3 million and \$45.2 million, respectively. For the fiscal year ended June 30, 2021, the Company recorded a provision for chargebacks, rebates, returns and other deductions of \$650.3 million, \$133.9 million, \$20.3 million and \$68.2 million, respectively. For the fiscal year ended June 30, 2020, the Company recorded a provision for chargebacks, rebates, returns and other deductions of \$761.8 million, \$223.9 million, \$16.9 million and \$88.5 million, respectively.

[Table of Contents](#)

The following table identifies the activity and ending balances of each major category of revenue-related reserve for fiscal years 2022, 2021 and 2020:

Reserve Category (In thousands)	Chargebacks	Rebates	Returns	Other	Total
Balance at June 30, 2019	\$ 89,567	78,274	55,554	18,128	241,523
Current period provision	761,787	223,932	16,863	88,468	1,091,050
Credits issued during the period	(789,477)	(239,495)	(31,621)	(89,039)	(1,149,632)
Balance at June 30, 2020	61,877	62,711	40,796	17,557	182,941
Current period provision	650,317	133,898	20,280	68,177	872,672
Credits issued during the period	(642,630)	(161,312)	(22,681)	(70,229)	(896,852)
Balance at June 30, 2021	69,564	35,297	38,395	15,505	158,761
Current period provision	437,680	98,379	33,258	45,200	614,517
Credits issued during the period	(452,743)	(85,187)	(25,175)	(46,588)	(609,693)
Balance at June 30, 2022	\$ 54,501	\$ 48,489	\$ 46,478	\$ 14,117	\$ 163,585

For the fiscal years ended June 30, 2022, 2021 and 2020, as a percentage of gross sales the provision for chargebacks was 46.4%, 48.9% and 47.2%, respectively, the provision for rebates was 10.4%, 10.1% and 13.9%, respectively, the provision for returns was 3.5%, 1.5% and 1.0%, respectively and the provision for other adjustments was 4.8%, 5.1% and 5.5%, respectively.

Overall reserves increased primarily as a result of the timing of rebate payments as well as higher than average returns in recent periods for certain products in the endocrinology medical indication category. The increase was partially offset by lower net sales in the three months ended June 30, 2022 as compared to the three months ended June 30, 2021.

Note 5. Inventories

Inventories at June 30, 2022 and 2021 consisted of the following:

(In thousands)	June 30, 2022	June 30, 2021
Raw Materials	\$ 39,297	\$ 45,370
Work-in-process	9,313	12,685
Finished Goods	46,548	51,490
Total	\$ 95,158	\$ 109,545

During the fiscal years ended June 30, 2022, 2021 and 2020, the Company recorded write-downs to net realizable value for excess and obsolete inventory of \$13.2 million, \$24.3 million and \$10.3 million, respectively. The significant increase in write-downs for excess and obsolete inventory in Fiscal 2021 compared to Fiscal 2020 was primarily related to the discontinuation of certain product lines during that fiscal year.

Note 6. Property, Plant and Equipment

Property, plant and equipment at June 30, 2022 and 2021 consisted of the following:

(In thousands)	Useful Lives	June 30, 2022	June 30, 2021
Land	—	\$ 533	\$ 1,783
Building and improvements	10 - 39 years	93,701	103,082
Machinery and equipment	5 - 10 years	158,854	166,617
Furniture and fixtures	5 - 7 years	3,367	3,399
Less accumulated depreciation		(136,433)	(123,294)
		120,022	151,587
Construction in progress		13,156	15,087
Property, plant and equipment, net		<u>\$ 133,178</u>	<u>\$ 166,674</u>

As a result of the 2021 Restructuring Plan, the Company performed a fair value analysis of the Silarx facility and certain equipment at the facility, which resulted in an \$8.4 million impairment charge in the second quarter of Fiscal 2022. The Company subsequently completed the sale of the Silarx facility in the third quarter of Fiscal 2022.

Depreciation expense for the fiscal years ended June 30, 2022, 2021 and 2020 was \$21.3 million, \$22.9 million and \$24.3 million, respectively.

Property, plant and equipment, net included amounts held in foreign countries in the amount of \$0.7 million at June 30, 2022 and \$0.6 million at June 30, 2021.

Note 7. Fair Value Measurements

The Company's financial instruments recorded in the Consolidated Balance Sheets include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and debt obligations. The Company's cash and cash equivalents include bank deposits and money market funds. The carrying value of certain financial instruments, primarily cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate their estimated fair values based upon the short-term nature of their maturity dates.

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

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

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

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

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

Financial Instruments Disclosed, But Not Reported, at Fair Value

We estimate the fair value of 7.750% senior secured notes due 2026 (the “Notes”) and the Convertible Notes using market quotations for debt that have quoted prices in active markets (Level 1). Since our Second Lien Facility does not trade on a daily basis in an active market, the fair value estimate is based on market observable inputs based on borrowing rates currently available for debt with similar terms and average maturities (Level 2). The estimated fair value of the Notes was approximately \$140 million and \$347 million as of June 30, 2022 and 2021, respectively. The estimated fair value of the Second Lien Facility was approximately \$76 million and \$189 million as of June 30, 2022 and 2021, respectively. The decline in the fair value of the Notes and Second Lien Facility is primarily a reflection of the increased competitive pressures on the Company’s recent financial performance, which, in part, resulted in a downgrade to the Company’s credit rating. The estimated fair value of our 4.50% Convertible Senior Notes was approximately \$25 million and \$53 million as of June 30, 2022 and 2021, respectively. The fair value as of June 30, 2022 was lower than the carrying value primarily due to the Company’s stock price of \$0.58 at June 30, 2022 as compared to the \$15.29 conversion price.

Note 8. Intangible Assets

Intangible assets, net as of June 30, 2022 and June 30, 2021, consisted of the following:

(In thousands)	Weighted Avg. Life (Yrs.)	Gross Carrying Amount		Accumulated Amortization		Intangible Assets, Net	
		June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Definite-lived:							
KUPI product rights	—	\$ —	\$ 83,955	\$ —	\$ (4,198)	\$ —	\$ 79,757
KUPI trade name	2	2,920	2,920	(2,920)	(2,920)	—	—
KUPI other intangible assets	15	19,000	19,000	(8,362)	(7,095)	10,638	11,905
Silarx product rights	15	20,000	20,000	(6,222)	(4,889)	13,778	15,111
Other product rights	7	16,242	35,918	(8,479)	(8,856)	7,763	27,062
Total definite- lived		<u>\$ 58,162</u>	<u>\$ 161,793</u>	<u>\$ (25,983)</u>	<u>\$ (27,958)</u>	<u>\$ 32,179</u>	<u>\$ 133,835</u>
Indefinite-lived:							
KUPI in-process research and development	—	\$ —	\$ 4,000	\$ —	\$ —	\$ —	\$ 4,000
Total indefinite- lived		<u>—</u>	<u>4,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,000</u>
Total intangible assets, net		<u>\$ 58,162</u>	<u>\$ 165,793</u>	<u>\$ (25,983)</u>	<u>\$ (27,958)</u>	<u>\$ 32,179</u>	<u>\$ 137,835</u>

For the fiscal years ended June 30, 2022, 2021 and 2020, the Company recorded amortization expense of \$12.9 million, \$24.9 million and \$32.0 million, respectively.

In November 2021, the Company announced the 2021 Restructuring Plan, which includes the phase out of two low-margin prescription products at its KUPI facility in Seymour, Indiana. The Company determined that the decision to discontinue these products along with continued competitive pressures in the market represent a “triggering event” and, therefore, performed an analysis to determine the potential impairment of certain long-lived assets, including its intangible assets. Based on the analysis, the Company recorded an impairment charge of \$40.6 million related to the KUPI product rights intangible assets during the second quarter of Fiscal 2022. The impairment charge is primarily a result of the decline in net sales and gross margin of certain product lines acquired in connection with the KUPI acquisition.

In the fourth quarter of Fiscal 2022, the Company reviewed recent market trends and, consequently, anticipates additional competitive pressures on various key products within its intangible asset portfolio. Accordingly, the Company adjusted its expectations downward for these products, which represented a triggering event for several of its intangible assets. Prior to performing the impairment analysis, the Company reclassified \$4.0 million of KUPI IPR&D assets into KUPI product rights as a result of the FDA approval of the drug application and expected commercialization of the product in Fiscal 2023. As a result of the impairment analysis, the Company recorded a full impairment of its KUPI product rights portfolio, totaling \$39.1 million. In addition, the Company recorded impairment charges totaling \$16.1 million related to the other product rights category of definite-lived intangible assets, which included the intangible assets associated with the distribution and supply agreement with Cediprof, Inc., the products acquired in Fiscal 2018 from a subsidiary of Endo International plc, the distribution and supply agreement with Sinotherapeutics, Inc., the license agreement with Andor Pharmaceuticals, LLC, and one of the products acquired in Fiscal 2018 from UCB.

