Dear Shareholders and Employees:

For Lannett, fiscal 2017 was a year of many accomplishments that created strong opportunities for a very promising future. We generated record revenues, significantly paid down debt, strengthened our management team and received a number of product approvals. That positive trend has been reinforced through the first half of fiscal 2018. We have made meaningful progress toward commercializing a Paragraph IV product, received additional product approvals and filed the first New Drug Application (NDA) in the company's history.

Business Highlights

Thus far in calendar 2017, we have received 11 generic drug approvals, many of which we expect to launch in the coming months. Each and every member of the Lannett team deserves credit for this enviable stream of approvals.

In October, we entered into a settlement and license agreement with Celgene Corporation that resolves patent infringement litigation in the U.S. related to Celgene's Thalomid®. The agreement will allow us to manufacture and market in the U.S. our generic thalidomide product as of August 1, 2019, or earlier under certain circumstances, if our related application is approved by FDA.

In late September, we filed with the FDA an NDA for Cocaine Hydrochloride (HCl) Topical Solution, our proprietary local anesthetic product. The submission, which has since been accepted for filing with standard review by the FDA, is our first 505(b)(2) NDA submission to include full clinical trial studies and among the greatest highlights of my tenure at Lannett. Cocaine HCl Topical Solution is a liquid formulation of cocaine hydrochloride, with a proposed indication for nasal procedures and surgeries. The 505(b)(2) NDA submission is supported by two Phase III studies, as well as a Phase I pharmacokinetic study. We are excited by the market potential for this drug, given the broad applicability across more than 14 physician specialties.

We have been working diligently with our strategic alliance partner, HEC Group, to create an export market in China for a number of our generic drug products, and we are meeting our target projections with regard to synergies and cost reductions. In addition, we have made great progress expanding our pain management business. These efforts include developing a treatment for drug addiction, as well as expanding our facilities and capabilities to introduce new and innovative active pharmaceutical ingredients (APIs).

Fiscal 2017 Financial Highlights

For the 2017 fiscal year, total net sales increased 17% to $633.3 million from $542.5 million for fiscal 2016. Gross profit grew to $301.2 million, or 48% of total net sales, compared with $286.5 million, or 53% of total net sales, for fiscal 2016. Fiscal 2017 included impairment charges totaling $88.1 million compared with $8.0 million in the prior year. Operating income was $86.5 million compared with $130.8 million. Net loss attributable to Lannett was $581 thousand, or $0.02 per share, compared with net income attributable to Lannett of $44.8 million, or $1.20 per diluted share, for fiscal 2016.

For the fiscal 2017 full year reported on a Non-GAAP basis, adjusted total net sales increased to $637.3 million from $566.1 million for fiscal 2016. Adjusted gross profit was $343.7 million, or 54% of adjusted total net sales, compared with $348.1 million, or 61% of adjusted total net sales, for fiscal 2016. Adjusted operating income decreased to $230.3 million from $244.0 million for the prior year. Adjusted net income attributable to Lannett was $107.9 million, or $2.86 per diluted share, compared with $127.8 million, or $3.42 per diluted share, for fiscal 2016. 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.

We have made excellent progress reducing our debt level. Between January and May of this year, we made payments totaling $125 million to pay down the entire outstanding balance of our revolving credit facility. As a result, we will save approximately $7.3 million in annualized cash interest expense, at current rates. At June 30, 2017, cash, cash equivalents and investment securities were $145 million and total debt outstanding was $983 million.

For the fiscal 2018 first quarter, net sales decreased 4% to $155.0 million from $161.6 million for the first quarter of fiscal 2017. Gross profit was $67.7 million, or 44% of net sales, compared with $81.9 million, or 51% of net sales, in last year's first quarter. Operating income was $40.7 million versus operating loss of $20.3 million. Net income attributable to Lannett was $13.3 million, or $0.35 per diluted share, compared to net loss attributable to Lannett of $29.4 million, or $0.80 per share, for the fiscal 2017 first quarter.

For the fiscal 2018 first quarter reported on a Non-GAAP basis, adjusted net sales decreased to $155.0 million from $161.6 million for the first quarter of fiscal 2017. Adjusted gross profit was $76.7 million, or 50% of adjusted net sales, compared with $94.0 million, or 58% of adjusted net sales, for the fiscal 2017 first quarter. Adjusted operating income decreased to $50.7 million from $60.7 million for the prior-year first quarter. Adjusted net income attributable to Lannett was $22.7 million, or $0.60 per diluted share, compared with $29.0 million, or $0.77 per diluted share, for the fiscal 2017 first quarter.

Leadership

We strengthened our senior management team, with the additions of Kristin Arnold, Ph.D., as vice president research and development and Samuel Israel as vice president, chief legal officer and general counsel, and promotion of John Kozlowski to chief operating officer. Kristin, Sam and John are highly talented, exceptional executives, who bring relevant experience to help guide our company's growth and development.

In late September, our board of directors announced that it has initiated a search for a new chief executive officer (CEO). Once the new CEO is appointed, I will step down. The board has formed a search committee of two independent directors to screen initial candidates. The full board will vote on and appoint the new CEO. The search has only recently begun and no timetable has been set to name a new CEO, however I'm confident that the new CEO will be highly capable and guide Lannett's growth and development.

Outlook

Lannett is strong operationally and financially. Since 2001, the company's topline has increased at a compound annual growth rate of 28%. We have built a solid core business and a deep, diversified pipeline that includes large market opportunity products. Our efforts are ongoing to further expand our product offering and profits by leveraging the strong market positions of our products to enter into new and augment existing distribution agreements. We continue to invest in product development, reduce operating costs, enhance efficiencies and better integrate our entire organization. And, we are a reliable, high quality manufacturer of critically important medications.

Your company is well positioned for continued success, with excellent prospects for further growth. As always, it is the combined effort and dedication of our employees that are central to our performance. Finally, we thank our loyal shareholders for their support and confidence in our vision.

Respectfully,

Arthur P. Bedrosian
Chief Executive Officer

December 7, 2017