

PLUG POWER INC
Form 8-K
August 08, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **August 8, 2017**

Plug Power Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-34392
(Commission File
Number)

22-3672377
(IRS Employer
Identification No.)

**968 Albany Shaker Road,
Latham, New York**
(Address of principal executive offices)

12110
(Zip Code)

Registrant's telephone number, including area code: **(518) 782-7700**

N/A

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(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

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.

Item 2.02. Results of Operations and Financial Condition.

On August 8, 2017, Plug Power Inc., a Delaware corporation (the Registrant), released its financial results for the quarter ended June 30, 2017 by posting its Second Quarter 2017 Shareholder Letter on its website. The full text of the shareholder letter is attached hereto as Exhibit 99.1 and is incorporated by reference in this Item 2.02.

The information in this Current Report on Form 8-K (including the exhibits) is furnished pursuant to Item 2.02 and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Title
99.1	Plug Power Inc. Second Quarter 2017 Shareholder Letter dated August 8, 2017

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Plug Power Inc.

Date: August 8, 2017

By: /s/ Paul Middleton
Name: Paul Middleton
Title: Chief Financial Officer

Exhibit Index

Exhibit Number	Title
99.1	Plug Power Inc. Second Quarter 2017 Shareholder Letter dated August 8, 2017

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Jeffrey Farber
9000 State Road
Philadelphia, PA 19136

Director

	5,157,120
(5)	20.56
%	
	5,204,620
(5),(6)	20.71
%	

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Farber Properties Group LLC
1775 John R Road Troy, MI 48083

	5,000,000
(7)	
	19.93
%	
	5,000,000
	19.93
%	

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Arthur P. Bedrosian
9000 State Road
Philadelphia, PA 19136

President and Chief
Executive Officer

	586,463
(8)	
	2.34
%	
	879,363
(8),(9)	
	3.47
%	

Albert Wertheimer
9000 State Road
Philadelphia, PA 19136

Director

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	11,000
(10)	
	0.04
%	
	36,000
(10),(11)	
	0.14
%	

Myron Winkelman
9000 State Road
Philadelphia, PA 19136

Director

	11,000
(12)	
	0.04
%	

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	51,000
(12),(13)	
	0.20
%	

Kenneth Sinclair
9000 State Road
Philadelphia, PA 19136

Director

	10,000
(14)	
	0.04
%	
	35,000
(14),(15)	
	0.14
%	

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Ronald A. West
9000 State Road
Philadelphia, PA 19136

Vice Chairman of the Board,
Director

	9,310
(16)	
	0.04
%	
	64,258
(16),(17)	
	0.26
%	

Kevin Smith
9000 State Road
Philadelphia, PA 19136

Vice President of Sales and
Marketing

	42,789
(18)	
	0.17
%	
	180,216
(18),(19)	
	0.71
%	

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William Schreck
9000 State Road
Philadelphia, PA 19136

Senior Vice President and
General Manager

		38,168
(20)		
		0.15
%		
		121,580
(20),(21)		
		0.48
%		

Ernest Sabo
9000 State Road
Philadelphia, PA 19136

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Vice President of Regulatory
Affairs and Chief Compliance Officer

	31,372
(22)	
	0.13
%	
	61,465
(22),(23)	
	0.24
%	

Keith R. Ruck
9000 State Road
Philadelphia, PA 19136

Vice President of Finance and
Chief Financial Officer

14,012

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(24)	0.06
%	
	19,012
(24),(25)	
	0.08
%	

All directors and
executive officers as a group
(11 persons)

	14,594,363
	58.18
%	
	15,428,143

%

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- (1) Includes 197,825 shares owned by William Farber's spouse, Audrey Farber; 14,000 shares owned by William Farber's mother, Doris Farber, whose affairs Mr. Farber controls; and 132,212 shares held by William Farber as custodian for his seven minor grandchildren. Also includes 528,142 shares held by William Farber as custodian of Farber Family LLC. Mr. Farber disclaims beneficial ownership of these shares. Includes 26,250 shares held in William Farber's IRA account. Includes 5,000 shares received pursuant to a restricted stock award granted in September 2007.
- (2) Includes 37,500 vested options to purchase common stock at an exercise price of \$7.97 per share, 25,000 vested options to purchase common stock at an exercise price of \$17.36 per share, 25,000 vested options to purchase common stock at an exercise price of \$16.04 per share, and 5,000 vested options to purchase common stock at an exercise price of \$6.89 per share.
- (3) Includes 5,000,000 shares held by Farber Properties Group LLC (FPG). FPG is managed and jointly owned by Jeffrey Farber and David Farber. David Farber and Jeffrey Farber each disclaim beneficial ownership of 2,500,000 shares held by FPG. Indirect shares include 7,488 shares held by David Farber as custodian for his children, and 2,850 shares held by David Farber's spouse. Also includes 9,500 shares held by Farber Investment Company, LLC (FIC), which holds 38,000 shares of common stock. Jeffrey Farber and David Farber each beneficially owns 25% of FIC and each disclaims beneficial ownership of all but 9,500 shares held by FIC.
- (4) Includes 10,000 vested options to purchase common stock at an exercise price of \$17.36 per share and 12,500 vested options to purchase common stock at an exercise price of \$16.04 per share.
- (5) Includes 5,000,000 shares held by FPG. FPG is managed and jointly owned by Jeffrey Farber and David Farber. David Farber and Jeffrey Farber each disclaim beneficial ownership of 2,500,000 shares held by FPG. Includes 150 shares held by Jeffrey Farber as custodian for his son. Also includes 9,500 shares held by FIC, which holds 38,000 shares of common stock. Jeffrey Farber and David Farber each beneficially owns 25% of FIC and each disclaims beneficial ownership of all but 9,500 shares held by FIC. Also includes 5,000 shares received pursuant to a restricted stock award granted in September 2007.
- (6) Includes 10,000 vested options to purchase common stock at an exercise price of \$17.36 per share, 12,500 vested options to purchase common stock at an exercise price of \$16.04, 20,000 vested options to purchase common stock at an exercise price of \$4.55, and 5,000 vested options to purchase common stock at an exercise price of \$6.89.
- (7) Farber Properties Group, LLC is managed and jointly owned by Jeffrey Farber and David Farber.
- (8) Includes 33,150 shares owned by Arthur Bedrosian's wife, Shari, and 1,000 shares owned by his daughter Talin. Mr. Bedrosian disclaims beneficial ownership of these shares. Includes 14,744 shares received pursuant to a restricted stock award granted in September 2007 and 30,000 shares received pursuant to a restricted stock award granted in October 2009. Also includes 26,179 shares of common stock held through employee stock purchase plan.