Future annual amortization expense consists of the following:

(In thousands)	Amortization
Fiscal Year Ending June 30,	Expense
2023	\$ 4,455
2024	4,160
2025	3,966
2026	3,706
2027	3,560
Thereafter	12,332
	<u>\$ 32,179</u>

Note 9. Long-Term Debt

Long-term debt, net consisted of the following:

(In thousands)	June 30,	June 30,
	2022	2021
7.75% Senior Secured Notes due 2026	\$ 350,000	\$ 350,000
Unamortized discount and other debt issuance costs	(4,599)	(5,594)
7.75% Senior Secured Notes due 2026, net	<u>345,401</u>	<u>344,406</u>
Second Lien Secured Loan Facility due 2026 (\$190.0M Principal, \$5.7M Exit Fee, and \$22.0M and \$3.6M accrued PIK interest at June 30, 2022 and June 30, 2021 respectively)	217,721	199,342
Unamortized discount and other debt issuance costs	(32,308)	(36,701)
Second Lien Secured Loan Facility due 2026, net	<u>185,413</u>	<u>162,641</u>
4.50% Convertible Senior Notes due 2026	86,250	86,250
Unamortized discount and other debt issuance costs	(2,116)	(2,614)
4.50% Convertible Senior Notes, net	<u>84,134</u>	<u>83,636</u>
\$45.0 million Amended ABL Credit Facility	—	—
Total long-term debt, net	<u>\$ 614,948</u>	<u>\$ 590,683</u>

The weighted average interest rate was 9.0% for Fiscal 2022 and 8.0% for Fiscal 2021.

On April 22, 2021, the Company issued \$350.0 million aggregate principal amount of the Notes in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”) and outside the United States to persons other than U.S. persons in reliance upon Regulation S under the Securities Act. The Notes bear interest semi-annually in arrears on April 15 and October 15 of each year, beginning on October 15, 2021, at a rate of 7.750% per annum in cash. The Notes will mature on April 15, 2026, unless earlier redeemed or repurchased in accordance with their terms.

On April 5, 2021, the Company entered into an Exchange Agreement with certain participating lenders to exchange a portion of their existing Term B Loans for Second Lien Loans pursuant to a new \$190.0 million Second Lien Facility. On April 22, 2021, in connection with the issuance of the Notes and the entrance into the Amended ABL Credit Facility, which is discussed further below, the exchange between the Company and the participating lenders was consummated. From the Closing Date until the one-year anniversary of the Closing Date, the Second Lien Loans bear 10.0% PIK interest. Thereafter, the Second Lien notes will bear 5.0% cash interest and 5.0% PIK interest until maturity, except to the extent the Company elects to pay all or portion of the PIK interest in cash. To date, the Company has not paid any PIK interest in cash. The Second Lien Loans will mature on July 21, 2026. In connection with the Second Lien Facility, the Company issued to the Participating Lenders Warrants to purchase up to 8,280,000 shares of common stock of the Company at an exercise price of \$6.88 per share. Refer to Note 12 “Warrants” for further information on the Warrants issued.

In connection with the Second Lien Facility, the Company is required to maintain at least \$5.0 million in a deposit account at all times subject to control by the Second Lien Collateral Agent, and a minimum cash balance of \$15.0 million as of the last day of each month. At June 30, 2022, the Company classified the \$5.0 million required deposit account balance as restricted cash, which is included in other assets caption in the Consolidated Balance Sheet.

In addition to the Notes Offering and the Second Lien Facility, on April 22, 2021, the Company entered into an amendment to that certain Credit and Guaranty Agreement, dated as of December 7, 2020 (such agreement as so amended, the “Amended ABL Credit Agreement”), among the Company, certain of its wholly-owned domestic subsidiaries party thereto, as borrowers or as guarantors, Wells Fargo Bank, National Association, as administrative agent and as collateral agent and the other lenders party thereto, for the purpose of, among other things, increasing the aggregate amount of the revolving credit facility from \$30.0 million to \$45.0 million and extending the maturity thereof to the fifth anniversary of the closing date of Notes Offering (subject to a springing maturity as set forth therein).

The Amended ABL Credit Agreement provides for a revolving credit facility (the “Amended ABL Credit Facility”) that includes letter of credit and swing line sub-facilities. Borrowing availability under the Amended ABL Credit Facility is determined by a monthly borrowing base collateral calculation that is based on specified percentages of eligible accounts receivable less certain reserves and subject to certain other adjustments as set forth in the Amended ABL Credit Agreement. Availability is reduced by issuance of letters of credit as well as any borrowings. Loans outstanding under the Amended ABL Credit Agreement bear interest at a floating rate measured by reference to, at the Company’s option, either an adjusted London Inter-Bank Offered Rate (“LIBOR”) (subject to a floor of 0.75%) plus an applicable margin of 2.50% per annum, or an alternate base rate plus an applicable margin of 1.50% per annum. Unused commitments under the Amended ABL Credit Facility are subject to a per annum fee of 0.50% per annum, which fee increases to 0.75% per annum for any quarter during which the company's average usage under the Amended ABL Credit Facility is less than \$5.0 million.

On September 27, 2019, the Company issued \$86.3 million aggregate principal amount of the Convertible Notes in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Convertible Notes are senior unsecured obligations of the Company and bear interest at an annual rate of 4.50% payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 1, 2020. The Convertible Notes will mature on October 1, 2026, unless earlier repurchased, redeemed or converted in accordance with their terms. The Convertible Notes are convertible into shares of the Company's common stock at an initial conversion rate of 65.4022 shares per \$1,000 principal amount of Convertible Notes (which is equivalent to an initial conversion price of approximately \$15.29 per share), subject to adjustments upon the occurrence of certain events (but will not be adjusted for any accrued and unpaid interest). The Company may redeem all or a part of the Convertible Notes on or after October 6, 2023 at a redemption price equal to 100% of the principal amount of the Convertible Notes redeemed, plus accrued and unpaid interest, if any, up to, but excluding, the redemption date, subject to certain conditions relating to the Company's stock price having been met. Following certain corporate events that occur prior to the maturity date or if the Company delivers a notice of redemption, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Convertible Notes in connection with such corporate event or notice of redemption. The indenture covering the Convertible Notes contains certain other customary terms and covenants, including that upon certain events of default occurring and continuing, either the trustee or holders of at least 25% in principal amount of the outstanding Convertible Notes may declare 100% of the principal of, and accrued and unpaid interest on, all the Convertible Notes to be due and payable. In addition, if the Company ceases to be listed or quoted on any of The NYSE, The Nasdaq Global Select Market or The Nasdaq Global Market (or any of their respective successors), holders of the outstanding Convertible Notes will have the option to require the Company to repurchase for cash all of such holder's notes at 100% of the principal amount, plus accrued and unpaid interest. See Note 1 "The Business and Nature of Operations" for additional information regarding the out-of-compliance notices received from the NYSE.

In connection with the offering of the Convertible Notes, the Company also entered into privately negotiated "capped call" transactions with several counterparties. The capped call transaction will initially cover, subject to customary anti-dilution adjustments, the number of shares of common stock that initially underlie the Convertible Notes. The capped call transactions are expected to generally reduce the potential dilutive effect on the Company's common stock upon any conversion of the Convertible Notes with such reduction subject to a cap which is initially \$19.46 per share.

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

<u>(In thousands)</u>	<u>Amounts Payable to Institutions</u>
2023	\$ —
2024	—
2025	—
2026	350,000
2027	303,971
Total	<u>\$ 653,971</u>

The long-term debt amounts due above include accrued PIK interest on the Second Lien Facility as of June 30, 2022. Beginning on April 22, 2022, which is the one-year anniversary of the closing date of the Second Lien Facility, the Company may now elect to pay in cash any interest previously required to be paid in the form of PIK interest. To date, the Company has not paid any PIK interest in cash.

The outstanding Notes, Second Lien Facility, and Amended ABL Credit Facility amounts above are guaranteed by all of Lannett's significant wholly-owned domestic subsidiaries and are collateralized by substantially all present and future assets of the Company.

