LANNETT CO INC
Form DEF 14A
December 10, 2018
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

[X] Filed by the Registrant
[ ] Filed by a Party other than the Registrant

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only
(as permitted by Rule 14a 6(e)(2))
[X] Definitive Proxy Statement
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[ ] Soliciting Material Under Rule 14a-12

LANNETT COMPANY, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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3) Filing Party:
4) Date Filed:

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Lannett Company, Inc.
9000 State Road
Philadelphia, PA 19136
215-333-9000
www.Lannett.com

December 10, 2018

Dear Lannett Company, Inc. Stockholders:

It is my pleasure to invite you to the 2019 Annual Meeting of Stockholders of Lannett Company, Inc. which will be held on January 23, 2019 at 9:00 am EST, at the Wyndham Grand Jupiter at Harbourside Place, 122 Soundings Avenue, Jupiter, Florida 33477.

The purpose of the meeting is to (i) elect seven members of our Board of Directors, (ii) vote to ratify the selection of Grant Thornton, LLP as our independent auditors, (iii) obtain an advisory vote on the compensation of the Company s executive officers, (iv) vote to approve the amendment to and restatement of the 2014 Long-Term Incentive Plan, and (v) transact such other business as may properly come before the Annual Meeting.

Your vote is important. Whether you plan to attend the meeting or not, we encourage you to read this Proxy Statement, in its entirety, and vote your shares. Please sign, date and return the enclosed proxy card as soon as possible in the postage-paid envelope provided.

We look forward to seeing you at the Annual Meeting should you be able to attend.

Thank you.

	/s/ Patrick G. LePore
December 10, 2018	**Patrick G. LePore**
Philadelphia, Pennsylvania	**Chairman of the Board**

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LANNETT COMPANY, INC.

9000 STATE ROAD

PHILADELPHIA, PENNSYLVANIA 19136

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JANUARY 23, 2019

TO THE STOCKHOLDERS OF LANNETT COMPANY, INC.

The 2019 Annual Meeting (the Annual Meeting) of the Stockholders of Lannett Company, Inc., a Delaware Corporation, (the Company or Lannett) will be held on January 23, 2019 at 9:00 a.m., local time, at **The Wyndham Grand Jupiter at Harbourside Place, 122 Soundings Avenue, Jupiter, Florida 33477**, for the following purposes:

1. To elect seven (7) members of the Board of Directors (the Board) to serve until the next Annual Meeting of Stockholders;

2. To ratify the selection of Grant Thornton, LLP as independent auditors for the fiscal year ending June 30, 2019;

3. To obtain a non-binding advisory vote on the compensation of the Company s executive officers;

4. To approve the amendment to and restatement of the 2014 Long-Term Incentive Plan (the 2014 Plan); and

5. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

THESE MATTERS ARE MORE FULLY DESCRIBED IN THE PROXY STATEMENT ACCOMPANYING THIS NOTICE.

Only stockholders of record at the close of business on December 6, 2018 are entitled to notice and to vote at the 2019 Annual Meeting.

It is important that your shares be represented and voted at the Annual Meeting. Please vote by completing and returning the enclosed proxy card as promptly as possible in the postage-paid envelope provided so that, whether you intend to be present at the Annual Meeting or not, your shares can be voted.

By Order of the Board of Directors

/s/ Patrick G. LePore
Patrick G. LePore
Chairman of the Board

December 10, 2018
Philadelphia, Pennsylvania

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LANNETT COMPANY, INC.

PROXY STATEMENT FOR

ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON JANUARY 23, 2019

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ATTENDANCE AND VOTING MATTERS

DATE, TIME, AND PLACE OF MEETING

This Proxy Statement is provided to you by the Board of Directors (the Board) of Lannett Company, Inc. (Lannett or the Company) in connection with the 2019 Annual Meeting of Stockholders (the Annual Meeting). The Annual Meeting will be held on January 23, 2019 at 9:00 a.m., local time, at **The Wyndham Grand Jupiter at Harbourside Place, 122 Soundings Avenue, Jupiter, Florida 33477**, or at any adjournments or postponements of the Annual Meeting for the purposes set forth in the accompanying Notice of Annual Meeting. We intend to mail this Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders on or about December 21, 2018 to all stockholders of the Company entitled to vote at the Annual Meeting.

VOTING METHODS

You may vote on matters to come before the Annual Meeting in three ways:

- You may come to the Annual Meeting and cast your vote in person; or
- You may vote by internet or phone by following the instructions set forth on the proxy card; or
- You may vote by signing and returning the enclosed proxy card by mail. If you do so, the individual named on the card will vote your shares in the manner you indicate. You may revoke your proxy at any time prior to the Annual Meeting by sending written notice to the Secretary of the Company at 9000 State Road, Philadelphia, Pennsylvania 19136, or by attending the meeting.

If you come to the Annual Meeting to cast your vote in person and you are holding your stock in a brokerage account (street name), you will need to bring a legal proxy obtained from your broker.

You are entitled to cast one vote for each share of Lannett common stock owned on the record date, December 6, 2018. As of the record date, there were 39,268,679 shares of Lannett common stock outstanding. Stockholders are not entitled to cumulative voting in the election of directors.

QUORUM

A quorum of stockholders is necessary to hold a valid meeting for the transaction of business. If the holders of a majority of Lannett common stock are present at the meeting, in person or by proxy, a quorum will exist. Abstentions and broker non-votes are counted as present for purposes of establishing a quorum.

VOTE NECESSARY FOR ACTION

Directors are elected by a plurality vote of shares present in person or by proxy at the Annual Meeting. Each other action to be considered by the stockholders will be approved by the affirmative vote of at least a majority of the shares present in person or by proxy at the meeting and entitled to vote on the matter. For any proposal, an abstention will have the same effect as a vote against the proposal. Broker non-votes will not be voted for or against any of these proposals and will have no effect on any of these proposals.