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(9) Includes 18,000 vested options to purchase common stock at an exercise price of \$4.63 per share, 96,900 vested options to purchase common stock at an exercise price of \$7.97 per share, 33,000 vested options to purchase common stock at an exercise price of \$17.36 per share, 30,000 vested options to purchase common stock at an exercise price of \$16.04 per share, 25,000 vested options to purchase common stock at an exercise price of \$8.00 per share, 30,000 vested options to purchase common stock at an exercise price of \$6.89 per share, 50,000 vested options to purchase common stock at an exercise price of \$4.03 per share, and 10,000 vested options to purchase common stock at an exercise price of \$2.80.

(10) Includes 5,000 shares received pursuant to a restricted stock award granted in September 2007.

(11) Includes 20,000 vested options to purchase common stock at an exercise price of \$9.02 per share and 5,000 vested options to purchase common stock at an exercise price of \$6.89 per share.

(12) Includes 5,000 shares received pursuant to a restricted stock award granted in September 2007.

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- (13) Includes 15,000 vested options to purchase common stock at an exercise price of \$17.36, 20,000 vested options to purchase common stock at an exercise price of \$16.04 and 5,000 vested options to purchase common stock at an exercise price of \$6.89 per share.
- (14) Includes 5,000 shares received pursuant to a restricted stock award granted in September 2007.
- (15) Includes 20,000 vested options to purchase common stock at an exercise price of \$4.55 per share and 5,000 vested options to purchase common stock at an exercise price of \$6.89 per share.
- (16) Includes 5,000 shares received pursuant to a restricted stock award granted in September 2007.
- (17) Includes 9,948 vested options to purchase common stock at an exercise price of \$7.97 per share, 15,000 vested options to purchase common stock at an exercise price of \$17.36 per share, 25,000 vested options to purchase common stock at an exercise price of \$16.04 and 5,000 vested options to purchase common stock at an exercise price of \$6.89.
- (18) Includes 8,263 shares received pursuant to a restricted stock award granted in September 2007, and 15,000 shares received pursuant to a restricted stock award granted in October 2009.
- (19) Includes 38,760 vested options to purchase common stock at an exercise price of \$7.97 per share, 13,000 vested options to purchase common stock at an exercise price of \$17.36 per share, 20,000 vested options to purchase common stock at an exercise price of \$16.04 per share, 12,000 vested options to purchase common stock at an exercise price of \$5.18 per share, 15,000 vested options to purchase common stock at an exercise price of \$6.89 per share, 33,333 vested options to purchase common stock at an exercise price of \$4.03 per share, and 5,334 vested options to purchase common stock at an exercise price of \$2.80.
- (20) Includes 7,247 shares received pursuant to a restricted stock award granted in September 2007, and 15,000 shares received pursuant to a restricted stock award granted in October 2009.
- (21) Includes 17,745 vested options to purchase common stock at an exercise price of \$11.27 per share, 12,000 vested options to purchase common stock at an exercise price of \$5.18 per share and 15,000 vested options to purchase common stock at an exercise price of \$6.89 per share, 33,333 vested options to purchase common stock at an exercise price of \$4.03 per share, and 5,334 vested options to purchase common stock at an exercise price of \$2.80 per share.
- (22) Includes 5,337 shares received pursuant to a restricted stock award granted in September 2007, and 15,000 shares received pursuant to a restricted stock award granted in October 2009.

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(23) Includes 3,260 vested options to purchase common stock at an exercise price of \$7.48 per share, 4,000 vested options to purchase common stock at an exercise price of \$5.18 per share, 7,500 vested options to purchase common stock at an exercise price of \$6.89 per share, 10,000 vested options to purchase common stock at an exercise price of \$4.03 per share, and 5,333 vested options to purchase common stock at an exercise price of \$2.80 per share.

(24) Includes 10,000 shares received pursuant to a restricted stock award granted in October 2009.

(25) Includes 5,000 vested options to purchase common stock at an exercise price of \$2.79 per share.

*Assumes that all options exercisable within sixty days have been exercised which results in 25,919,242 shares outstanding.

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SECTION 16 (a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, officers, and persons who own more than 10% of a registered class of the Company's equity securities to file with the SEC reports of ownership and changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater-than-10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such reports furnished to the Company or written representations that no other reports were required, the Company believes that during Fiscal 2009, all filing requirements applicable to its officers, directors and greater-than-10% beneficial owners under Section 16(a) of the Exchange Act were complied with, except for certain Form 4s that were filed late related to certain stock option and restricted share grants in the current and prior years and except for transactions for which no filings were made by Mr. Bedrosian with respect to trades made by a family member.

Table of Contents**DIRECTORS AND OFFICERS**

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

	Age	Position
<u>Directors:</u>		
William Farber	78	Chairman of the Board
Ronald A. West	75	Vice Chairman of the Board, Director
Arthur P. Bedrosian	63	Director
Jeffrey Farber	49	Director
Kenneth Sinclair	63	Director
Albert Wertheimer	67	Director
Myron Winkelman	71	Director
<u>Officers:</u>		
Arthur P. Bedrosian	63	President and Chief Executive Officer
William Schreck	60	Senior Vice President and General Manager
Kevin Smith	49	Vice President of Sales and Marketing
Ernest Sabo	61	Vice President of Regulatory Affairs and Chief Compliance Officer
Keith R. Ruck	48	Vice President of Finance and Chief Financial Officer
Stephen Kovary	52	Vice President of Operations

William Farber See Proposal No. 1 - Election of Directors for matters pertaining to Mr. Farber.

Ronald A. West See Proposal No. 1 - Election of Directors for matters pertaining to Mr. West.

Arthur P. Bedrosian See Proposal No. 1 - Election of Directors for matters pertaining to Mr. Bedrosian

Jeffrey Farber - See Proposal No. 1 - Election of Directors for matters pertaining to Mr. Farber.

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Kenneth Sinclair See Proposal No. 1 - Election of Directors for matters pertaining to Dr. Sinclair.

Albert I. Wertheimer See Proposal No. 1 - Election of Directors for matters pertaining to Dr. Wertheimer.

Myron Winkelman See Proposal No. 1 - Election of Directors for matters pertaining to Mr. Winkelman.

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William Schreck joined the Company in January 2003 as Materials Manager. In May 2004, he was promoted to Vice President of Logistics. In August 2009, Mr. Schreck was promoted to Senior Vice President and General Manager. Prior to this, from 1999 to 2001, he served as Vice President of Operations at Nature's Products, Inc., an international nutritional and over-the-counter drug product manufacturing and distribution company; from 2001 to 2002 he served as an independent consultant for various companies. Mr. Schreck's prior experience also includes executive management positions at Ivax Pharmaceuticals, Inc., a division of Ivax Corporation, Zenith-Goldline Laboratories and Rugby-Darby Group Companies, Inc. Mr. Schreck has a Bachelor of Arts Degree from Hofstra University.