Note 10. Legal, Regulatory Matters and Contingencies

Federal Investigation into the Generic Pharmaceutical Industry

In November and December 2014, the Company and certain affiliated individuals and customers were served with grand jury subpoenas relating to a federal investigation of the generic pharmaceutical industry into possible violations of the Sherman Act. The subpoenas requested corporate documents of the Company relating to corporate, financial and employee information, communications or correspondence with competitors regarding the sale of generic prescription medications and the marketing, sale, or pricing of certain products, generally for the period of 2005 through the dates of the subpoenas.

The Company received a Civil Investigative Demand (“CID”) from the Department of Justice on May 14, 2018. The CID requested information from 2009-present regarding allegations that the generic pharmaceutical industry engaged in market allocation, price fixing, payment of illegal remuneration and submission of false claims. The Company has responded to the CID.

Based on internal investigations performed to date, the Company believes that it has acted in compliance with all applicable laws and regulations.

Government Pricing

On May 22, 2019, following an audit conducted by the Company, the Department of Veterans Affairs issued a Contracting Officer’s Final Decision and Demand for Payment, assessing the sum of \$9.4 million for overpayments by the Veteran’s Administration (“VA”) as a result of certain commercial customer prices that were not properly disclosed to the VA for the period of January 1, 2012 through June 30, 2016. In August 2019, the Company remitted payment to the VA and was indemnified from UCB for the portion of that related to the period prior to the acquisition of KUPI (January 1, 2012 to November 24, 2015) totaling \$8.1 million. The VA requested additional information for the period of July 1, 2016 through March 2018. The Company is in the process of responding to the information request.

State Attorneys General and Private Plaintiffs Antitrust and Consumer Protection Litigation

In December 2016, the Connecticut Attorney General and various other State Attorneys General filed a civil complaint alleging that six pharmaceutical companies engaged in anti-competitive behavior. The Company was not named in the action and does not compete on the products that formed the basis of the complaint. The complaint was later transferred for pretrial purposes to the United States District Court for the Eastern District of Pennsylvania as part of a multidistrict litigation captioned In re: Generic Pharmaceuticals Pricing Antitrust Litigation (the “MDL”). On October 31, 2017, the State Attorneys General filed a motion for leave to amend their complaint to add numerous additional defendants, including the Company, and claims relating to 13 additional drugs. The District Court granted that motion on June 5, 2018. The State Attorneys General filed their amended complaint on June 18, 2018. The claim relating to Lannett involves alleged price-fixing for one drug, doxycycline monohydrate, but does not involve the pricing for digoxin. The State Attorneys General also allege that all defendants were part of an overarching, industry-wide conspiracy to allocate markets and fix prices generally. On August 15, 2019, the Court denied the defendants’ joint motion to dismiss the overarching conspiracy claims but has yet to decide an individual motion filed by the Company to dismiss the overarching conspiracy claims as to it. On June 7, 2022, the Court granted a joint motion of all defendants to dismiss the federal claim of the State Attorneys General for disgorgement of defendants’ allegedly ill-gotten gains, but denied defendants’ motion to dismiss their *parens patriae* federal claims for injunctive relief due to lack of standing.

On May 10, 2019, the State Attorneys General filed a new lawsuit naming the Company and one of its employees as defendants, along with 33 other companies and individuals. The complaint again alleges an overarching conspiracy and contains claims for price-fixing and market allocation under the Sherman Act and related state laws. The complaint focuses on the conduct of another generic pharmaceutical company, and the relationships that company had with other generic companies and their employees. The specific allegations in this complaint against Lannett relate to the Company's sales of baclofen and levothyroxine. The complaint also names another current employee as a defendant, but the allegations pertain to conduct that occurred prior to their employment by Lannett. In June 2020, the State Attorneys General filed a third overarching conspiracy complaint involving scores of different drugs used primarily to treat dermatological conditions, including alleged price-fixing by the Company for acetazolamide. Both complaints have been added to the MDL.

In 2016 and 2017, the Company and certain competitors were named as defendants in a number of lawsuits filed by private plaintiffs alleging that the Company and certain generic pharmaceutical manufacturers have conspired to fix prices of generic digoxin, levothyroxine, ursodiol and baclofen. These cases are part of a larger group of more than 100 lawsuits generally alleging that over 30 generic pharmaceutical manufacturers and distributors conspired to fix prices for multiple different generic drugs in violation of the federal Sherman Act, various state antitrust laws, and various state consumer protection statutes. The United States also has been granted leave to intervene in the cases. On April 6, 2017, these cases were added to the MDL. The various plaintiffs are grouped into three categories - Direct Purchaser Plaintiffs, End Payer Plaintiffs, and Indirect Reseller Purchasers - and filed Consolidated Amended Complaints ("CACs") against the Company and the other defendants in August 2017.

The CACs naming the Company as a defendant involve generic digoxin, levothyroxine, ursodiol and baclofen. Pursuant to a court-ordered schedule grouping the 18 different drug cases into three separate tranches, the Company and other generic pharmaceutical manufacturer defendants in October 2017 filed joint and individual motions to dismiss the CACs involving the six drugs in the first tranche, including digoxin. In October 2018, the Court (with one exception) denied defendants' motions to dismiss plaintiffs' Sherman Act claims with respect to the drugs in the first tranche. In March 2019, the Company and other defendants filed answers to the Sherman Act claims. In addition, in February 2019, the Court dismissed certain of the plaintiffs' state law claims but denied the remainder of defendants' motions to dismiss and set a deadline of April 1, 2019 for certain plaintiffs to amend their existing complaints. Those plaintiffs amended their complaints, but further motions to dismiss the state-law claims remain pending.

Following the lead of the state Attorneys General, the Direct Purchaser Plaintiffs, End Payer Plaintiffs and Indirect Reseller Plaintiffs filed their own complaints in June 2018 alleging an overarching conspiracy relating to 14 generic drugs in the End Payer complaint and 15 generic drugs in the Indirect Reseller complaint. Although the complaints allege an overarching conspiracy with respect to all of the drugs identified, the specific allegations related to drugs the Company manufactures involve acetazolamide and doxycycline monohydrate.

In addition, between December 2019 and February 2020, the End Payer Plaintiffs, Indirect Reseller Purchasers, and Direct Purchaser Plaintiffs filed separate complaints alleging overarching, industry-wide price-fixing conspiracies modeled on the second one filed by the state Attorneys General. The new complaint involves 135 new drugs in addition to those named in previous complaints. As to the Company, the new drugs involved are pilocarpine HCL, triamterene HCTZ capsules, amantadine HCL, and oxycodone HCL. None of the defendants, including the Company, has responded yet to these new complaints.

Between January 2018 and December 2020, a number of opt-out parties filed individual complaints or otherwise commenced actions against the Company and dozens of other companies and individuals alleging an overarching conspiracy and individual conspiracies to fix the prices and allocate markets on scores of different drug products, including digoxin, doxycycline, levothyroxine, ursodiol and baclofen. The opt-out parties include various retailers, insurers and county governments, which have filed federal suits in Pennsylvania, New York, California, Minnesota and Texas. All of those complaints have been added to the MDL but none of the defendants, including the Company, has responded to any of the complaints. Other groups of insurers have commenced actions in Pennsylvania state court against the Company and other drug companies by filing writs of summons, which are not complaints but can serve to toll the running of statutes of limitations. Those state-court cases have not been added to the MDL, although the parties have agreed to stay those cases pending further developments in the MDL.

In June 2020, the Company and a number of other generic pharmaceutical manufacturers were named as defendants in a Statement of Claim in a proposed class proceeding in federal court in Toronto, Ontario, Canada. The case alleges a violation of Canada's Competition Act. The allegations are similar to those in the MDL alleging an overarching, industry-wide conspiracy to allocate markets and fix the price of generic drugs. That alleged conspiracy reached Canada because these same manufacturers also allegedly sell the majority of generic drugs in Canada. The Statement of Claim alleges that the conspiracy extends to the entire generic pharmaceutical market. The specific drugs identified with respect to the Company are: acetazolamide, baclofen, digoxin, doxycycline monohydrate, levothyroxine, and ursodiol. The Company has not yet responded to the Statement of Claim.

On July 13, 2020, the District Court overseeing the MDL selected as "bellwether" cases the second overarching conspiracy case filed by the state Attorneys General in May 2019 as well as individual-conspiracy cases filed by the Direct Purchaser Plaintiffs, End Payer Plaintiffs, and Indirect Reseller Purchasers involving the drugs clobetasol, clomipramine and pravastatin. The Company is a defendant only in the overarching conspiracy case. On February 9, 2021, the District Court vacated the order selecting the bellwether cases. Thereafter, the District Court re-designated the clobetasol and clomipramine cases as individual-conspiracy bellwethers, and on May 7, 2021, selected the third complaint filed by the state Attorneys General in June 2020 as the new overarching conspiracy bellwether case. On September 9, 2021, the state Attorneys General amended their bellwether complaint. To date, none of the bellwether cases have been scheduled for trial.