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BOARD OF DIRECTORS

The Role of the Board and Risk Oversight

The Board is responsible for overall corporate governance as well as for management and the strategic direction of the Company as a whole. The corporate governance guidelines are available at www.lannett.com. The Board and various committees of the Board meet regularly to discuss operating and financial reports presented by the Company, including but not limited to the Chief Executive Officer, Chief Financial Officer, and other members of management.

Assessing and managing risk is the responsibility of management; however the Board, through the Audit Committee, provides oversight and reviews various details regarding the Company s risk mitigation efforts. The Board is engaged in the Company s strategic planning efforts, which include evaluating the objectives and risks associated with these initiatives.

Through the Board s committees, the Board maintains broad oversight over various functions within the Company. The Audit Committee, under its charter, reviews and discusses risk exposures and the steps management has taken to monitor and mitigate each risk. The Compensation Committee and the Governance and Nominating Committee monitor risks associated with succession planning and the attraction and retention of talent, as well as risks related to the design of compensation programs within the Company.

The Board has adopted a Code of Business Conduct and Ethics (the code of ethics). The code of ethics applies to all employees including the Company s Chief Executive Officer, Chief Financial Officer, Corporate Controller, and other finance employees. 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 of ethics 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 Current Report on Form 8-K.

The Board has established effective anti-hedging and anti-pledging policies. We have an insider trading policy which among other restrictions prohibits employees, officers and Directors, including Named Executive Officers (NEOs), from entering into short sales, calls or any other hedging transaction involving Lannett securities. In addition, the Board has a policy that prohibits Directors and NEOs from pledging Lannett stock. None of our Directors or NEOs has pledged Lannett stock as collateral for a personal loan or other obligations.

The members of the Board are expected to attend all Board meetings whether in person or via teleconference. Additionally, members of the Board are expected to attend the Annual Meeting.

The Board met six times during the fiscal year ended June 30, 2018 (Fiscal 2018). In addition to meetings of the Board, Directors attended meetings of individual Board committees. Each of the Directors attended at least 75% of the Board meetings and meetings of Board committees of which they were a member during Fiscal 2018. All Directors were present at the 2018 Annual Meeting.

The Board has been active in making changes to the leadership and strategy at both the management and the Board level. First, the Board - with the assistance and expertise of global executive recruitment firm, Spencer Stuart - successfully recruited and hired its first choice for a new Chief Executive Officer, Mr. Timothy C. Crew, the former CEO of Cipla North America and Senior Vice President and Chief Operating Officer of Teva Pharmaceuticals North America generics division. In Fiscal 2018, the Search Committee consisting of Directors, Mr. Patrick G. LePore, Mr. Jeffrey Farber, Mr. Albert Paonessa, III and Mr. David Drabik held eight (8) Search Committee meetings, conducted numerous interviews and completed rigorous due diligence in the process. Mr. Crew started as our new CEO on January 2, 2018.

At the Board level, effective July 1, 2018, the Board appointed Mr. Patrick G. LePore as the non-executive, independent, Chairman of the Board. Mr. LePore succeeded Mr. Jeffrey Farber, the largest shareholder in the Company and a non-independent director, in this role. Mr. LePore is the former Chairman and CEO of a $1 billion revenue generic and specialty pharmaceutical company, as well as an experienced public company director. Under Mr. LePore s independent leadership, the Board and Company are well-positioned for achieving commercial growth and addressing strategic alternatives and industry-wide challenges, as they arise. In addition to Mr. LePore s appointment as Chairman of the Board, effective July 1, 2018, the Board also appointed Mr. John C. Chapman to the Board as a new director. Mr. Chapman is a retired audit partner for KPMG, who held various leadership positions at KPMG including as a member of the firm s board of directors and global chair of its pharmaceuticals and chemicals practice. Effective August 21, 2018, Mr. Chapman replaced Mr. James M. Maher, who simultaneously stepped down from the Board, as the new Chairman of the Audit Committee.

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After the close of business on Friday, August 17, 2018, the Company was informed by Jerome Stevens Pharmaceuticals (JSP) that it would not renew its distribution agreement for three products with the Company (the JSP Contract) when the contract expires on March 23, 2019. On Saturday, August 18, 2018, a Special Meeting of the Board of Directors was held to discuss the events of the previous day and to begin to form a plan to address this issue. Before the market opened, on Monday, August 20, 2018, a public announcement of the non-renewal of the distribution agreement was made. On Tuesday, August 21, 2018, a regularly scheduled Board meeting was held; as part of that meeting, a Special Committee of the Board was formed to focus on this issue. The independent members of the Special Committee are Mr. LePore, Mr. Drabik, and Mr. Chapman. Since the notification of the non-renewal of the JSP Contract, the Special Committee has held nine (9) meetings with management, and the Board of Directors has held five (5) meetings, inclusive of two (2) regularly scheduled board meetings. Providing guidance and oversight, the Special Committee and the Board have assisted the Company and management in addressing the issues brought about by the non-renewal of the JSP Contract. In addressing these issues - alongside the Special Committee and the Board - the Company has hired a legal advisor, Kirkland & Ellis LLP, and a financial advisor, Lazard Freres (together with Kirkland & Ellis LLP, the Advisors). Working together with its Advisors, the Company has achieved the following results: 1) on November 7, 2018, the Company announced a multi-year, cost saving program (the Cost Saving Program), which will ultimately strengthen the Company s debt leverage and liquidity positions; and 2) on December 10, 2018, the Company and its Term Loan A lenders agreed to an amendment which we expect will provide the Company sufficient cushion to be in compliance with its financial covenants through the maturity date of the Term A Loans. Moving forward, the Special Committee and the Board will provide guidance and oversight: 1) to assure that management is achieving its goals set out in the Cost Saving Program; 2) in considering optimal capital structure decisions, including, but not limited to, debt refinancing; and 3) in analyzing all strategic alternatives.