Kevin Smith joined the Company in January 2002 as Vice President of Sales and Marketing. Prior to this, from 2000 to 2001, he served as Director of National Accounts for Bi-Coastal Pharmaceutical, Inc., a pharmaceutical sales representation company. Prior to this, from 1999 to 2000, he served as National Accounts Manager for Mova Laboratories Inc., a pharmaceutical manufacturer. Prior to this, from 1991 to 1999, Mr. Smith served as National Sales Manager at Sidmak Laboratories, a pharmaceutical manufacturer. Mr. Smith has extensive experience in the generic sales market, and brings to the Company a vast network of customers, including retail chain pharmacies, wholesale distributors, mail-order wholesalers and generic distributors. Mr. Smith has a Bachelor of Science Degree in Business Administration from Gettysburg College.

Ernest Sabo joined Lannett in March 2005 as Director of Quality Assurance. In May 2008, Mr. Sabo was promoted to Vice President of Regulatory Affairs and Chief Compliance Officer. Prior to this, he served at Wyeth Pharmaceuticals as Manager of QA Compliance from 2001 to 2003 and as Associate Director of QA Compliance from 2003 to 2005. Mr. Sabo held former positions as Director of Validation, Quality Assurance, Quality Control and R&D at Delavau/Accucorp, Inc. from 1993 thru 2001. He has over 30 years experience in the pharmaceutical industry, his background spans from Quality Assurance, Quality Control, Cleaning/Process Validation and Manufacturing turn-key operations. Mr. Sabo holds a Bachelor of Arts in Biology from Trenton State College.

Keith R. Ruck joined the Company in September 2008 as Corporate Controller. Mr. Ruck served as Interim Chief Financial Officer from March 23, 2009 through October 13, 2009. On October 13, 2009, he was promoted to Vice President of Finance and Chief Financial Officer. Mr. Ruck, a Certified Public Accountant, has more than 26 years of public company financial management experience. Prior to joining Lannett, he served as Corporate Controller of Optium Corporation from April 2007 to September 2008. From 2000 to 2007, he was Vice President - Finance of MAAX KSD Corporation and from 1998 to 2000, he served as Vice President of Finance and Chief Financial Officer of Total Containment, Inc. Mr. Ruck earned a Bachelor of Science Degree in Business Administration and a Master of Finance Degree from LaSalle University.

Stephen Kovary joined the Company in September 2009 as Vice President of Operations. Prior to joining Lannett, Mr. Kovary was the Vice President, Plant Manager for PF Laboratories, a division of Purdue Pharma, LP, since 2003. Formerly, Mr. Kovary held senior level management positions at Pliva, Inc, Abbott Laboratories and Parke-Davis. Mr. Kovary holds a Bachelor of Science in Pharmacy from the Rutgers University Ernest Mario School of Pharmacy and a Masters in Business Administration in Management from Fairleigh Dickenson University. Mr. Kovary is a member of the American and New Jersey Pharmaceutical Associations, the International Society of Pharmaceutical Engineers and the Parenteral Drug Association. Mr. Kovary is a registered pharmacist in the State of New Jersey and a member of the Alumni Association of the Rutgers University Ernest Mario School of Pharmacy.

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 five years.

Table of Contents**EXECUTIVE COMPENSATION****SUMMARY COMPENSATION TABLE**

The following table summarizes all compensation paid to or earned by the named executive officers of the Company for Fiscal 2009, Fiscal 2008 and Fiscal 2007.

Name and Principal Position (a)	Fiscal Year (b)	Salary (c)	Stock Awards (e)	Options Awards (f)	Non-equity incentive plan compensation (g)	All Other Compensation (i)	Total (j)
Arthur P. Bedrosian President and Chief Executive Officer	2009	\$ 367,202	\$ 244,155	\$	\$ 244,365	\$ 43,796	\$ 899,518
	2008	324,825		42,381		22,099	389,305
	2007	301,016	122,234	158,303	43,358	34,159	659,070
Brian Kearns (1) Chief Financial Officer, Treasurer	2009	176,484	8,680			690,274	875,438
	2008	210,361		28,254		18,460	257,075
	2007	202,678	83,021	161,830	27,719	22,841	498,089
Keith R. Ruck (2) Vice President of Finance and Chief Financial Officer	2009	128,854	30,308	5,202	60,617	1,234	226,215
	2008						
	2007						
Bernard Sandiford (3) Vice President of Operations	2009	170,190	111,673		111,508	17,476	410,847
	2008	166,547		2,825		17,493	186,865
	2007	154,525	64,799	161,830	16,628	41,888	439,670
William Schreck Senior Vice President and General Manager	2009	180,722	118,485		118,947	18,341	436,495
	2008	170,670		22,603		18,044	211,317
	2007	162,871	68,021	161,830	16,724	25,334	434,780
Kevin Smith Vice President of Sales and Marketing	2009	200,180	129,362		130,825	21,502	481,869
	2008	192,005		22,603		21,495	236,103
	2007	183,230	61,490	161,830	18,814	24,076	449,440

(1) Mr. Kearns resigned effective March 23, 2009. As part of his separation agreement, he will receive a total of \$669,440. See Employment Agreements section below.

(2) Mr. Ruck assumed the title of Interim Chief Financial Officer on March 23, 2009. Effective October 13, 2009, he was promoted to Vice President of Finance and Chief Financial Officer.

(3) Mr. Sandiford retired effective July 3, 2009

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The following table summarizes the components of column (i) of the Summary Compensation Table:

Name and Principal Position	Fiscal Year	Company Match Contributions 401(k) Plan	Auto Allowance	Pay in Lieu of Vacation	Housing Allowance	Excess Life Insurances	Termination related	Total
Arthur P. Bedrosian President and Chief Executive Officer	2009	\$ 8,823	\$ 13,500	\$ 20,993	\$	\$ 480	\$	\$ 43,796
	2008	8,195	13,500			404		22,099
	2007	10,935	13,265	9,540		419		34,159
Brian Kearns Chief Financial Officer, Treasurer	2009	12,052	8,723			59	669,440	690,274
	2008	7,590	10,800			70		18,460
	2007	12,222	10,559			60		22,841
Keith R. Ruck Vice President of Finance and Chief Financial Officer	2009	1,182				52		1,234
	2008							
	2007							
Bernard Sandiford Vice President of Operations	2009	6,676	10,800					17,476
	2008	6,693	10,800					17,493
	2007	9,212	10,601	11,258	10,817			41,888
William Schreck Senior Vice President And General Manager	2009	7,114	10,800			427		18,341
	2008	6,872	10,800			372		18,044
	2007	9,382	10,589	5,095		268		25,334
Kevin Smith Vice President of Sales And Marketing	2009	7,905	13,500			97		21,502
	2008	7,889	13,500			106		21,495
	2007	9,309	13,188	1,486		93		24,076

Compensation of Directors

Non-employee directors received a retainer of \$2,600 per month as compensation for their services during the period July 2008 through December 2008. Effective January 2009, the retainer was increased to \$3,500 per month. They also were compensated \$1,000 per Board meeting. There were six Board meetings held during Fiscal 2009. Additional committees of the Board of Directors include the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the Strategic Planning Committee. Committee members received \$1,000 and the Chairman received \$1,500 per Committee meeting attended. There were 13 Audit Committee meetings, three Strategic Planning Committee meetings, two Nominating and Governance Committee meetings, three Compensation Committee meetings and one Independent directors meeting held during Fiscal 2009. Directors are also reimbursed for expenses incurred in attending Board and Committee meetings.