The Company believes that it acted in compliance with all applicable laws and regulations. Accordingly, the Company disputes the allegations set forth in these class actions and plans to vigorously defend itself against these claims.

Shareholder Litigation

In November 2016, a putative class action lawsuit was filed against the Company and two of its former officers in the federal district court for the Eastern District of Pennsylvania, alleging that the Company and two of its former officers damaged the purported class by making false and misleading statements regarding the Company's drug pricing methodologies and internal controls. In December 2017, counsel for the putative class filed a second amended complaint. The Company filed a motion to dismiss the second amended complaint in February 2018. In July 2018, the court granted the Company's motion to dismiss the second amended complaint. In September 2018, counsel for the putative class filed a third amended complaint alleging that the Company and two of its former officers made false and misleading statements regarding the impact of competition on prices and sales of certain of the Company's products, regarding the potential effects on the Company of regulatory investigations and antitrust litigation, and regarding the defendants' investigation of purported anticompetitive conduct. The Company filed a motion to dismiss the third amended complaint in November 2018. In May 2019, the court denied the Company's motion to dismiss the third amended complaint. In July 2019, the Company filed an answer to the third amended complaint. In October 2020, counsel for the putative class filed a motion for class certification. In March 2021, the Company filed a brief in opposition to the motion to certify the putative class. In August 2021, the court granted the motion to certify the proposed class, to appoint class representatives, and to appoint class counsel. In August 2021, the Company filed a petition for permission to appeal the court's class certification order. In September 2021, counsel for the class filed a response in opposition to the Company's petition. In November 2021, the United States Court of Appeals for the Third Circuit granted the Company's petition for permission to appeal the class certification order. In January 2022, the Third Circuit granted the Company's motion to stay the case pending a decision on the interlocutory appeal. The Company believes it acted in compliance with all applicable laws and continues to vigorously defend itself from these claims. The Company cannot reasonably predict the outcome of the suit at this time.

Genus Life Sciences

In December 2018, Genus Lifesciences, Inc. (“Genus”) sued the Company, Cody Labs, and others in California federal court, alleging violations of the Lanham Act, Sherman Act, and California false advertising law. Genus received FDA approval for a cocaine hydrochloride product in December 2018, and its claims are premised in part on allegations that the Company falsely advertises its unapproved cocaine hydrochloride solution product. The Company denied that it is falsely advertising its cocaine hydrochloride solution product and continued to market its unapproved product relying on the Guidance for FDA Staff and Industry, Marketed Unapproved Drugs — Compliance Policy Guide, pending approval of its Section 505(b)(2) application (until August 15, 2019, when it agreed to a request by the FDA to cease marketing its unapproved product as a result of the approval of a competitor’s product). In January 2019, the Company filed a motion to dismiss the complaint. On May 3, 2019, the Court issued a written decision granting in part and denying in part the motion to dismiss. On June 6, 2019, Genus filed an Amended Complaint. On June 27, 2019, the Company filed a motion to dismiss the amended complaint. By Order dated September 3, 2019, the Court granted in part and denied in part the Company’s motion to dismiss. On November 20, 2019, Genus filed a second amended complaint. On December 17, 2019, the Company filed an answer to the second amended complaint. The Company believes it acted in compliance with all applicable laws and regulations and plans to vigorously defend itself from these claims. On August 16, 2021, the Company and Genus reached an agreement in principle to amicably resolve this case, along with three other cases involving the Company’s approved cocaine hydrochloride product. The parties memorialized the settlement in a series of settlement documents which were signed on October 15, 2021. The terms of the settlement are confidential and include, among other things, a non-exclusive patent license granted by Genus, which allows the Company to continue marketing its approved cocaine hydrochloride product, a payment of \$1.5 million by the Company and transfer by the Company of certain ANDAs and an NDA to Genus, and the stipulation that all cases shall be dismissed with prejudice. All cases against the Company have been dismissed with prejudice.

Sandoz, Inc.

On July 20, 2020, Sandoz, Inc. (“Sandoz”) filed a complaint in federal court in Philadelphia, alleging claims for tortious interference with contract, unfair competition and conversion of confidential information, arising out of Cediprof, Inc.’s (“Cediprof”) termination of Sandoz’s contract to distribute levothyroxine tablets in the United States and certain territories. Along with the complaint, Sandoz filed a motion for a temporary restraining order and preliminary injunction, seeking to enjoin the Company from commencing the distribution of levothyroxine tablets on August 3, 2020. On the same day, Sandoz filed a separate complaint and application for a temporary restraining order and preliminary injunction against Cediprof in federal court in New York, seeking to prevent Cediprof from selling its levothyroxine tablets in the United States and certain of its territories to anyone other than Sandoz. On July 27, 2020, the New York court held a hearing and denied Sandoz’s application for a temporary restraining order, ruling Sandoz had failed to establish irreparable harm. Sandoz subsequently dismissed the complaint and is proceeding against Cediprof in an Arbitration in New York, where the Company has agreed to indemnify Cediprof. On July 28, 2020, the Philadelphia court held a hearing and denied Sandoz’s application for a temporary restraining order, ruling that Sandoz had failed to establish irreparable harm and failed to establish that it is likely to succeed on the merits of its claim against Lannett. On October 5, 2020, the Company filed a motion to dismiss the complaint. On December 28, 2020, the Court granted in part and denied in part the motion, dismissing certain of the claims. The Company has filed a motion to stay the case pending the Arbitration of the Sandoz/Cediprof dispute. On January 11, 2021, the Company filed an answer and counterclaim to the complaint. Upon the conclusion of fact discovery, the Court entered an order on July 16, 2021 staying the remaining deadlines in the case pending the outcome of the Arbitration between Sandoz and Cediprof, which began on January 31, 2022. On August 5, 2022, the Arbitrator issued a final award, finding that Cediprof had breached the Sandoz contract and determining that Sandoz is entitled to lost profits, among other damages. The portion of the award subject to indemnification from the Company amounted to \$10.9 million, which the Company has accrued as of June 30, 2022. The Company’s indemnification obligation will only be triggered if and when Cediprof pays the award.

Ranitidine Oral Solution, USP

On June 1, 2020, a class action complaint was served upon the Company and approximately forty-five (45) other companies asserting claims for personal injury arising from the presence of NDMA in Ranitidine products. The complaint is consolidated in a multidistrict litigation (“MDL”) pending in the United States District Court for the Southern District of Florida. The Company filed a motion to dismiss the complaint filed in the MDL which was granted with leave to amend on December 31, 2020. The plaintiffs filed a First Amended complaint on February 9, 2021, to which the generic manufacturer defendants, including the Company, filed a renewed motion to dismiss all claims. On July 8, 2021, the Court issued an Order granting the motion and dismissing all claims with prejudice based on federal preemption. The Plaintiffs filed an appeal to the Eleventh Circuit Court of Appeals. The appeal is currently pending.

The Attorney General of New Mexico filed a complaint asserting claims regarding the presence of NDMA in Ranitidine products. The complaint was conditionally transferred to the MDL, but ultimately remanded back to the state court. The Company, along with other defendants filed a motion to dismiss on preemption grounds. The motion was denied on August 17, 2021. The Company with several other codefendants have filed (i) a motion for reconsideration of the denial on preemption grounds; and (ii) a motion to dismiss on personal jurisdiction grounds. The Company’s motions are pending and discovery is ongoing.

The Mayor of Baltimore filed a complaint asserting claims regarding the presence of NDMA in Ranitidine products. The complaint was conditionally transferred to the MDL, but ultimately remanded back to the state court. The Company filed a motion to dismiss on preemption grounds, which was granted on February 1, 2022. The Mayor of Baltimore is proceeding against other defendants. The Company is monitoring the litigation in the event of a final judgment or interlocutory appeal.

In 2021, two separate complaints were filed against the Company and others in Philadelphia Court of Common Pleas by parents on behalf of minor children regarding the presence of NDMA in Ranitidine. The Company filed preliminary objections to both of the complaints, seeking dismissal on the basis of preemption and pleading insufficiency grounds. The Philadelphia Court of Common Pleas denied the Company’s preliminary objections in the first filed case. The Company has since filed an answer and new matter. A case management order is currently pending. The Philadelphia Court of Common Pleas granted the Company’s preliminary objections in the second case and, thereafter, the plaintiff filed an amended complaint. The Company renewed its preliminary objections, which are pending. Motions to consolidate these complaints with other ranitidine cases in the same jurisdiction was filed and granted.