Board Leadership Structure

The Company s Corporate Governance Guidelines provide that a majority of our Directors should meet New York Stock Exchange (NYSE) independence requirements. The director will not be considered independent unless the Board determines that the director meets the NYSE independence requirements and has no relationship that in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of the director.

Our Board leadership structure is one under which Patrick G. LePore serves as the non-executive, independent Chairman of the Board. We currently have six other Directors, including Timothy C. Crew, Chief Executive Officer. Four of the seven Directors currently serving on the Board of Directors are independent as defined by the NYSE. The Board has four permanent committees: the Audit Committee, Compensation Committee, Governance and Nominating Committee, and Strategic Planning Committee. In addition, the non-management members of the Board of Directors meet regularly without management directors or management personnel present.

The Board believes that the role of Chairman of the Board and Chief Executive Officer should be separate, and that the Chairman should not be an employee of the Company. The Board believes that this separation benefits the stockholders in the form of increased oversight. As further oversight, the independent Board members also meet throughout the year in executive sessions where neither management personnel nor other non-independent directors are present. In the Company s case, this excluded Jeffrey Farber, Albert Paonessa, III and Timothy C. Crew, Chief Executive Officer.

Lead Independent Director

The Board has established the policy of having a Lead Independent Director to be elected by and from the independent Directors - if the Chairman of the Board is not an independent Director. For Fiscal 2018, David Drabik, independent Director, was the Lead Independent Director of the Board. (Note: As of July 1, 2018, with the appointment of Patrick G. LePore as the non-executive, independent Chairman of the Board, there is no longer a requirement for a Lead Independent Director in Fiscal 2019.)

The role of the Lead Independent Director, if applicable, will include:

- Collaborating with the Chairman of the Board to set and approve the Board agenda;
- The authority to call and chair executive sessions of the independent Directors;
- Briefing the Chairman of the Board on issues discussed in executive sessions;
- Serving as liaison between the Chairman of the Board and the independent Directors; and
- Serving as liaison between the Chief Executive Officer and the independent Directors outside of formal Board meetings.

Overall, we believe that the separation of the Chairmanship and Chief Executive Officer positions, our strong committee system, and regular non-management director and independent director meetings allow for effective Board oversight of management.

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Communicating with the Board of Directors

Interested persons may contact the non-management directors by sending written comments to 9000 State Road, Philadelphia, Pennsylvania 19136 Attn: Board of Directors. The original communication as addressed, or a summary of the submissions will be forwarded to the directors for discussion in the next directors meeting. If a summary of the communication is provided, the original communication will be maintained on file and available for the directors review upon request.

Board Committees

The Board has four permanent committees - Audit Committee, Compensation Committee, Governance and Nominating Committee and Strategic Planning Committee. There were thirteen (13) Audit Committee meetings, six (6) Compensation Committee meetings, four (4) Governance and Nominating Committee meetings, and no Strategic Planning Committee meetings held during Fiscal 2018. In addition, in July of 2017, the Board formed a Search Committee for the purposes of leading the search for and recruitment of a new CEO; the Search Committee met eight (8) times in Fiscal 2018. Lastly, in August 2018, the Board formed a Special Committee to provide oversight and strategic advice following JSP s decision to not renew the JSP Contract; the Special Committee has met nine (9) times. The following table shows the directors who are currently members of each permanent Board Committee:

Name	Audit Committee	Compensation Committee	Governance and Nominating Committee	Strategic Planning Committee
John C. Chapman	Chairman	Member		
Timothy C. Crew				
David Drabik	Member	Member	Chairman	Member
Jeffrey Farber				Member
Patrick G. LePore, Chairman of the Board			Member	Member
Albert Paonessa, III				Chairman
Paul Taveira	Member	Chairman	Member	

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. All members of the Audit Committee are independent directors as defined by the rules of the NYSE. See Report of the Audit Committee.

Financial expert on Audit Committee: The Board has determined that John C. Chapman, 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.

The **Compensation Committee** establishes and regularly reviews the Company s compensation philosophy, strategy, objectives and ethics and determines the compensation of the executive officers of the Company. For a discussion on the Compensation Committee s process and factors used in determining executive compensation refer to Compensation Discussion and Analysis starting on page 13. The Compensation Committee also administers the Company s equity compensation plans. The Compensation Committee operates pursuant to a written charter adopted by the Board, which is available on the Company s website at www.lannett.com. All members of the Compensation Committee are independent directors as defined by the rules of the NYSE.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee during Fiscal 2018 or as of the date of this Proxy Statement is or has been an officer or employee of the Company and no executive officer of the Company served on the compensation committee or board of any company that employed any member of the Company s Compensation Committee or Board.

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The **Governance and Nominating Committee** is responsible for identifying and evaluating individuals qualified to become Board members and for recommending such individuals for nomination. All candidates must possess an unquestionable commitment to high ethical standards and have a demonstrated reputation for integrity. Other factors considered in identifying and evaluating candidates include an individual s business experience, education, civic and community activities, knowledge and experience with respect to the issues impacting the pharmaceutical industry and public companies, as well as the ability of the individual to devote the necessary time to service as a director. The Governance and Nominating Committee is in the process of preparing and adopting a formal gender diversity policy and has plans to recommend to the full Board the appointment of a woman to the Board in calendar year 2019.

Once a person has been identified by the Governance and Nominating Committee as a potential candidate, the Governance and Nominating Committee performs a robust review, which includes collection of outside information, to include publicly available information and all other relevant information available to determine if the person should be considered further. Once this determination has been made the person is contacted. If the person expresses a willingness and interest to be considered to serve on the Board, the Governance and Nominating Committee will request further information from the candidate including resumes, references and other relevant information. A formal interview process is then held. The Governance and Nominating Committee will then consider all information, qualifications, and accomplishments, including comparisons to other potential candidates before making its final decision.