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The following table provides information regarding fees earned and stock option awards granted in Fiscal 2009 to non-employee directors:

DIRECTOR COMPENSATION

Name (a)	Fees Earned (\$) (b)	Stock Awards (\$) (c)	Options Awards (\$) (d)	Non-Equity Incentive Plan Compensation (\$) (e)	Change in Pension Value and Nonqualified Deferred Compensation (\$) (f)	All Other Compensation (\$) (g)	Total (\$) (h)
William Farber	\$ 3,000	\$ 16,900	\$	\$	\$	\$	\$ 19,900
Ronald A. West	22,000	16,900					38,900
Jeffrey Farber	9,000	16,900					25,900
Kenneth Sinclair	24,500	16,900					41,400
Albert Wertheimer	23,000	16,900					39,900
Myron Winkelman	11,500	16,900					28,400

COMPENSATION DISCUSSION AND ANALYSIS**Overview of Our Compensation Program**

A fundamental goal of our compensation program is to maximize stockholder value. In order to accomplish this goal, we must attract and retain talented and capable executives, and we must provide those executives with incentives that motivate and reward them for achieving Lannett's short and longer-term goals. To this end, our executive compensation is guided by the following key principles:

- that executive compensation should depend upon group and individual performance factors;
- that the interests of executives should be closely aligned with those of stockholders through equity-based compensation; and
- that compensation should be appropriate and fair in comparison to the compensation provided to similarly situated executives within the pharmaceutical industry and within other publicly-traded companies similar in market capitalization to Lannett.

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Important to our compensation program are the decisions of and guidance from, the Compensation Committee of our Board of Directors. The Compensation Committee (which we refer to, for purposes of this analysis, as the Committee) is composed entirely of directors who are independent of Lannett under the independence standards established by the NYSE Amex stock exchange, the securities exchange where our common stock is traded. The Committee operates pursuant to a written charter adopted by the Board. If you would like to review the Committee's charter, it is available to any stockholder who requests a copy from our Chief Financial Officer, at 9000 State Road, Philadelphia, Pennsylvania 19136.

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The Committee has the authority and responsibility to establish and periodically review our executive compensation principles, described above. Importantly, the Committee also has sole responsibility for approving the corporate goals and objectives upon which the compensation of the chief executive officer (the CEO) is based, for evaluating the CEO's performance in light of these goals and objectives, and for determining the CEO's compensation, including his equity-based compensation.

The Committee also reviews and approves the recommendations of the CEO with regard to the compensation and benefits of other executive officers. In accomplishing this responsibility, the Committee meets regularly with the CEO, approves cash and equity incentive objectives of the executive officers, reviews with the CEO the accomplishment of these objectives and approves the base salary and other elements of compensation for the executive officers. The Committee has full discretion to modify the recommendations of the CEO in the course of its approval of executive officer compensation.

The Committee also annually reviews recommendations from their consultant, and makes recommendations to the Board about, the compensation of non-employee directors.

During Fiscal 2007, the Committee recommended the adoption of a new Incentive Plan to supplement our existing stock option plans. The Incentive Plan was approved by our stockholders in January 2007. The Incentive Plan provides for the grant of various equity awards, including stock options and restricted stock, to Lannett employees and directors. The Committee is responsible for administering this Plan and it has sole authority to make grants to the CEO or any other executive officer.

In conjunction with its responsibilities related to executive compensation, the Committee also oversees the management development process, reviews plans for executive officer succession and performs various other functions.

The Committee consults as needed with an outside compensation consulting firm retained by the Committee. As it makes decisions about executive compensation, the Committee obtains data from its consultant regarding current compensation practices and trends among United States companies in general and pharmaceutical companies in particular, and reviews this information with its consultant. In addition, the Chairman of the Committee is in contact with management outside of Committee meetings regarding matters being considered or expected to be considered by the Committee.

The individuals who served as Chief Executive Officer and Chief Financial Officer during Fiscal 2009, as well as the other individuals included in the Summary Compensation Table on page 12, are referred to as the named executive officers.

Our Fiscal 2009 Compensation Program

In Fiscal 2009, the Committee's approach to compensation was intended to focus our executives on accomplishing our short and longer-term objectives, and it had as its ultimate objective sustained growth in stockholder value. This approach was intended to compensate executives at levels at or near the median levels of compensation offered by other pharmaceutical companies similar in size to Lannett and with whom we compete.

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In making decisions about the elements of Fiscal 2009 compensation, the Committee not only considered available market information about each element but also considered aggregate compensation for each executive. Base salary provided core compensation to executives, but it was accompanied by:

- the potential for incentive-based cash compensation based upon our attainment of Fiscal 2009 operating income, other targeted corporate goals and individual or departmental objectives,
- various forms of equity compensation, including some grants based upon Fiscal 2009 sales growth results and upon our return on invested capital results,
- various benefits and perquisites, and
- the potential for post-termination compensation under certain circumstances.

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Summary of Fiscal 2009 Compensation Elements

The table below provides detailed information regarding each element of the Fiscal 2009 compensation program.

	Compensation Element Overview	Purpose of the Compensation Element
Base Salary	Base salary pays for competence in the executive role. An executive's salary level depends on the decision making responsibilities, experience, work performance, achievement of key goals and team building skills of each position, and the relationship to amounts paid to other executives at peer companies.	To provide competitive fixed compensation based on sustained performance in the executive's role and competitive market practice.
Short-Term Incentives	Annual Incentive Bonus Plan (AIBP) The AIBP program rewards with cash awards for annual achievement of overall corporate objectives, and specific individual or departmental operational objectives. In Fiscal 2009, objectives for the Officers were tied to Lannett's achievement of operating income targets, other targeted corporate goals and individual objectives.	To motivate and focus our executive team on the achievement of our annual performance goals.
Long-Term Incentives	<p>Stock Options Stock options reward sustained stock price appreciation and encourage executive retention during a three-year vesting term and a ten-year option life.</p> <p>Restricted Stock Restricted stock rewards sustained stock price appreciation and encourages executive retention during its three-year vesting term.</p> <p>The value of participants' restricted stock increases and decreases according to Lannett's stock price performance during the vesting period and thereafter.</p>	<p>We strive to deliver a balanced long-term incentive portfolio to executives, focusing on (a) share price appreciation, (b) retention, and (c) internal financial objectives.</p> <p>The primary objectives of the overall design are:</p> <ul style="list-style-type: none"> to align management interests with those of stockholders, to increase management's potential for stock ownership opportunities (all awards are earned in shares), to attract and retain excellent management talent, and to reward growth of the business, increased profitability, and sustained stockholder value.
Benefits	<p>In General Executives participate in employee benefit plans available to all employees of Lannett, including health, life insurance and disability plans. The cost of these benefits is partially borne by the employee, but mostly paid by the Company.</p> <p>401(k) Plan Executives may participate in Lannett's 401(k) retirement savings plan, which is available to all employees. In calendar 2006, the</p>	These benefits are designed to attract and retain employees and provide security for their health and welfare needs. We believe that these benefits are reasonable, competitive and consistent with Lannett's overall executive compensation program.