The Company has placed its insurance carrier on notice of the claims and the carrier has appointed counsel to defend the Company.

Other Litigation Matters

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

Note 11. Commitments

Leases

At June 30, 2022 and 2021, the Company has a ROU lease asset of \$9.6 million and \$10.6 million, respectively, and a ROU liability of \$12.1 million and \$13.1 million, respectively. The current balance of the ROU liability at June 30, 2022 and 2021 was \$2.1 million and \$2.0 million, respectively.

Components of lease costs are as follows:

(In thousands)	Fiscal Year Ended June 30,	
	2022	2021
Operating lease cost	\$ 1,822	\$ 1,754
Variable lease cost	190	133
Short-term lease cost (a)	335	448
Total	<u>\$ 2,347</u>	<u>\$ 2,335</u>

(a) Not recorded on the Consolidated Balance Sheet

Supplemental cash flow information and non-cash activity related to our operating leases are as follows:

(In thousands)	Fiscal Year Ended June 30,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,970	\$ 1,916
Non-cash activity:		
ROU assets obtained in exchange for new operating lease liabilities	\$ —	\$ 2,275

Weighted average remaining lease term and discount rate for our operating leases are as follows:

	Fiscal Year Ended June 30,	
	2022	2021
Weighted-average remaining lease term	9 years	10 years
Weighted-average discount rate	8.5 %	8.5 %

Maturities of lease liabilities by fiscal year for our operating leases are as follows:

(In thousands)	Amounts Due
2023	\$ 2,064
2024	2,083
2025	2,103
2026	2,124
2027	2,145
Thereafter	6,368
Total lease payments	16,887
Less: Imputed interest	4,829
Present value of lease liabilities	<u>\$ 12,058</u>

Other Commitments

In Fiscal 2020, the Company executed a License and Collaboration Agreement with North South Brother Pharmacy Investment Co., Ltd. and HEC Group PTY, Ltd. (collectively, “HEC”) to develop an insulin glargine product that would be biosimilar to Lantus Solostar. Under the terms of the deal, among other things, the Company shall fund up to the initial \$32.0 million of the development costs and split 50/50 any development costs in excess thereof. As of June 30, 2022, the Company has incurred approximately \$8.2 million of development costs towards the \$32.0 million commitment made by the Company. Lannett shall receive an exclusive license to distribute and market the product in the United States upon FDA approval under the 50/50 profit split for the first ten years following commercialization, followed by a 60/40 split in favor of HEC for the following five years. To date, the COVID-19 pandemic has not had a material impact on the development of the insulin glargine product. Although, as a result of stricter procedures required during the pandemic, there is expected to be a several month delay in completing our upcoming clinical trial. The timing of the product development and approval could be further delayed as the COVID-19 pandemic continues.

On February 8, 2021, the Company executed a License and Collaboration Agreement and a Supply Agreement with Sunshine Lake Pharma Co., Ltd. an HEC Group company (“Sunshine”) with respect to the development of a biosimilar insulin aspart product. Under the terms of the deal, among other things, the Company shall fund up to the initial \$32.0 million of the development costs, provided that if total development and other costs paid by Lannett are less than \$32.0 million then the difference will be paid to Sunshine over the first year of commercialization. As of June 30, 2022, the Company has incurred approximately \$1.0 million towards the \$32.0 million commitment made by the Company. The parties shall negotiate the sharing of any development costs in excess of \$32.0 million. Lannett shall receive an exclusive license to distribute and market the product in the United States upon FDA approval under the 50/50 profit split for the first ten years following commercialization, followed by a 60/40 split in favor of Sunshine for the following five years.

In conjunction with the HEC collaboration efforts to develop biosimilar insulin glargine and aspart, the Company also separately entered into two Customization and Supply agreements with Ypsomed AG (“Ypsomed”) in October 2020 and July 2021 to develop, manufacture and supply an injection device to be used with both insulin products. In April 2022, the Company executed an amendment to the Customization and Supply agreements to allow Ypsomed to expand their production capacity to meet the anticipated demand. Under the terms of the deal, the Company is required to pay 14 million Swiss Francs (“CHF”) to Ypsomed over various future milestone dates to fund the capacity expansion in exchange for a predetermined discount on future purchases of the injection device. In April 2022, The Company paid Ypsomed 4.0 million CHF, the equivalent of approximately \$4.3 million, which is recorded in the other assets caption of the Consolidated Balance Sheet as of June 30, 2022. The remaining 4.0 million and 6.0 million CHF payments are to be paid in installments in calendar years 2023 and 2024, respectively.

Note 12. Warrants

In connection with the Second Lien Facility, the Company issued to the Participating Lenders Warrants to purchase up to 8,280,000 shares of common stock of the Company at an exercise price of \$6.88 per share. The Warrants were issued on April 22, 2021 with an eight-year term. The Participating Lenders received registration rights with respect to the shares of common stock of the Company to be received upon exercise of the Warrants. The Company concluded that the Warrants were indexed to its own stock and, therefore, are classified as an equity instrument. In accordance with ASC 470, *Debt*, the Company allocated the proceeds of the Second Lien Facility issuance based on the relative fair value of the debt instrument and the Warrants separately at the time of issuance, which was determined using the Black-Scholes valuation model. The relative fair value allocated to the Warrants was \$24.4 million at the issuance date.

The holders of the Warrants are entitled to receive dividends or distributions of any kind made to the common stockholders to the same extent as if the holder had exercised the Warrant into common stock. Although the Company did not issue or declare dividends during the period, the Warrants are considered participating securities under ASC 260, *Earnings per share*, for purposes of calculating earnings (loss) per share under the two-class method. Refer to Note 13 “Loss Per Common Share” for further details of the two-class method and the Company’s calculation of earnings (loss) per share.

Note 13. Loss Per Common Share

A reconciliation of the Company's basic and diluted loss per common share was as follows:

(In thousands, except share and per share data)	For Fiscal Year Ended June 30,		
	2022	2021	2020
Numerator:			
Net loss	\$ (231,620)	\$ (363,475)	\$ (33,366)
Net income allocated to participating securities for the Warrants	—	—	—
Interest expenses applicable to the Convertible Notes, net of tax	—	—	—
Amortization of debt issuance costs applicable to the Convertible Notes, net of tax	—	—	—
Adjusted "if-converted" net loss	\$ (231,620)	\$ (363,475)	\$ (33,366)
Denominator:			
Basic weighted average common shares outstanding	40,350,522	39,391,589	38,592,618
Effect of potentially dilutive options and restricted stock awards	—	—	—
Effect of conversion of the Convertible Notes	—	—	—
Effect of participating securities for the Warrants	—	—	—
Diluted weighted average common shares outstanding	40,350,522	39,391,589	38,592,618
Loss per common share:			
Basic	\$ (5.74)	\$ (9.23)	\$ (0.86)
Diluted	\$ (5.74)	\$ (9.23)	\$ (0.86)

In accordance with ASC 260, *Earnings per share*, the Company computes earnings (loss) per share using the two-class method, which requires an allocation of earnings between the holders of common stock and the Company's participating security holders. Basic earnings (loss) per share is calculated by dividing net income (loss) available to common stockholders, which excludes the income allocated to participating security holders, by the basic weighted average common shares outstanding. For purposes of determining diluted earnings per share, the Company further adjusts the basic earnings per share to include the effect of potentially dilutive shares outstanding, including options and restricted stock awards, the Convertible Notes, and the Warrants. In this calculation, the Company reallocates net income based on the rights of each potentially dilutive share and will report the most dilutive earnings (loss) per share. Because the Warrants do not participate in losses, the Company will allocate undistributed earnings when calculating basic and diluted earnings per share in periods of net income only. The effect of the Warrants is excluded from the calculation of basic and diluted loss per share in the fiscal years ended June 30, 2022 and 2021.

The number of anti-dilutive shares that have been excluded in the computation of diluted earnings per share for the fiscal years ended June 30, 2022, 2021 and 2020 were 7.9 million, 8.0 million and 6.6 million, respectively. The effect of potentially dilutive shares was excluded from the calculation of diluted loss per share in the fiscal years ended June 30, 2022, 2021 and 2020 because the effect of including such securities would be anti-dilutive.

