Dear Shareholders and Employees:

Fiscal 2016 was a transformational year for Lannett. We fully integrated the operations of Silarx Pharmaceuticals, a developer, manufacturer and marketer of oral solutions and solid oral products, and successfully completed the acquisition of Kremers Urban Pharmaceuticals (KU), the U.S. specialty generic pharmaceuticals subsidiary of global biopharmaceuticals company UCB S.A. Our acquisition strategy has nearly doubled the size of the company and significantly expanded our product offering to more than 100 marketed products. Our efforts to grow through acquisition were not without challenges. Fortunately, our team responded with extraordinary effort and commitment to the organization.

Key Milestones

On the operational front, we completed a number of initiatives that enhance our prospects for ongoing growth and profitability. I'll highlight just a few. First, we expanded our pipeline with large market opportunity products, including plans to co-develop generic insulin, a product currently in late-stage development. According to IMS, total U.S. sales of insulin pharmaceutical products were more than $26 billion for the 12 months ended October 2016. In July 2016, we announced that our alliance partner received an Acceptable for Filing letter from the U.S. Food and Drug Administration (FDA) of its application for Fentanyl Transdermal System, another potentially large market opportunity product. Second, we refinanced all $250 million of our 12% Senior Notes, the high interest-rate component of our capital structure, which will result in cash interest savings of approximately $170 million over the life of the notes. And third, we made solid progress on our cost reduction and integration efforts, including meaningful headway streamlining our manufacturing and packaging operations. We exceeded our synergy goal, with $33 million in fiscal 2016, and we are on track to meet synergy targets for the current fiscal year and thereafter. Finally, in October 2016 we announced successful results from a placebo-controlled Phase III clinical study evaluating C-Topical® (cocaine hydrochloride solution) 4% and 10% as a local anesthetic for diagnostic procedures or surgeries on or through the inside of the nose. We are very pleased by the positive Phase III results for C-Topical and look forward to finalizing our new drug application for submission to the FDA.

Fiscal 2016 Financial Highlights

For the 2016 fiscal year, total net sales were $542.5 million compared with $406.8 million for fiscal 2015. Fiscal 2016 total net sales were reduced by a pre-tax, non-recurring settlement agreement of $23.6 million. Gross profit was $286.5 million compared with $306.4 million. Gross profit as a percentage of total net sales was 53% compared with 75% for fiscal 2015, primarily due to the inclusion of KU's lower-margin business, as well as amortization of acquired intangible assets and other purchase accounting related expenses. Research and development (R&D) expenses increased to $45.1 million from $30.3 million for fiscal 2015. Selling, general and administration (SG&A) expenses were $68.3 million compared with $45.2 million. Acquisition and integration-related expenses were $27.2 million compared with $4.3 million in the prior year. Fiscal 2016 included restructuring expenses of $7.2 million and an impairment charge of $8.0 million. Operating income was $130.8 million compared with $226.5 million. Interest expense was $65.9 million compared with $207 thousand for fiscal 2015. Net income attributable to Lannett was $44.8 million, or $1.20 per diluted share, compared with $149.9 million, or $4.04 per diluted share, for fiscal 2015.

For the fiscal 2016 full year reported on a Non-GAAP basis, adjusted total net sales increased to $566.1 million from $406.8 million for fiscal 2015. Adjusted gross profit was $348.1 million, or 61% of adjusted total net sales, compared with $306.6 million, or 75% of adjusted total net sales, for fiscal 2015. Adjusted R&D expenses increased to $45.1 million from $30.3 million. Adjusted SG&A expenses were $59.0 million compared with $45.2 million. Adjusted operating income increased to $244.0 million from $231.1 million

for the prior year. Adjusted net income attributable to Lannett was $127.8 million, or $3.42 per diluted share, compared with $153.0 million, or $4.12 per diluted share, for fiscal 2015. Reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in the company's financial results news releases.

At June 30, 2016, cash, cash equivalents and investment securities increased to $239 million from $214 million at June 30, 2015, and total debt outstanding was $1.16 billion.

For the fiscal 2017 first quarter, net sales increased 52% to $161.6 million from $106.4 million for the first quarter of fiscal 2016. Gross profit was $81.9 million compared with $77.4 million. Gross profit as a percentage of net sales was 51% compared with 73% in last year's first quarter, primarily due to the inclusion of KU's lower-margin business, as well as amortization of acquired intangible assets and other purchase accounting related expenses. R&D expenses increased to $12.4 million from $6.5 million for the fiscal 2016 first quarter. SG&A expenses were $21.3 million compared with $15.5 million. In the first quarter of fiscal 2017, the company recorded an impairment charge of $65.1 million related to the intangible asset value attributable to Methylphenidate Hydrochloride Extended-Release tablets. Operating loss was $20.3 million versus operating income of $51.4 million. Interest expense was $23.0 million compared with $60 thousand for the first quarter of fiscal 2016. Net loss attributable to Lannett was $29.4 million, or $0.80 per share, compared to net income attributable to Lannett of $33.2 million, or $0.89 per diluted share, for the fiscal 2016 first quarter.

For the fiscal 2017 first quarter reported on a Non-GAAP basis, adjusted net sales increased to $161.6 million from $106.4 million for the first quarter of fiscal 2016. Adjusted gross profit was $94.0 million, or 58% of adjusted net sales, compared with $77.8 million, or 73% of adjusted net sales, for the fiscal 2016 first quarter. Adjusted R&D expenses increased to $12.4 million from $6.5 million. Adjusted SG&A expenses were $20.9 million compared with $13.9 million. Adjusted operating income increased to $60.7 million from $57.3 million for the prior-year first quarter. Adjusted net income attributable to Lannett was $29.0 million, or $0.77 per diluted share, compared with $37.1 million, or $0.99 per diluted share, for the fiscal 2016 first quarter.

Outlook

The key milestones noted above combined with the decisions we have made to grow our business, give us great confidence that the outlook for the future is bright. In calendar 2016, we have received ten product approvals and launched many of them, including our first nasal dosage product. Our pipeline includes 25 products in various stages of development, as well as 28 ANDAs pending at the FDA, including 11 with a Paragraph IV certification. In addition to our own filings, we have 10 filings at the FDA through our alliance partners.

We are excited about what lies ahead for Lannett and look forward to the coming year of opportunities as we continue executing our strategic plan. On behalf of the entire management team and all the Lannett Company employees, I thank you for your continued confidence and support.

Respectfully,

Arthur P. Bedrosian
Chief Executive Officer

December 12, 2016