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Compensation Element Overview	Purpose of the Compensation Element
<p>Company matched employees' contributions to the plan, on a dollar for dollar basis, up to 3% of their base salary, subject to regulatory limits. Beginning in calendar 2007, Lannett began matching contributions, at a rate of \$.50 on the dollar up to 8% of base salary.</p> <p>Life Insurance Lannett provides life insurance benefits to all employees. The coverage amount for executives is one times base compensation up to a limit of \$115,000 and premiums paid for coverage above \$50,000 are treated as imputed income to the executive.</p> <p>Disability Insurance Lannett provides short-term and long-term disability insurance to employees which would, in the event of disability, pay an employee 60% of his or her base salary with limits.</p>	<p>We believe these benefits better allow us to attract and retain superior employees for key positions.</p>
<p>Perquisites Lannett does not utilize perquisites or personal benefits extensively. The few perquisites that are provided complement other compensation vehicles and enable the Company to attract and retain key executives. These perquisites include:</p> <p>automobile allowances in various amounts to key executives.</p>	<p>We believe these benefits better allow us to attract and retain superior employees for key positions.</p>
<p>Post-Termination Severance Plan Pay Lannett's Severance Pay Plan is designed to pay severance benefits to an executive for a qualifying separation. For the Chief Executive Officer, the Severance Pay Plan provides for a payment of three times the sum of base salary plus a pro rated annual cash bonus for the current year calculated as if all targets and goals are achieved.</p> <p>For the other named executive officers, the Severance Pay Plan provides for a payment of eighteen months of base salary plus a pro rated annual cash bonus for the current year calculated as if all targets and goals are achieved.</p>	<p>The Severance Pay Plan is intended (1) to allow executives to concentrate on making decisions in the best interests of Lannett (or any successor organization in the event that a change of control is to occur), and (2) generally alleviate an executive's concerns about the loss of his or her position without cause.</p>

The use of the above compensation tools enables Lannett to reinforce its pay for performance philosophy as well as to strengthen its ability to attract and retain high-performing executive officers. The Committee believes that this combination of programs provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term stockholder value creation, and encourages executive recruitment and retention in a high-performance culture.

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Market Data and Our Peer Group

In determining 2008 and 2009 compensation for the named executive officers, the Committee relied on market data provided by its consultant. This information was principally related to a group of 13 peer companies similar in size to Lannett with median revenues of \$40 million to \$133 million (we refer to this group of companies as the Peer Group). Information on these companies was derived from two sources: (1) the consultant and broader market survey data analysis, and (2) publicly-available information appearing in the proxy statements of these companies. The members of the Peer Group were:

Bradley Pharmaceutical	Viropharma Inc.	Able Laboratories Inc
Savient Pharm. Inc.	Balchem Corp.	Caraco Pharm. Labs
Hi Tech Pharm. Co. Inc.	Orasure Technologies Inc.	Neogen Corp.
Quigley Corp.	Interpharm Holdings Inc	Akorn Inc.
Noven Pharmaceuticals Inc.		

The Committee plans to evaluate the Peer Group periodically and revise it as necessary to ensure that it continues to be appropriate for benchmarking our executive compensation program.

Base Salary

Base salaries for the named executive officers are intended, in general, to approach median salaries for similarly situated executives among Peer Group companies. A number of additional factors are considered, however, in determining base salary, such as the executive's individual performance, his or her experience, competencies, skills, abilities, contribution and tenure, internal compensation consistency, the need to attract new, talented executives, and the Company's overall annual budget. Base salaries are generally reviewed on an annual basis.

Base salary increases were granted to Mr. Bedrosian for \$43,200 effective on September 1, 2008, Mr. Kearns for \$8,482 effective on September 1, 2008, Mr. Smith for \$7,757, effective on September 1, 2008, Mr. Schreck for \$10,342 effective on September 1, 2008, and Mr. Sandiford for \$3,350 effective on September 1, 2008, based on their performance.

Fiscal 2009 Annual Incentive Bonus Plan

Design

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In November 2006, the Committee approved the 2007 Annual Incentive Bonus Plan (or AIBP) program. This program allowed executive officers the opportunity to earn cash awards upon the accomplishment of the Fiscal 2009 operating income goal, other targeted corporate goals and a number of individual objectives. The relative weighting of these objectives for each executive was fifty percent (50%) for operating income, twenty-five percent (25%) for other targeted corporate goals, twenty percent (20%) for individual objectives and five percent (5%) based on CEO and Committee discretion. For the CEO, the five percent (5%) discretionary portion will be determined by the Committee.

Based on market data provided by its consultant, and considering the relatively low base salaries of the named executive officers, the Committee formulated potential AIBP awards which exceeded the 50th percentile among Peer Group companies, expressed as percentages of base salary. Actual payouts depended upon the degree to which objectives were accomplished as well as the weight accorded to each objective, as described above. The table below shows the potential payout amounts for each of the named executive officers, expressed as percentages of base salary.

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Performance Level	Arthur Bedrosian	Brian Kearns	Bernard Sandiford	William Schreck	Kevin Smith
Superior Level	120-150%	120-150%	120-150%	120-150%	120-150%
Goal Level	100-120%	100-120%	100-120%	100-120%	100-120%
Threshold Level	50-100%	50-100%	50-100%	50-100%	50-100%

The Committee also determined that, if results for any objectives were between the minimum and maximum of the ranges, the Committee would determine appropriate payout percentage.

As discussed above, each named executive officer's objectives for Fiscal 2009 included Company operating income targets and other targeted corporate goals. The Committee reviewed and approved these targets following discussions with management, a review of our historical results, consideration of the various circumstances facing the Company during Fiscal 2009 and taking into account the expectations of our annual plan. The Fiscal 2009 operating income and other corporate goals AIBP targets approved by the Committee are detailed in the table below.

Objective	Superior		Goal		Target	
Operating Income*	\$	6.0M	\$	5.0M	\$	4.0M
R&D Submissions		9		8		7
R&D Acceptances		8		7		6
R&D Launches		7		6		5

* For purposes of determining achievement of the AIBP targets, these measures exclude certain categories of non-recurring items that the Committee believes do not reflect the performance of Lannett's core continuing operations.