Note 14. Share-based Compensation

At June 30, 2022, the Company had two share-based employee compensation plans (the 2014 Long-Term Incentive Plan ("LTIP") and the 2021 LTIP). Together these plans authorized an aggregate total of 8.0 million shares to be issued. As of June 30, 2022, the plans have a total of 1.5 million shares available for future issuances.

Historically, the Company has issued share-based compensation awards with a vesting period ranging up to 3 years and a maximum contractual term of 10 years. As of June 30, 2022, there was \$8.3 million of total unrecognized compensation cost related to non-vested share-based compensation awards. That cost is expected to be recognized over a weighted average period of 1.6 years.

Stock Options

The Company measures share-based compensation costs for options using the Black-Scholes option pricing model. There were no stock options granted during the fiscal year ended June 30, 2022. The following table presents the weighted average assumptions used to estimate fair values of the stock options granted, the estimated annual forfeiture rates used to recognize the associated compensation expense and the weighted average fair value of the options granted during the fiscal years ended June 30:

	2021	2020
Risk-free interest rate	0.2 %	1.9 %
Expected volatility	82.5 %	73.7 %
Expected dividend yield	— %	— %
Forfeiture rate	— %	— %
Expected term	5.0 years	5.1 years
Weighted average fair value	\$ 3.86	\$ 4.00

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

A stock option summary as of June 30, 2022, 2021 and 2020 and changes during the years then ended, is presented below:

(In thousands, except for weighted average price and life data)	Awards	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (yrs.)
Outstanding at June 30, 2019	572	\$ 17.56	\$ 273	5.0
Granted	522	\$ 6.57		
Exercised	(56)	\$ 5.42	\$ 237	
Forfeited, expired or repurchased	(47)	\$ 24.73		
Outstanding at June 30, 2020	991	\$ 12.11	\$ 678	5.6
Granted	309	\$ 5.95		
Exercised	(37)	\$ 4.12	\$ 61	
Forfeited, expired or repurchased	(217)	\$ 17.17		
Outstanding at June 30, 2021	1,046	\$ 9.51	\$ 25	7.2
Exercised	(3)	\$ 3.55	\$ 2	
Forfeited, expired or repurchased	(108)	\$ 14.63		
Outstanding at June 30, 2022	935	\$ 8.94	\$ —	6.5
Vested and expected to vest at June 30, 2022	935	\$ 8.94	\$ —	6.5
Exercisable at June 30, 2022	530	\$ 10.98	\$ —	5.6

Restricted Stock

The Company measures restricted stock compensation costs based on the stock price at the grant date less an estimate for expected forfeitures. The annual forfeiture rate used to calculate compensation expense was 6.5% for fiscal years ended June 30, 2022, 2021 and 2020.

A summary of restricted stock awards as of June 30, 2022, 2021 and 2020 and changes during the fiscal years then ended, is presented below:

<u>(In thousands, except for weighted average price data)</u>	<u>Awards</u>	<u>Weighted Average Grant-date Fair Value</u>	<u>Aggregate Intrinsic Value</u>
Non-vested at June 30, 2019	1,288	\$ 11.63	
Granted	941	6.45	
Vested	(773)	10.54	\$ 6,401
Forfeited	(112)	10.75	
Non-vested at June 30, 2020	1,344	\$ 8.70	
Granted	901	5.74	
Vested	(805)	8.60	\$ 4,668
Forfeited	(90)	9.18	
Non-vested at June 30, 2021	1,350	\$ 6.75	
Granted	1,110	4.14	
Vested	(1,002)	5.97	\$ 3,789
Forfeited	(103)	5.54	
Non-vested at June 30, 2022	<u>1,355</u>	<u>\$ 5.28</u>	

Performance-Based Shares

The Company grants performance-based awards to certain key executives. The stock-settled awards will cliff vest based on a three-year performance measurement period. Awards issued prior to July 2021 are based on relative Total Shareholder Return (“TSR”) over a three-year period, which, in accordance with ASC 718, *Compensation – Stock Compensation*, are considered awards tied to market conditions. Half of the performance shares granted in July 2021 will be tied to our relative TSR, consistent with awards granted in prior years, with the other half tied to a variety of strategic portfolio goals, which, in accordance with ASC 718, *Compensation – Stock Compensation*, are considered awards tied to performance conditions. The Company measures share-based compensation cost for TSR awards using a Monte-Carlo simulation model. Compensation cost for awards tied to strategic portfolio goals is measured using the stock price at the grant date and is recognized based on performance at target award levels. However, in accordance with ASC 718, *Compensation – Stock Compensation*, the Company will assess the probability that the strategic portfolio goals will be met and adjust the cumulative compensation cost recognized accordingly at each reporting period.

A summary of performance-based share awards as of June 30, 2022, 2021 and 2020 and changes during the current fiscal years then ended, is presented below:

<u>(In thousands, except for weighted average price and life data)</u>	<u>Awards</u>	<u>Weighted Average Grant-date Fair Value</u>
Non-vested at June 30, 2019	72	\$ 19.92
Granted	178	10.71
Vested	(46)	15.08
Non-vested at June 30, 2020	204	\$ 12.99
Granted	339	9.22
Performance adjustment (1)	(12)	25.58
Non-vested at June 30, 2021	531	\$ 10.29
Granted	617	6.04
Performance adjustment (2)	(40)	17.69
Vested	(58)	7.72
Non-vested at June 30, 2022	<u>1,050</u>	<u>\$ 7.65</u>

- (1) Represents the adjustment based on the performance of the September 2017 awards, which was below the Threshold goal level resulting in no shares vesting at the end of the three-year performance period.
- (2) Represents the adjustment based on the performance of the July 2018 awards, which was below the Threshold goal level resulting in no shares vesting at the end of the three-year performance period.

Employee Stock Purchase Plan

In February 2003, the Company’s stockholders approved an Employee Stock Purchase Plan (“2003 ESPP”), under which the Company is authorized to issue 1.1 million shares of the Company’s common stock. The 2003 ESPP was implemented on April 1, 2003 and is qualified under Section 423 of the Internal Revenue Code. In January 2022, the stockholders of the Company approved a new ESPP (“2022 ESPP” and, together with the 2003 ESPP, “ESPPs”). The Company is authorized to issue an additional 1.5 million shares of the Company’s common stock under the 2022 ESPP, which is qualified under Section 423 of the Internal Revenue Code. During the fiscal years ended June 30, 2022, 2021 and 2020, 293 thousand shares, 109 thousand shares and 118 thousand shares were issued under the ESPPs, respectively. As of June 30, 2022, 1.3 million total cumulative shares have been issued under the ESPPs. Employees eligible to participate in the ESPP may purchase shares of the Company’s stock at 85% of the lower of the fair market value of the common stock on the first day of the calendar quarter, or the last day of the calendar quarter. Under the ESPP, employees can authorize the Company to withhold up to 10% of their compensation during any quarterly offering period, subject to certain limitations.

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

<u>(In thousands)</u>	<u>For Fiscal Year Ended June 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Selling, general and administrative expenses	\$ 7,536	\$ 7,016	\$ 7,087
Research and development expenses	181	538	801
Cost of sales	693	1,483	2,328
Total	<u>\$ 8,410</u>	<u>\$ 9,037</u>	<u>\$ 10,216</u>
Tax benefit at statutory rate	<u>\$ 1,892</u>	<u>\$ 2,033</u>	<u>\$ 2,299</u>

Note 15. Employee Benefit Plan

The Company has a 401(k) defined contribution plan (the “Plan”) covering substantially all employees. Pursuant to the Plan provisions, the Company is required to make matching contributions equal to 50% of each employee’s contribution, not to exceed 4% of the employee’s compensation for the Plan year. Beginning January 1, 2021, the Company reduced the matching contribution to 50% of each employee’s contribution, not to exceed 2% of the employee’s compensation for the Plan year. Contributions to the Plan during the fiscal years ended June 30, 2022, 2021 and 2020 were \$1.1 million, \$1.6 million and \$2.2 million, respectively.

In Fiscal 2020, the Company implemented a non-qualified deferred compensation plan for certain senior-level management and executives. The non-qualified deferred compensation plan allows certain eligible employees to defer additional pre-tax earnings for retirement, beyond the IRS limits in place under the Plan. Contributions to the non-qualified deferred compensation plan during Fiscal 2022 were not material.