The Governance and Nominating Committee will also consider candidates recommended by stockholders. All nominees will be evaluated in the same manner, regardless of whether they were recommended by the Governance and Nominating Committee or recommended by a stockholder. To have a candidate considered by the Governance and Nominating Committee, a stockholder must submit the recommendation in writing and must include the following information:

- The name of the stockholder and evidence of the person s ownership of Company stock, including the number of shares owned and the length of ownership; and
- The name of the candidate, the candidate s resume or a listing of his or her qualifications to be a director of the Company and the person s consent to be considered as a director nominee if recommended by the Governance and Nominating Committee to the Board and nominated by the Board to be included in the Proxy Statement for election at the Annual Meeting.

The stockholder recommendation and information described above must be sent to the Company at 9000 State Road, Philadelphia, Pennsylvania 19136, and must be received not less than 120 days prior to the anniversary date of the Company s most recent Annual Meeting.

The Governance and Nominating Committee operates pursuant to a written charter adopted by the Board, which is available on the Company s website at www.lannett.com. All members of the Governance and Nominating Committee are independent directors as defined by the rules of the NYSE.

The **Strategic Planning Committee** oversees the Company s medium and long-term business strategies, including the decisions regarding new product initiatives, joint ventures and alliances, new markets and other matters related to the Company s long-term planning process. The Strategic Planning Committee operates pursuant to a written charter adopted by the Board, which is available on the Company s website at www.lannett.com.

Executive Sessions of Independent Directors

In accordance with the rules and regulations of the NYSE, non-management independent directors meet at regularly scheduled executive sessions without management participation. At least once a year, an executive session is held with only independent Directors. Executive sessions are chaired by the non-executive, independent, Chairman of the Board.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee is comprised of three independent directors (as defined in section 303(A) of the NYSE listing company manual) and maintains a written charter in accordance with rules of the NYSE.

Management is primarily responsible for the Company s financial statements and related internal controls over financial reporting. The independent registered public accounting firm is responsible for performing an audit of the Company s consolidated financial statements and related internal controls over financial reporting. The Audit Committee s responsibility is to monitor the Company s financial reporting and internal control processes and to review the performance and independence of the Company s independent registered public accounting firm.

Management has represented to the Audit Committee that the Company s consolidated financial statements were prepared, in all material respects, 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 registered public accounting firm.

The Audit Committee has received from its independent registered public accounting firm written communications regarding the matters required to be discussed with the Audit Committee. These matters included 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 these matters with the Company s independent registered public accounting firm, with and without management present.

The Company s independent registered public accounting firm also provided to the Audit Committee the written disclosures required by the Public Company Accounting Oversight Board, and the Audit Committee discussed the firm s independence with the independent registered public accounting firm. The Audit Committee also pre-approved all fiscal 2018 audit and non-audit services and fees and concluded that the non-audit services performed, and related fees did not impair the independence of the independent registered public accounting firm.

Based upon the Audit Committee s discussions and reviews referred to above, the Audit Committee recommended that the audited consolidated financial statements be included in Lannett s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 as filed with the Securities and Exchange Commission.

Audit Committee:

James M. Maher (Chairman)
David Drabik
Paul Taveira

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PRINCIPAL STOCKHOLDERS

The following table sets forth, as of October 31, 2018, 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 2011 and 2014 Long Term Incentive Plans (LTIPs) generally vest equally over a three-year period 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	Shares Held Directly	Excluding Options (*) Shares Held Indirectly	Total Shares	Percent of Class	Including Options (**) Number of Shares	Percent of Class
John M. Abt 9000 State Road Philadelphia, PA 19136	VP and Chief Quality Operations Officer	**19,098**	**0**	**19,098(1)**	**0.05%**	**22,757(1),(2)**	**0.06%**
Maureen M. Cavanaugh 9000 State Road Philadelphia, PA 19136	Senior VP & Chief Commercial Operations Officer	**23,638**	**0**	**23,638(3)**	**0.06%**	**23,638(3)**	**0.06%**
John C. Chapman 9000 State Road Philadelphia, PA 19136	Director	**2,574**	**0**	**2,574**	**0.01%**	**2,574**	**0.01%**
Timothy C. Crew 9000 State Road Philadelphia, PA 19136	Chief Executive Officer	**39,988**	**0**	**39,988(4)**	**0.10%**	**39,988(4)**	**0.10%**
David Drabik 9000 State Road Philadelphia, PA 19136	Director	**49,747**	**0**	**49,747**	**0.13%**	**49,747**	**0.13%**
Robert Ehlinger 9000 State Road Philadelphia, PA 19136	VP and Chief Information Officer	**28,327**	**0**	**28,327(5)**	**0.07%**	**57,858(5),(6)**	**0.15%**
Jeffrey Farber 9000 State Road Philadelphia, PA 19136	Director	**2,041,998**	**2,441,957**	**4,483,955(7)**	**11.52%**	**4,483,955(7)**	**11.43%**
David Farber 9000 State Road Philadelphia, PA 19136		**1,890,870**	**1,766,169**	**3,657,039(8)**	**9.39%**	**3,657,039(8)**	**9.34%**
Martin P. Galvan 9000 State Road Philadelphia, PA 19136	VP of Finance and Chief Financial Officer	**51,238**	**0**	**51,238(9)**	**0.13%**	**214,326(9),(10)**	**0.55%**
Samuel H. Israel 9000 State Road Philadelphia, PA 19136	Chief Legal Officer and General Counsel	**28,665**	**0**	**28,665(11)**	**0.07%**	**29,584(11),(12)**	**0.08%**

John Kozlowski 9000 State Road Philadelphia, PA 19136	Chief of Staff & Strategy Officer	**24,476**	**0**	**24,476(13)**	**0.06%**	**42,010(13),(14)**	**0.11%**
Patrick G. Lepore 9000 State Road Philadelphia, PA 19136	Chairman of the Board, Director	**67,895**	**0**	**67,895**	**0.17%**	**67,895**	**0.17%**
Albert Paonessa, III 9000 State Road Philadelphia, PA 19136	Director	**30,277**	**0**	**30,277**	**0.08%**	**30,277**	**0.08%**
Paul Taveira 9000 State Road Philadelphia, PA 19136	Director	**47,970**	**0**	**47,970**	**0.12%**	**47,970**	**0.12%**
All directors and executive officers as a group (13 persons)		**2,455,891**	**2,441,957**	**4,897,848**	**12.57%**	**5,112,579**	**13.05%**

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(1) Includes 12,505 unvested shares received pursuant to restricted stock awards granted in July 2016, November 2016, April 2018 and July 2018.