Operational objectives for Mr. Bedrosian related to finalizing a production and sales contract with acceptable returns and a successful launch of a specific new product and achieving profitability for its subsidiary operations. Mr. Kearns's objectives related to achieving cash flow targets, establishing internal controls, developing and achieving SAP implementation. Objectives for Mr. Smith included achieving sales targets and margin targets in addition to obtaining new customers in new channels and reducing short dated goods in inventory. For Mr. Schreck, the objectives included reducing obsolete inventory and utilizing SAP more efficiently along with the warehouse relocation. Mr. Sandiford's objectives related to assisting Cody achieve Divisional goals, zero 483 deficiencies and no batch rejections.

All payouts to executive officers under the 2009 AIBP were contingent upon the Committee's review and certification of the degree to which Lannett achieved the 2009 AIBP objectives, and upon the Committee's certification of the degree to which individual objectives had been achieved. The program provided that payout for any objective would be limited to 20% of the actual operating income attained by Lannett.

The 2009 AIBP program provided that the Committee could, in its discretion: modify, amend, suspend or terminate the Plan at any time.

Results

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In September 2009, the Committee reviewed and certified Lannett's Fiscal 2009 results for purposes of the AIBP program, determining that the objectives for operating income and other corporate objectives far surpassed the goals set at the beginning of the year. The Committee also reviewed and certified the performance of the executive officer individual objectives, determining that these objectives were achieved to varying degrees. In calculating the 2009 bonus payments to the named executives as well as the other employees, it was determined that the Superior Level bonuses could not be paid because the accumulated total of payments to all employees would exceed 20% of the actual operating income achieved by the Company in Fiscal 2009 (20% cap). The Committee, in its discretion, altered the 2009 bonus payments in two ways as a one-time adjustment: First, the Committee lowered the overall calculation of the payout to the high end of the Goal Level. Second, it decided to grant unrestricted shares of stock that would make up the difference between the 20% cap and the amount that employees would have received if the 20% cap were not in place. These unrestricted shares will immediately vest upon grant, which occurred on

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November 11, 2009. The total value of the 2009 bonus payouts, including the unrestricted stock grant approximated 27.7% of the pre-bonus actual operating profit for the 2009 Fiscal Year. The Company expects to review and possibly alter its current compensation structure, including the AIBP program in the fall of 2009 so that fair compensation can be paid to its employees while still respecting the 20% cap requirement.

2009 Long Term Incentive Awards (LTIA)

Design

The Committee believes that long-term equity incentives are an important part of a complete compensation package because they focus executives on: increasing the value of the assets that are entrusted to them by the stockholders, achieving Lannett's long-term goals, aligning the interests of executives with those of stockholders, encouraging sustained stock performance and helping to retain executives.

Prior to the approval of the Incentive Plan by stockholders in 2007, Lannett's equity grants consisted only of stock options. The Incentive Plan expanded the types of equity vehicles which the Committee could grant to executives by including restricted stock. In September 2009, the Committee determined the amount of both stock options and restricted stock to be granted to executives, each designed to emphasize particular elements of the Company's immediate and long-term objectives and to retain key executives. As of the date of the filing of this Form 10-K, these options and restricted stock shares had not yet been granted. We refer to these grants collectively as the 2009 Long Term Incentive Awards (LTIA). The types of grants were:

- stock options, becoming exercisable over three years (approximately one-third increments on each anniversary) from the date of the grant and having a total term of ten years,
- shares of restricted stock, vesting over three years (approximately one-third increments on each anniversary) from the date of grant,

The Committee assessed the appropriate overall value of these equity grants to executives by reviewing survey results and other market data provided by its consultant. This information included the value of equity grants made to similarly situated executives among the Peer Group. The overall value of LTIA grants for each executive was determined by the Committee with assistance from their consultant.

In determining the overall value of LTIA grants, the Committee also considered the potential value of equity compensation relative to other elements of compensation for each named executive officer. It likewise assessed the appropriate distribution of equity value among the grant types, as well as the corporate objectives each type of grant was intended to encourage.

Stock Options and Restricted Stock

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The stock options and restricted stock granted as part of the 2009 LTIA were designed to reward sustained stock price appreciation and to encourage executive retention during a three-year vesting term and, in the case of stock options, a ten-year option life. Stock option and restricted stock awards are intended to align executives' motivation with stockholders' best interests. Grants of stock options were not contingent upon any conditions. They are to be granted independent of organizational performance. Stock options become exercisable approximately in one-third increments on the first three anniversaries of the date of grant. Restricted stock was contingent upon Lannett achieving annual sales growth and return on invested capital goals. Restricted stock will vest in approximately one-third increments on the first three anniversaries of the date of the grant. The Committee determined for each executive officer a target number of options and restricted shares and those targets appear in the tables below.

Restricted Stock Targets:

Performance Level	Bedrosian	Kearns	Sandiford	Schreck	Smith
Superior	16,600	8,300	8,300	8,300	8,300
Goal	12,500	6,600	6,600	6,600	6,600
Threshold	8,300	5,000	5,000	5,000	5,000

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Stock Option Targets:

Range	Bedrosian	Kearns	Sandiford	Schreck	Smith
High	50,000	25,000	25,000	25,000	25,000
Medium	37,500	20,000	20,000	20,000	20,000
Low	25,000	15,000	15,000	15,000	15,000

Results

In September 2009, the Committee reviewed and certified the Fiscal 2009 financial results for purposes of the Restricted Share Grants and determined that the performance levels surpassed the superior performance level. As a result of the Committee's review, the Committee expects to grant 70,000 restricted shares and 200,000 options to be apportioned in the following manner:

Awards	Bedrosian	Ruck	Kovary	Schreck	Smith
Options	75,000	15,000		60,000	50,000
Restricted Shares	30,000	10,000		15,000	15,000

Perquisites and Other Benefits

We provide named executive officers with perquisites and other personal benefits that we believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions. The Committee periodically reviews the levels of perquisites and other personal benefits provided to named executive officers.

During calendar year 2006, Lannett matched employees' contributions to the Lannett Company, Inc. 401(k) Retirement Savings Plan on a dollar for dollar basis up to 3% of an employee's base salary, subject to regulatory limits. Contributions by the named executive officers were matched in this way, subject to the limitations of the Plan and applicable law. Beginning in calendar year 2007 and continuing to present, Lannett matched contributions to the 401(k) plan on a fifty cents on the dollar basis up to 8% of the contributing employee's base salary. The named executive officers are also provided with car allowances, for which the taxes are also paid by the Company.