Note 16. Income Taxes

The following table summarizes the components of the provision for income taxes for the fiscal years ended June 30:

(In thousands)	2022	2021	2020
Current Income Tax Expense (Benefit)			
Federal	\$ (2,398)	\$ (57,335)	\$ (7,082)
State and Local	94	70	405
Total Current Income Tax Expense (Benefit)	<u>(2,304)</u>	<u>(57,265)</u>	<u>(6,677)</u>
Deferred Income Tax Expense (Benefit)			
Federal	—	112,414	(6,525)
State and Local	—	5,476	(2,060)
Total Deferred Income Tax Expense (Benefit)	<u>—</u>	<u>117,890</u>	<u>(8,585)</u>
Total Income Tax Expense (Benefit)	<u>\$ (2,304)</u>	<u>\$ 60,625</u>	<u>\$ (15,262)</u>

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

	June 30, 2022	June 30, 2021	June 30, 2020
Federal income tax at statutory rate	21.0 %	21.0 %	21.0 %
State and local income tax, net	— %	(1.4)%	2.7 %
Nondeductible expenses	(0.1)%	(0.1)%	(1.1)%
Nondeductible drug fee	— %	(0.1)%	(1.6)%
Foreign rate differential	— %	— %	(0.1)%
Income tax credits	0.1 %	0.2 %	2.5 %
Unrecognized tax benefits	— %	— %	(5.0)%
Change in tax laws	1.0 %	5.1 %	15.4 %
Excess tax benefits on share-based compensation	(0.2)%	(0.3)%	(0.8)%
Valuation allowance	(20.8)%	(44.3)%	— %
Other	— %	(0.1)%	(1.6)%
Effective income tax rate	<u>1.0 %</u>	<u>(20.0)%</u>	<u>31.4 %</u>

[Table of Contents](#)

The principal types of differences between assets and liabilities for financial statement and tax return purposes are accruals, reserves, impairment of intangibles, accumulated amortization, accumulated depreciation and share-based compensation expense. A deferred tax asset is recorded for the future benefits created by the timing of accruals and reserves and the application of different amortization lives for financial statement and tax return purposes. The Company's deferred tax liability is mainly attributable to different depreciation methods for financial statement and tax return purposes. A deferred tax asset valuation allowance is established if it is more likely than not that the Company will be unable to realize certain of the deferred tax assets. As of June 30, 2022 and 2021, temporary differences which give rise to deferred tax assets and liabilities were as follows:

(In thousands)	June 30, 2022	June 30, 2021
Deferred tax assets:		
Share-based compensation expense	\$ 2,567	\$ 1,779
Reserves	21,179	8,213
Inventory	6,249	6,047
Federal net operating loss	13,688	273
State net operating loss	6,682	9,415
Impairment on Cody note receivable	1,150	1,157
Accumulated amortization on intangible assets	119,764	112,548
Foreign net operating loss	1,792	1,792
Interest carryforward	34,117	21,111
Operating lease	2,563	2,890
R&D carryforward	1,690	1,334
Other	1,266	849
Total deferred tax asset	212,707	167,408
Valuation allowance	(193,478)	(153,383)
Total deferred tax asset less valuation allowance	19,229	14,025
Deferred tax liabilities:		
Prepaid expenses	878	239
Property, plant and equipment	12,872	11,525
Operating lease	2,048	2,261
Other	3,431	—
Total deferred tax liability	19,229	14,025
Net deferred tax asset	\$ —	\$ —

The federal and state and local tax deferred tax assets begin to expire in fiscal years 2026 and 2036, respectively. The General Business Credit generated in fiscal year 2021 will expire in fiscal year 2041. The interest carryforward has an indefinite life.

In Fiscal 2021, the Company recorded a full valuation allowance of its net deferred tax assets totaling \$153.4 million. In determining whether a valuation allowance was necessary, the Company reviewed all available positive and negative evidence including forecasts of future taxable income, historical results of operations, statutory expirations and available tax planning strategies, among other considerations. In accordance with ASC 740 Income Taxes, the weight given to the evidence reviewed was commensurate with the extent each can be objectively verified. Based on our review, the Company determined that the positive evidence related to longer-term projected profitability, when taking into consideration the inherent uncertainty around the available data, was insufficient to overcome the significant negative evidence attributed to recent historical losses incurred as well as the revised forecasts indicating continued competitive pressures on our near-term outlook. The Company has a valuation allowance of its net deferred tax assets totaling \$193.5 million as of June 30, 2022.

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

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

<u>(In thousands)</u>	<u>Balance</u>
Balance at June 30, 2020	\$ 4,591
Increases for tax positions of the current year	91
Increases for tax positions of prior years	104
Lapse of statute of limitations	(240)
Balance at June 30, 2021	\$ 4,546
Increases for tax positions of the current year	40
Decreases for tax positions of prior years	(250)
Balance at June 30, 2022	<u>\$ 4,336</u>

The amount of unrecognized tax benefits at June 30, 2022, 2021 and 2020 was \$4.6 million, \$4.5 million and \$4.6 million, respectively, of which \$4.5 million, \$4.4 million and \$4.5 million would impact the Company's effective tax rate, respectively, if recognized.

The Company has not recorded any interest and penalties for the periods ended June 30, 2022, 2021 and 2020 in the statement of operations and no cumulative interest and penalties have been recorded either in the Company's Consolidated Balance Sheet as of June 30, 2022 and 2021. The Company will recognize interest accrued on unrecognized tax benefits in interest expense and any related penalties in operating expenses.

The Company files income tax returns in the United States federal jurisdiction and various states. The Company's federal tax returns for Fiscal 2014 and prior generally are no longer subject to review as such years are closed. The Company's Fiscal 2015 through 2017, 2019, 2020 and 2021 federal returns are currently under examination by the Internal Revenue Service ("IRS"). As part of a lengthy process, the Company has received various Information Document Requests ("IDRs") and Notices of Proposed Adjustment ("NOPAs") with respect to positions taken in certain income tax issues, including an accounting method change related to chargebacks and rebates that the IRS is proposing to disallow. We are in the process of assessing the impact of these notices and preparing a response to the IRS. We believe that it is more likely than not that our positions will ultimately be sustained upon further examination, and, if necessary, will contest any additional tax determined to be owed; however, an adverse outcome could have a material impact to the Company's Consolidated Statements of Operations and financial position.

In October 2018, the Commonwealth of Pennsylvania initiated a routine field audit of the Company's Fiscal 2016 and Fiscal 2017 corporate tax returns. In November 2021, the Company was notified that the State of Florida will conduct an audit of the Company's Fiscal 2019 and 2020 corporate tax returns. In March 2022, the Company was notified that the Commonwealth of Pennsylvania and the State of Florida concluded their audits, which did not result in any assessments.

Note 17. Related Party Transactions

The Company had sales of \$1.3 million, \$2.6 million and \$3.0 million during the fiscal years ended June 30, 2022, 2021 and 2020, respectively, to a generic distributor, Auburn Pharmaceutical Company ("Auburn"), which is a member of the Premier Buying Group. Jeffrey Farber, a current board member, is the owner of Auburn. Accounts receivable includes amounts due from Auburn of \$0.3 million and \$0.4 million at June 30, 2022 and 2021, respectively.

Note 18. Assets Held for Sale

Cody API Real Estate

In Fiscal 2020, the Company ceased operations at Cody Labs and decided to sell the real estate associated with the business. In November 2021, the Company entered into an agreement for the sale of real estate associated with the Cody API business. The Company adjusted the carrying value to fair value based on the signed agreement and estimated proceeds of the sale, which resulted in a \$0.5 million impairment charge in the second quarter of Fiscal 2022. On January 31, 2022, the Company completed the sale of the real estate for total consideration of \$2.2 million, after fees and selling costs. Prior to the completion of the sale, the carrying value of the real estate was recorded within the assets held for sale caption in the Consolidated Balance Sheet.

Silarx Pharmaceuticals, Inc. Facility in Carmel, New York

In November 2021, the Company announced the 2021 Restructuring Plan, which includes consolidating its manufacturing footprint by transferring certain liquid drug production from its Silarx facility in Carmel, New York to the Company's main plant in Seymour, Indiana. In the second quarter of Fiscal 2022, the Company performed a fair value analysis which resulted in an \$8.4 million impairment charge of the Silarx facility and certain equipment at the facility. On March 31, 2022, the Company closed the sale of the Silarx facility, which included equipment within the facility, certain ANDAs and other assets, to Chartwell and its subsidiaries for total consideration of \$10.5 million. In connection with the sale, Chartwell will produce on behalf of the Company certain products at the Carmel facility for a period of up to 18 months while the Company completes the transfer of such products to its Seymour, Indiana plant. Prior to the completion of the sale, the carrying value of the real estate was recorded within the assets held for sale caption in the Consolidated Balance Sheet.