(2) Includes 1,970 vested options to purchase common stock at an exercise price of $59.20 per share, 770 vested options to purchase common stock at an exercise price of $31.30 per share and 919 vested options to purchase common stock at an exercise price of $17.40.

(3) Includes 23,638 unvested shares received pursuant to restricted stock awards granted in May 2018.

(4) Includes 34,250 unvested shares received pursuant to restricted stock awards granted in January 2018 and July 2018.

(5) Includes 6,546 unvested shares received pursuant to restricted stock awards granted in July 2016, November 2016 and July 2018.

(6) Includes 11,667 vested options to purchase common stock at an exercise price of $13.86 per share, 10,000 vested options to purchase common stock at an exercise price of $34.77 per share, 6,300 vested options to purchase common stock at an exercise price of $59.20 per share, 645 vested options to purchase common stock at an exercise price of $31.30 per share and 919 vested options to purchase common stock at an exercise price of $17.40 per share.

(7) Includes 1,355,128 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 528,142 shares held by Farber Family LLC (FFLLC) which is managed by Jeffrey and David Farber. Jeffrey Farber disclaims beneficial ownership of these shares. Includes 73,408 shares held by Jeffrey Farber as custodian for his children, 17,279 shares held as joint custodian with David Farber for a relative, and also includes 38,000 shares held by Farber Investment Company (FIC). Jeffrey Farber beneficially owns 25% of FIC and each disclaims beneficial ownership of all but 9,500 shares held by FIC. Includes 400,000 shares held by a Grantor Retained Annuity Trust, in which Jeffrey Farber is the trustee.

(8) Includes 854,443 shares held by the David and Nancy Family Foundation. David Farber disclaims beneficial ownership of these shares. Includes 528,142 shares held by FFLLC which is managed by Jeffrey and David Farber. David Farber disclaims beneficial ownership of these shares. Includes 180,145 shares held by David Farber as joint custodian with his children, 148,160 shares held as trustee for his children and 17,279 shares held as joint custodian with Jeffrey Farber for a relative. David Farber disclaims beneficial ownership of these shares. Also includes 38,000 shares held by FIC. David Farber beneficially owns 25% of FIC and disclaims beneficial ownership of all but 9,500 shares held by FIC.

(9) Includes 15,220 unvested shares received pursuant to restricted stock awards granted in July 2016, November 2016 and July 2018.

(10) Includes 40,000 vested options to purchase common stock at an exercise price of $4.73 per share, 32,000 vested options to purchase common stock at an exercise price of $4.16 per share, 50,000 vested options to purchase common stock at an exercise price of $13.86 per share, 30,000 vested options to purchase common stock at an exercise price of $34.77 per share, 8,990 vested options to purchase common stock at an exercise price of $59.20 per share, 1,179 vested options to purchase common stock at an exercise price of $31.30 per share and 919 vested options to purchase common stock at an exercise price of $17.40 per share.

(11) Includes 23,103 unvested shares received pursuant to restricted stock awards granted in July 2017 and July 2018.

(12) Includes 919 vested options to purchase common stock at an exercise price of $17.40 per share.

(13) Includes 16,534 unvested shares received pursuant to restricted stock awards granted in July 2016, November 2016, September 2017, October 2017 and July 2018.

(14) 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 and 4,200 vested options to purchase common stock at an exercise price of $34.77 per share.

* Percent of class calculation is based on 38,952,752 outstanding shares of common stock at October 31, 2018.

** Assumes that all options exercisable within sixty days have been exercised.

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The following table sets forth, as of October 25, 2018, information regarding the names and addresses of the shareholders known to the Company to be beneficial owners of more than five (5%) percent of the Company s common stock.

Name and Address of Beneficial Owner	Number of Shares	Percent of Class
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	**3,897,157(1)**	**10.30%**
The Vanguard Group 100 Vanguard Blvd Malvern, PA 19355	**2,944,186(2)**	**7.89%**
MintBroker International, Ltd. Elizabeth Avenue & Bay Street Nassau, Bahamas	**2,857,999(3)**	**7.34%**

(1) Based on Schedule 13G/A filed by Blackrock, Inc. with the SEC on January 19, 2018, Blackrock, Inc. has sole voting power over 3,844,376 shares, shared voting power over 0 shares, sole dispositive power over 3,897,157 shares and shared dispositive power over 0 shares.

(2) Based on Schedule 13G/A filed by The Vanguard Group with the SEC on February 9, 2018, The Vanguard Group has sole voting power over 33,357 shares, shared voting power over 3,298 shares, sole dispositive power over 2,944,186 shares and shared dispositive power over 33,186 shares.

(3) Based on Schedule 13G/A filed by MintBroker International, Ltd. with the SEC on October 25, 2018, Mintbroker International, Ltd. has sole voting power over 0 shares, shared voting power over 2,857,999 shares, sole dispositive power over 0 shares and shared dispositive power over 2,857,999 shares.

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 2018 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 in a timely manner.

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DIRECTORS AND OFFICERS

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

	Age	Position
Directors:		
Patrick G. LePore	63	Chairman of the Board
John C. Chapman	64	Director
Timothy C. Crew	57	Director
David Drabik	50	Director
Jeffrey Farber	58	Director
Albert Paonessa, III	58	Director
Paul Taveira	59	Director
Officers:		
Timothy C. Crew	57	Chief Executive Officer
Martin P. Galvan	66	Vice President of Finance and Chief Financial Officer
John M. Abt	53	Vice President and Chief Quality Operations Officer
Maureen M. Cavanaugh	59	Senior Vice President and Chief Commercial Operations Officer
Robert Ehlinger	61	Vice President and Chief Information Officer
Samuel H. Israel	57	General Counsel and Chief Legal Officer
John Kozlowski	46	Chief of Staff and Strategy Officer

Patrick G. LePore - See Proposal No. 1 - Election of Directors for information pertaining to Mr. LePore.