Lannett provides life insurance for executive officers which would, in the event of death, pay \$115,000 to designated beneficiaries. Premiums paid for coverage above \$50,000 are treated as imputed income to the executive. Lannett also provides short-term and long-term disability insurance which would, in the event of disability, pay the executive officer sixty percent (60%) of his base salary up to the plan limits of \$2,000/week for short term disability and \$15,000/month for long term disability. Executive officers participate in other qualified benefit plans, such as medical insurance plans, in the same manner as all other employees.

Attributed costs of the personal benefits available to the named executive officers for the fiscal year ended June 30, 2009, are included in column (i) of the Summary Compensation Table on page 12.

Severance and Change of Control Benefits

We believe 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 such executives to find comparable employment within a short period of time, and are designed to alleviate an executive's concerns about the loss of his or her position without cause. We also believe that a change in control arrangement will provide an executive security that will likely reduce the reluctance of an executive to pursue a change in control transaction that could be in the best interests of our stockholders. Lannett's Severance Pay Plan is designed to pay severance benefits to an executive for a qualifying separation. For the Chief Executive Officer, the Severance Pay Plan provides for a payment of three times the sum of 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 named executive officers, the Severance Pay Plan

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provides for a payment of eighteen months of base salary plus a pro rated annual cash bonus for the current year calculated as if all targets and goals are achieved.

Timing of Committee Meetings and Grants; Option and Share Pricing

The Committee typically holds four regular meetings each year, and the timing of these meetings is generally established during the year. The Committee holds special meetings from time to time as its workload requires. Historically, annual grants of equity awards have typically been accomplished at a meeting of the Committee in September of each year. Individual grants (for example, associated with the hiring of a new executive officer or promotion to an executive officer position) may occur at any time of year. We expect to coordinate the timing of equity award grants to be made within thirty (30) days of Lannett's earnings release announcement following the completion of the fiscal year. The exercise price of each stock option and restricted share awarded to our executive officers is the closing price of our common stock on the date of grant.

Tax and Accounting Implications

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, precludes the deductibility of an executive officer's compensation that exceeds \$1.0 million per year unless the compensation is paid under a performance-based plan that has been approved by stockholders. The Committee believes that it is generally preferable to comply with the requirements of Section 162(m) through, for example, the use of our Incentive Plan. However, to maintain flexibility in compensating executive officers in a manner that attracts, rewards and retains high quality individuals, the Committee may elect to provide compensation outside of those requirements when it deems 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.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis set forth above with management. Taking this review and discussion into account, the undersigned Committee members recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the annual report on Form 10-K dated June 30, 2009.

The Compensation Committee

Ronald West (Chairman)
Albert Wertheimer
Myron Winkelman

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The following table sets forth information concerning the grant of stock options made to each of the Named Executive Officers in Fiscal 2009 under the Company's 2003 Stock Option Plan and the LTIP. No stock appreciation rights were granted to these individuals during such year.

GRANTS OF PLAN-BASED AWARD

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stocks or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/sh) (k)	Grant Date Fair Value of Stock and Options Awards (i)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (\$) (f)	Target (\$) (g)	Maximum (\$) (h)	(i)	(j)	(k)	(i)
Arthur P. Bedrosian President and Chief Executive Officer	9/18/2008								30,000	\$ 2.80	\$ 42,390
Brian Kearns Chief Financial Officer and Treasurer	9/18/2008								20,000	\$ 2.80	\$ 28,260
Keith R. Ruck Vice President of Finance and Chief Financial Officer	10/17/2008								15,000	\$ 2.79	\$ 22,170
Bernard Sandiford Vice President of Operations	9/18/2008								2,000	\$ 2.80	\$ 2,826
William Schreck Senior Vice President and General Manager	9/18/2008								16,000	\$ 2.80	\$ 22,608
Kevin Smith Vice President of Sales and Marketing	9/18/2008								16,000	\$ 2.80	\$ 22,608

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EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Arthur P. Bedrosian, President and Chief Executive Officer, Keith R. Ruck, Vice President of Finance and Chief Financial Officer, Kevin Smith, Vice President of Sales and Marketing, William Schreck, Senior Vice President and General Manager, Ernest Sabo, Vice President of Regulatory Affairs and Chief Compliance Officer and Stephen Kovary, Vice President of Operations. 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 Board of Directors. Additionally, these executives are eligible to receive stock options, which are granted at the discretion of the Board of Directors, and in accordance with the Company's policies regarding stock option grants. Under the 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 severance compensation to these executives of between 18 months and three years.

During the third quarter of Fiscal Year 2009, the Company's former Vice President of Finance, Treasurer, Secretary and Chief Financial Officer resigned. As part of his separation agreement, the Company is obligated to pay to him approximately \$670,000 to settle any outstanding obligations from his employment agreement, including any salary, bonus, vacation, stock options and medical benefits. Of this amount, \$300,440 was paid in Fiscal 2009 with \$165,000 designated for the payment of pro rated bonus, and \$11,440 was designated for the payment of accrued but unused paid time off. As part of the settlement, \$124,000 was designated as the portion of the settlement related to the repurchase of his outstanding stock options. The Company therefore charged this amount to Additional Paid in Capital, as it represents the fair value of the options repurchased on the repurchase date. Additional payments totaling \$369,000 for severance and benefits will be paid in Fiscal 2010 and Fiscal 2011 pursuant to the separation agreement.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company had sales of approximately \$786,000, \$787,000, and \$763,000 during the fiscal years ended June 30, 2009, 2008 and 2007, respectively, to a generic distributor, Auburn Pharmaceutical Company. Jeffrey Farber (the related party), a board member and the son of the Chairman of the Board of Directors and principal shareholder of the Company, William Farber, is the owner of Auburn Pharmaceutical Company. Accounts receivable includes amounts due from the related party of approximately \$125,000 and \$305,000 at June 30, 2009 and 2008, respectively. In the Company's opinion, the terms of these transactions were not more favorable to the related party than would have been to a non-related party.

In January 2005, Lannett Holdings, Inc. entered into an agreement in which the Company purchased for \$100,000 and future royalty payments the proprietary rights to manufacture and distribute a product for which Pharmeral, Inc. owned the ANDA. In Fiscal 2008, the Company obtained FDA approval to use the proprietary rights. Accordingly, the Company originally capitalized this purchased product right as an indefinite lived intangible asset and tested this asset for impairment on a quarterly basis. During the fourth quarter of Fiscal 2009, it was determined that this intangible asset no longer has an indefinite life. No impairment existed because the estimated fair value exceeded the carrying amount on that date. Accordingly, the \$100,000 carrying amount of this intangible asset will be amortized on a straight line basis prospectively over its 10 year remaining estimated useful life.

Arthur P. Bedrosian, President and Chief Executive Officer of the Company, Inc. currently owns 100% of Pharmeral, Inc. This transaction was approved by the Board of Directors of the Company and in their opinion the terms were not more favorable to the related party than they would have been to a non-related party. In May 2008, Mr. Bedrosian and Pharmeral waived their rights to any royalty payments on the sales of the drug by Lannett under Lannett's current ownership structure. Should Lannett undergo a major change in control where a third party is involved, this royalty would be reinstated.