Personal and Confidential

September 1, 2022

Re: Retention Bonus

Dear [NAME OF EXECUTIVE]:

On behalf of Lannett Company, Inc. (the "**Company**"), I am pleased to offer you the opportunity to receive a retention bonus if you agree to the terms and conditions contained in this letter agreement (this "**Agreement**"), which shall be effective as of the date you execute and return a copy of this Agreement (such date, the "**Effective Date**").

1. **Retention Bonus.** Subject to the terms and conditions set forth herein, you will receive a cash lump sum payment in the amount of \$[XXX,XXX] (the "**Retention Bonus**") within fourteen (14) days of the Effective Date, no earlier than September 16, 2022. You agree that in the event your employment with the Company terminates for any reason other than a Qualifying Termination before September 16, 2023 the first anniversary of the Effective Date, you will be required to repay to the Company within **ten (10)** days of such termination 100% of the After-Tax Value of the Retention Bonus. In the event that your employment with the Company terminates for any reason other than a Qualifying Termination after the first anniversary of the Effective Date but before September 16, 2024, the second anniversary of the Effective Date, you will be required to repay to the Company within ten (10) days of such termination 67% of the bonus. In the event that your employment with the Company terminates for any reason other than a Qualifying Termination after the second anniversary of the Effective Date but prior to September 16, 2025, the third anniversary of the Effective Date, you will be required to repay to the Company within ten (10) days of such termination 33% of the Retention bonus. For the sake of clarity, you will not be required to repay any portion of the Retention Bonus if you are employed by the Company on the Completion Date which will vest on September 16, 2025 or if there is a Change of Control of the Company.

2. **Definitions.** For purposes of this Agreement:

"**After-Tax Value of the Retention Bonus**" means the aggregate amount of the Retention Bonus net of any taxes you are required to pay in respect thereof and determined taking into account any tax benefit that may be available in respect of such repayment. The Company shall determine in good faith the After-Tax Value of the Retention Bonus, which determination shall be conclusive and binding.

"**Cause**" means your (i) material breach of your duties and responsibilities, which is not remedied promptly after the Company gives you written notice specifying such breach, (ii) commission of a felony, (iii) commission of or engaging in any act of fraud, embezzlement, theft, a material breach of trust or any material act of dishonesty involving the Company or its

subsidiaries, (iv) significant violation of the code of conduct of the Company or its subsidiaries or of any statutory or common law duty of loyalty to the Company or its subsidiaries, or (v) any other act or omission defined as "Cause" in any employment agreement or letter relating to your employment between you and the Company.

"Disability" means your inability, due to physical or mental incapacity, to perform the essential functions of your job, for two hundred seventy (270) consecutive days.

"Good Reason" means any of the following, in each case, without your consent: (i) a change in your title or any material diminution of your responsibilities or authority or the assignment of any duties inconsistent with your position, in each case, compared to what was in effect as of the Effective Date; (ii) a reduction of your annual base salary and/or target bonus as in effect on the Effective Date; or (iii) a relocation of your principal office location more than fifty (50) miles from the Company's offices at which you are based as of the Effective Date (except for required travel on the Company's business to an extent substantially consistent with your business travel obligations as of the Effective Date). Notwithstanding the foregoing, the occurrence of an event that would otherwise constitute Good Reason will cease to be an event constituting Good Reason upon any of the following: (x) your failure to provide written notice to the Company within thirty (30) days of the first occurrence of such event; (y) substantial correction of such occurrence by the Company within thirty (30) days following receipt of your written notice described in (x); or (z) your failure to actually terminate employment within the ten (10) day period following the expiration of the Company's thirty (30)-day cure period. To the extent the definition of the term "Good Reason" herein is inconsistent with the definition of "Good Reason" set forth in any employment agreement or letter relating to your employment between you and the Company, the term of the employment agreement and/or letter, as the case may be, shall apply.

"Qualifying Termination" means the termination of your employment before the Completion Date (i) by the Company for a reason other than Cause, (ii) by you for Good Reason, or (iii) due to your death or Disability if, and only if, you execute a release substantially in the form attached as Exhibit A (the "**Release**"), and such Release becomes irrevocable, within 60 days of your termination, in which case the effective date of the Qualifying Termination will be deemed to have occurred on your date of termination. For the sake of clarity, a termination of employment will not be a Qualifying Termination if you do not execute, or if you revoke, the Release, in which case you will be required to repay the After-Tax Value of the Retention Bonus within ten (10) days after the expiration of the 60-day period.

"Change of Control" means the occurrence of a "change in ownership of the Company," "a change in effective control of the Company," or "a change in the ownership of a substantial portion of the Company's assets," each within the meaning of Section 409A and Treasury Regulation Section 1.409A-3(i)(5).

3. **Withholding Taxes.** The Company may withhold from any and all amounts payable to you hereunder such federal, state and local taxes as the Company determines in its sole discretion may be required to be withheld pursuant to any applicable law or regulation.

4. **No Right to Continued Employment.** Nothing in this Agreement will confer upon you any right to continued employment with the Company (or its subsidiaries or their respective successors) or to interfere in any way with the right of the Company (or its subsidiaries or their respective successors) to terminate your employment at any time.

5. **Other Benefits.** The Retention Bonus is a special payment to you and will not be taken into account in computing the amount of salary or compensation for purposes of determining any bonus, incentive, pension, retirement, death or other benefit under any other bonus, incentive, pension, retirement, insurance or other employee benefit plan of the Company, unless such plan or agreement expressly provides otherwise.

6. **Governing Law.** This Agreement will be governed by, and construed under and in accordance with, the internal laws of the State of Pennsylvania, without reference to rules relating to conflicts of laws.

7. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

8. **Entire Agreement; Amendment.** This Agreement constitutes the entire agreement between you and the Company with respect to the Retention Bonus and supersedes any and all prior agreements or understandings between you and the Company with respect to the Retention Bonus, whether written or oral. This Agreement may be amended or modified only by a written instrument executed by you and the Company.

9. **Section 409A Compliance.** The intent of the parties is that the Retention Bonus be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and guidance promulgated thereunder, and accordingly, to the maximum extent permitted, this Agreement shall be interpreted in a manner consistent therewith.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

This Agreement is intended to be a binding obligation on you and the Company. If this Agreement accurately reflects your understanding as to the terms and conditions of the Retention Bonus, please sign, date, and return to me one copy of this Agreement. You should make a copy of the executed Agreement for your records.

Very truly yours,

The above terms and conditions accurately reflect our understanding regarding the terms and conditions of the Retention Bonus, and I hereby confirm my agreement to the same.

Dated: _____

[NAME OF EXECUTIVE]

Signature Page to Agreement

EXHIBIT A

RELEASE OF CLAIMS

Exhibit A

Subsidiaries of the Company

The following list identifies the subsidiaries of the Company:

Subsidiary Name	State of Incorporation
Cody Laboratories, Inc.	Wyoming
Silarx Pharmaceuticals, Inc.	New York
Kremers Urban Pharmaceuticals, Inc.	Indiana

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated August 25, 2022, with respect to the consolidated financial statements included in the Annual Report of Lannett Company, Inc. and Subsidiaries on Form 10-K for the fiscal year ended June 30, 2022. We consent to the incorporation by reference of said report in the Registration Statements of Lannett Company, Inc. and Subsidiaries on Forms S-3 (File No. 333-235640 and File No. 333-255866) and on Forms S-8 (File No. 333-103236, File No. 333-147410, File No. 333-172304, File No. 333-193509, File No. 333-103235, File No. 333-230461, File No. 333-253361 and File No. 333-262534).

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania
August 25, 2022

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy C. Crew, certify that:

1. I have reviewed this report on Form 10-K of Lannett Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 25, 2022

/s/ Timothy C. Crew
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Kozlowski, certify that:

1. I have reviewed this report on Form 10-K of Lannett Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 25, 2022

/s/ John Kozlowski
Vice President of Finance, Chief Financial Officer and Principal
Accounting Officer

**Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Lannett Company, Inc. (the "Company") on Form 10-K for the year ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy C. Crew, the Chief Executive Officer of the Company and I, John Kozlowski, the Vice President of Finance, Chief Financial Officer and Principal Accounting Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 25, 2022

/s/ Timothy C. Crew

Timothy C. Crew,
Chief Executive Officer

Dated: August 25, 2022

/s/ John Kozlowski

John Kozlowski,
Vice President of Finance, Chief Financial Officer and
Principal Accounting Officer