John C. Chapman See Proposal No. 1 - Election of Directors for information pertaining to Mr. Chapman.

David Drabik See Proposal No. 1 - Election of Directors for information pertaining to Mr. Drabik.

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

Albert Paonessa, III See Proposal No. 1 - Election of Directors for information pertaining to Mr. Paonessa.

Paul Taveira See Proposal No. 1 - Election of Directors for information pertaining to Mr. Taveira.

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 25 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.

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Martin P. Galvan, CPA was appointed as the Company s Vice President of Finance and Chief Financial Officer in August 2011. Most recently, he was Chief Financial Officer of CardioNet, Inc., a medical technology and service company. From 2001 to 2007, Mr. Galvan was employed by Viasys Healthcare Inc., a healthcare technology company that was acquired by Cardinal Health, Inc. in June 2007. Prior to the acquisition, he served as Executive Vice President, Chief Financial Officer and Director Investor Relations. From 1999 to 2001, Mr. Galvan served as Chief Financial Officer of Rodel, Inc., a precision surface technologies company in the semiconductor industry. From 1979 to 1998, Mr. Galvan held several positions with Rhone-Poulenc Rorer Inc., a pharmaceutical company, including Vice President, Finance The Americas; President & General Manager, RPR Mexico & Central America; Vice President, Finance, Europe/Asia Pacific; and Chief Financial Officer, United Kingdom & Ireland. Mr. Galvan began his career with the international accounting firm Ernst & Young LLP. He earned a Bachelor of Arts degree in economics from Rutgers University and is a member of the American Institute of Certified Public Accountants.

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. 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 the past 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, US 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.

Robert Ehlinger joined the Company in July 2006 as Chief Information Officer. In June 2011, Mr. Ehlinger was promoted to Vice President of Logistics and Chief Information Officer. Prior to joining Lannett, Mr. Ehlinger was the Vice President of Information Technology at MedQuist, Inc., a healthcare services provider, where his career spanned 10 years in progressive operational and technology roles. Prior to MedQuist, Mr. Ehlinger was with Kennedy Health Systems as their Corporate Director of Information Technology supporting acute care and ambulatory care health information systems and biomedical support services. Earlier on, Mr. Ehlinger was with Dowty Communications where he held various technical and operational support roles prior to assuming the role of International Distribution Sales Executive managing the Latin America sales distribution channels. Mr. Ehlinger received a Bachelor of Arts degree in Physics from Gettysburg College in Gettysburg, PA.

Samuel H. Israel joined in 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 27 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.

John Kozlowski joined the Company in 2009 as Corporate Controller and was promoted in 2016 to Vice President Financial Operations & Corporate Controller. In April 2018, Mr. Kozlowski was promoted to Chief of Staff and Strategy Officer. In October 2017, Mr. Kozlowski was promoted to Chief Operating 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 Master of Business Administration degree from Rider University.

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.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) describes our 2018 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 2018 fiscal year.

NEO	Title/Role
Timothy C. Crew	Chief Executive Officer (CEO)
Martin P. Galvan	Vice President of Finance and Chief Financial Officer
Samuel H. Israel	Chief Legal Officer and General Counsel
John Kozlowski	Chief of Staff and Strategy Officer
John M. Abt	Vice President and Chief Quality Operations Officer
Arthur P. Bedrosian	Former Chief Executive Officer*
Kevin Smith	Former Senior Vice President of Sales **

* Mr. Bedrosian departed the Company effective December 31, 2017

** Mr. Smith departed the Company effective June 30, 2018

Say on Pay Results in 2018

At our annual shareholders meeting in January 2012, our shareholders supported a triennial cycle for say-on-pay advisory votes relating to our Executive Compensation Program for NEOs. As a result, we held say on pay votes every three years, including 2012, 2015, and 2018. At our annual shareholders meeting in January 2018, our shareholders approved the say-on-pay proposal, with 72% of votes cast in support of our executive compensation program. This level of shareholder support was lower than historical levels (approximately 99% in 2012 and 96% in 2015). At the January 2018 Annual Meeting, the majority of our shareholders also supported an annual frequency for future say-on-pay advisory votes. As a result, we will conduct annual advisory votes going forward.

Although this vote is non-binding, its outcome, along with shareholder feedback and the competitive business environment, plays an important role in how the Committee makes decisions about the program s structure. To this end, during the past few years, the Committee conducted periodic reviews of the Executive Compensation Program, monitored industry practices and sought feedback from some of our largest investors.

While most shareholders supported our 2018 say-on-pay proposal, a concern was raised by certain shareholder advisory groups regarding a provision within Mr. Crew s employment agreement allowing for severance benefits upon a voluntary termination within thirty days following a Change in Control of the Company. This walk away provision was originally included in the agreement to help entice Mr. Crew, a highly experienced industry executive who has served in key leadership roles at several large global pharmaceutical organizations, to join the Company. In response to the relatively low shareholder support level for the 2018 say-on-pay vote, Mr. Crew s employment agreement was amended in March 2018 to remove the walk away provision from the definition of a Good Reason voluntary resignation.