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At June 30, 2009 and 2008, respectively, the Company had \$0 and approximately \$983,000 of deferred revenue as a result of prepayments on inventory received from Provell Pharmaceuticals, LLC (Provell). The Company recognized revenues of approximately \$29,000, \$141,000 and \$45,000 during the fiscal years ended June 30, 2009, 2008 and 2007, respectively. Accounts receivable includes amounts due from Provell of approximately \$55,000 and

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\$60,000 at June 30, 2009 and 2008, respectively. Provell is a joint venture to distribute pharmaceutical products through mail order outlets. In exchange for access to Lannett's drug providers, Lannett received a 33% ownership of this venture. After June 30, 2008, Lannett's ownership portion of this venture decreased to 25% due to outside investment in the venture from a third party. The investment is valued at zero, due to losses incurred to date by Provell. During June 2009, the Company terminated its participation in this joint venture.

CODE OF CONDUCT

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, Chief Financial Officer, and Corporate Controller, and other finance organization employees. The code of ethics is publicly available on our website at www.lannett.com. If the Company makes any substantive amendments to the finance code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer, or Corporate Controller, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee is currently comprised of three independent directors (as defined in section 121(A) of the American Stock Exchange listing standard) and operates under a written charter adopted by the Board of Directors in accordance with rules of the American Stock Exchange. A copy of the Audit Committee Charter is filed with this Proxy Statement at Exhibit A.

Management is responsible for the Company's internal controls and the financial reporting process, in compliance with Sarbanes-Oxley Section 404 requirements. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America, and to issue an opinion on the financial statements. The Audit Committee's responsibility is to monitor and oversee these processes.

Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. Management has confirmed to the Committee that such financial statements (i) have been prepared with integrity and objectivity and are the responsibility of management and (ii) have been prepared in conformity with generally accepted accounting principles.

The Audit Committee discussed with the independent auditor matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). SAS 61 requires the Company's Independent Auditors to provide the Committee with additional information regarding the scope and results of their audit of the Company's financial statements, including with respect to (i) their responsibilities under generally accepted auditing standards, (ii) significant accounting policies, (iii) management judgments and estimates, (iv) any significant accounting adjustments, (v) any disagreements with management and (vi) any difficulties encountered in performing the audit. The Committee discussed with the Company's independent auditors, with and without management present, the evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

The Company's independent auditors also provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent auditors that firm's independence. Grant Thornton LLP, Lannett's independent auditors, stated in the written disclosures that in their judgment they are, in fact, independent. The Audit Committee concurred in that judgment of independence.

Based upon the Audit Committee's discussion with management and the independent auditors and the Audit Committee's review of the representations of management and the report of the independent auditors to the Audit Committee, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in Lannett's Annual Report on Form 10-K for the fiscal year ended June 30, 2009 as filed with the Securities and Exchange Commission.

Audit Committee:

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Kenneth Sinclair, Ph. D. (Chairman)
Ronald West
Albert Wertheimer, Ph. D.

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APPOINTMENT OF INDEPENDENT AUDITORS FOR FISCAL 2010

Prior to 2009, stockholder ratification of the selection of the independent registered public accounting firm for the Company was requested at the annual stockholder meeting. In the spirit of the corporate governance requirements of the Sarbanes-Oxley Act of 2002, and Section 10A (m)(2) of the Securities Exchange Act of 1934, as amended, which states "The audit committee of each issuer, in its capacity as a committee of the board of directors, shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by the issuer (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, and each such registered public accounting firm shall report directly to the audit committee" the Audit Committee, with the approval of the Board, has determined that a ratification vote would inhibit the Audit Committee's ability to make timely decisions with respect to the appointment and/or dismissal of the independent registered public accounting firm and has therefore recommended removal of the ratification vote from the proxy process.

A representative from Grant Thornton, as independent registered public accounting firm for the current fiscal year, is expected to be present at the Annual Meeting and will be available to respond to appropriate questions.

Grant Thornton LLP served as the independent auditors of the Company during Fiscal 2009, 2008 and 2007. 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 2009, 2008 and 2007.

	Audit Fees	Audit-Related (1)	Tax Fees (2)	All Other Fees (3)	Total Fees
Fiscal 2009:	\$ 295,084	\$	\$ 179,677	\$ 10,932	\$ 485,693
Fiscal 2008:	\$ 335,894	\$ 5,900	\$ 78,880	\$ 49,964	\$ 470,638
Fiscal 2007:	\$ 338,660	\$	\$ 36,528	\$ 70,300	\$ 445,460

(1) Audit-related fees include fees paid for preparation of an S-8 filing.

(2) Tax fees include fees paid for preparation of annual federal, state and local income tax returns, quarterly estimated income tax payments, Cody tax issues, sales and use tax review and various tax planning services.

(3) Other fees include:

Fiscal 2009 Fees paid for review of various SEC correspondences.

Fiscal 2008 Fees paid for review of various SEC correspondences.

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Fiscal 2007 Fees paid for review of various SEC correspondences, disclosures, and fixed asset review.

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.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

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OTHER BUSINESS

The Board does not intend to present, and does not have any reason to believe that others intend to present, any matter of business at the meeting other than as set forth above. If any other matter should be presented properly, it is the intention of the persons named as proxies to vote on such matters in accordance with their judgment.

NOTICE REQUIREMENTS

Stockholders who intend to have a proposal considered for inclusion in the Company's proxy materials for presentation at the 2010 Annual Meeting of Stockholders pursuant to Rule 14a-8 under the Exchange Act must submit their proposal to us at the Company's offices at 9000 State Road, Philadelphia, PA 19136, not later than August 21, 2010.

Stockholders who intend to present a proposal at such meeting without inclusion of such proposal in the Company's proxy materials pursuant to Rule 14a-8 under the Exchange Act are required to provide advanced notice of such proposal to the Company at the aforementioned address not later than November 25, 2010.

If the Company does not receive notice of a Stockholder proposal within this timeframe, management will use its discretionary authority to vote the shares they represent, as our Board of Directors may recommend. The Company reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and all other applicable requirements.

2009 ANNUAL REPORT TO STOCKHOLDERS

The Company's Annual Report containing audited financial statements for the fiscal year ended June 30, 2009 accompanies this Proxy Statement. You can obtain additional copies of our Annual Report on Form 10-K for the fiscal year ended June 30, 2009 at no charge by writing to Lannett Company, Inc., attention Corporate Controller, 9000 State Road, Philadelphia, PA 19136.

SIGNATURE

Pursuant to the requirement of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto authorized.

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Date: December 14, 2009

LANNETT COMPANY, INC.

/s/ William Farber
William Farber, Chairman of the Board

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