Our executive compensation program includes a significant emphasis on variable incentives to align pay with performance and long-term shareholder value creation. No short-term incentives or annual equity grants were earned in Fiscal 2017 and short-term incentives and equity grants for Fiscal 2018 were well-below target levels based on actual vs. planned Company performance. Our long-term incentive program for NEOs and other executives is entirely performance-based, with no grants of stock options or restricted stock unless minimum performance thresholds are achieved. Beginning in Fiscal 2018, our NEOs also receive performance shares tied to the Company s three-year total shareholder returns (TSR) relative to companies in the S&P Pharmaceuticals Select Industry Index. After giving consideration to the 2018 say-on-pay vote and shareholder feedback, the Compensation Committee decided to increase the weighting on performance shares from 25% of the total target long-term incentive award opportunity for NEOs to 33.3% for the Fiscal 2019 program, while also maintaining the performance requirements for stock option and restricted stock grants. We believe these actions demonstrate our responsiveness to shareholder concerns and our ongoing commitment to aligning executive pay with performance and long-term value creation.

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The following pages of this CD&A highlight performance results since Fiscal 2015 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 shareholder value. It also describes recently approved changes for Fiscal 2019 to further align our Executive Compensation Program with our objectives 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 2018 was a year of transition for the Company, including the appointment of a new CEO, General Counsel, Chief Commercial Officer, and Chief of Staff, as well as several other new executive hires. We also added two new non-employee directors to the Board in Fiscal 2018 or early Fiscal 2019 and appointed a new Board Chairman, effective July 1, 2018. Under the leadership of Mr. Crew and the Board of Directors, the Company also established a new strategy focused on growing our core business, building our R&D pipeline, and expanding strategic alliances. These actions take on heightened importance given the recently announced non-renewal of our product distribution agreement with Jerome Stevens Pharmaceuticals, Inc. (JSP), which accounts for a significant portion of our current revenues and will expire on March 23, 2019. Our leadership team and Board are focused on executing our strategy, streamlining our operations, and developing new products and alliances to diversify and enhance our revenue streams. We believe these actions will better position the Company for long-term profitable growth and shareholder value creation. As discussed below, the Company is executing on a number of key strategic initiatives and continuing to operate profitably despite ongoing challenging market conditions within the generic pharmaceuticals industry.

The Company achieved a number of strategic milestones in Fiscal 2018, including the ongoing success related to the integration of the Kremers Urban Pharmaceuticals Inc. (KUPI) acquisition, which closed in November 2015 and significantly increased our product portfolio and scope of operations. We also continued to execute on our 2016 Restructuring Plan, which resulted in the realization of transaction-related synergies. As noted above, we recruited a new CEO and expanded our executive leadership team and capabilities. In addition, we continued to reduce debt and strengthen our balance sheet. We recently initiated a restructuring and cost reduction plan for our Cody Laboratories subsidiary with targeted annualized cost savings of $10 million by the end of December 2018. After several years of extraordinary performance through Fiscal 2015, our profitability and total shareholder return results were lower in Fiscal 2016 and 2017, primarily due to competitive pressures in the generic pharmaceutical market from consolidation among the largest chains and wholesalers into consortium purchasing groups, which resulted in lower average selling prices for our products. While profitability improved in Fiscal 2018, results were below budgeted goals, which adversely impacted executive pay levels as discussed further below. Our total shareholder return continued to decline in Fiscal 2018, as was the case for many of our peers. As a result, most outstanding stock options held by our NEOs are currently underwater and the value of most other outstanding equity awards are well below grant date target values.

In addition, we continued to make important advances in product development and mix, market share, and in our regulatory approval process, allowing us to efficiently and safely place our products that span a variety of categories on the market. We launched 8 new products during Fiscal 2018, with additional launches planned in Fiscal 2019. As of June 30, 2018, we had over 100 products available to the market, with a significant number of Abbreviated New Drug Applications (ANDAs) pending regulatory approval. We also continue to capitalize on our strategic partnerships, both domestically and internationally. In Fiscal 2018, we acquired more than 20 products and entered into several new strategic alliance agreements which diversified and enhanced our revenue streams.

Key financial performance highlights, as reported in accordance with GAAP requirements, are shown below. 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.

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Peer Group average pertains to the Fiscal 2018 peer group.

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Comparison of Target Versus Actual CEO Pay (In Year Earned)

The following chart compares actual versus target CEO pay for the past three fiscal years. To more accurately demonstrate the impact of Company performance on executive pay, comparisons include annual equity grants in the year earned, as opposed to the year granted. Values for fiscal years 2016 and 2017 pertain to Mr. Bedrosian, our former CEO. Values for Fiscal 2018 pertain to Mr. Crew, and include annualized base salaries and short-term incentives (STI). Actual pay for Mr. Crew includes long-term incentives granted in Fiscal 2019 based on Fiscal 2018 performance and is shown with and without new hire equity grant values. As shown below, actual pay levels over the past 3 years were well below target opportunities, even when one-time awards are included. Based on full-year annualized cash compensation for Mr. Crew, actual pay equals 66% of target including new hire grants and 44% of target excluding these one-time grants.

Fiscal 2018 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 shareholder interests, as well as best competitive practices. The Committee made the following adjustments to the program s core compensation elements for 2018:

What s Changed	**How It s Changed**	**Explanation**
Short-Term Incentives (Annual Bonus)	• Increased the target award	No changes were made to performance metrics. The weighting on the strategic /

	opportunity for the CEO from 90% of salary to 100% of salary, to improve pay competitiveness. • Increased the weighting on the strategic / individual objectives component from 10% to 20% of the total target award opportunity.	individual component was increased to further emphasize key strategic objectives such as product launches. The target award opportunity for the CEO was increased to position target annual cash compensation more in line with 50th percentile market values.
Long-Term Incentives	• Performance shares tied to our 3-year relative total shareholder return vs. a market index were granted for the first time in Fiscal 2018. • Grant levels for stock options and restricted stock will continue to be tied to Company performance and can range from 0% to 150% of target awards based on actual results versus pre-established goals.	No change made to award opportunities, award vehicles, or mix. The Committee continued to link equity grant levels to Company performance, including financial results and multi-year total shareholder return, to strengthen alignment with shareholder interests.

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Our Commitment to Sound Corporate Governance

In order to align our executive compensation program with long-term shareholder 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 shareholder approval
• Place primary emphasis on equity compensation to align executive and shareholder interests	• Permit stock hedging or pledging activities
• Use stock ownership guidelines for executive officers and non-employee directors	• Provide uncapped incentive 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

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 shareholder 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 shareholders through equity-based compensation and performance measures that help to drive shareholder 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 specific, qualitative and quantitative individual goals for the most recently completed fiscal year.
Long-Term Incentives	Equity (Variable)	Provides incentives for management to execute on financial and strategic goals that drive long-term shareholder value creation and support the Company s retention strategy.

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Target Compensation Mix

The charts below show that most of our NEO s target compensation for Fiscal 2018 is variable (80% for our CEO and an average of 69% for our other NEOs). Variable pay includes the target value of short-term cash incentives (STI), performance shares, stock options, and restricted stock.

Based upon Fiscal 2018 compensation as reported in the Summary Compensation Table on page 30 of this Proxy Statement, variable pay represents 72% of total pay for our CEO and 51% of average total pay for our other NEOs. This mix reflects below-Target annual incentives earned in Fiscal 2018 under the Annual Bonus Plan (shown as STI), target performance share grants in Fiscal 2018, no regular stock option or restricted stock grants in Fiscal 2018 based on Fiscal 2017 Company performance, one-time modest stock option retention grants to three NEOs (excluding Messrs. Crew and Kozlowski), and one-time equity grants to newly-hired or promoted NEOs.

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 consultant, Pearl Meyer & Partners (Pearl Meyer), 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 Pearl Meyer, 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 typically occur after finalizing fiscal year end performance results. Historically, annual grants of equity awards were typically approved at a meeting of the Committee in August/September of each year to reward prior year performance. Beginning with grants made in Fiscal 2015, annual equity grants occur in the July/August time frame, reflecting the Company s status change to a large accelerated filer (with an expedited filing date requirement). 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 2017, 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 2018 to review the competitiveness of the Executive Compensation Program and to provide ongoing advice relating to the Executive Compensation Program. The Committee assessed the independence of Pearl Meyer pursuant to the SEC rules and concluded that no conflict of interest exists that would prevent Pearl Meyer from independently advising the Committee.

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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 2018, the Committee considered publicly-available data, as well as a market study conducted by Pearl Meyer in April 2017. 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 in the upper half of the peer group in terms of employee headcount and operating income and between the 25th and 50th percentiles for net sales and enterprise value.

Company Name	Fiscal Year End # of Employees		Enterprise Value 6/30/2018 ($mm)		Fiscal Year End Operating Income ($mm)		Fiscal Year End Sales ($mm)	Cumulative 3 YR TSR 6/30/2018	Cumulative 5 YR TSR 6/30/2018
Aceto Corp.	286	$	357	$	44	$	638	-85.7%	-74.1%
Akorn, Inc.	2,296	$	2,585	$	111	$	841	-62.0%	22.7%
Albany Molecular Research Inc.	3,085			$	8	$	570		
Cambrex Corporation.	1,228	$	1,536	$	143	$	524	19.0%	274.4%
Depomed, Inc.	434	$	955	$	(12)	$	381	-68.9%	18.7%
Horizon Pharma plc	1,010	$	3,964	$	(92)	$	1,056	-52.3%	
Impax Laboratories Inc.	1,257			$	(28)	$	776		
INSYS Therapeutics, Inc.	343	$	420	$	(59)	$	141	-79.8%	56.9%
Jazz Pharmaceuticals plc	1,210	$	11,261	$	614	$	1,619	-2.1%	150.7%
Prestige Brands Holdings, Inc.	530	$	3,997	$	323	$	1,041	-17.0%	31.7%
United Therapeutics Corporation	800	$	3,920	$	1,025	$	1,725	-35.0%	71.9%
Lannett Company, Inc.	*1,251*	*$*	*1,245*	*$*	*130*	*$*	*685*	*-77.1%*	*14.2%*
% Rank	*73%*		*33%*		*64%*		*45%*	*22%*	*13%*

Two peers from the 2017 study were subsequently acquired (Albany Molecular Research Inc. in 2017 and Impax Laboratories Inc. in 2018).

For purposes of a subsequent market pay analysis conducted by Pearl Meyer in May 2018, the Committee approved a revised peer group consisting of 15 companies, including the 10 remaining 2017 peers shown above (excluding former peer Albany Molecular Research) plus 5 new companies (Acorda Therapeutics Inc., AMAG Pharmaceuticals Inc., Amphastar Pharmaceuticals Inc., Emergent BioSolutions Inc., and Supernus Pharmaceuticals Inc.) to round out the sample size. 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 April 2017 Pearl Meyer study, target total direct compensation, including the sum of base salary plus target short-term and long-term incentives, was below the competitive range (defined as +/- 15%) of 50th percentile market values for all then-current NEOs other than Mr. Abt, who was slightly above the range based on his then-current position. Aggregate target total direct compensation was equal to 105% of the 50th percentile. Actual total direct compensation was well-below 50th percentile market values for most of our then-current NEOs and equal to 64% of the 50th percentile in the aggregate, reflecting below-target incentive awards based on actual vs. planned performance. 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.

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2018 Executive Compensation Program Decisions

Base Salary

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 2017 study, current salaries were below 50th percentile market values for 4 of the 5 then-current NEOs. However, in light of Fiscal 2017 performance, the Committee decided to not provide salary increases to any of our NEOs, other than a promotional increase of 16.8% for Mr. Abt who assumed additional responsibilities in Fiscal 2018. The following table summarizes annualized salaries for Fiscal 2017 and 2018 for our NEOs. Annualized Fiscal 2018 salaries differ from actual values received as reported in the Summary Compensation Table for certain incumbents with less than a full year of service and promotions.

NEO	2017 Base Salary	2018 Base Salary	% Change
Timothy C. Crew	$	$ 735,000	N/A
Martin P. Galvan	$ 415,000	$ 415,000	
Samuel H. Israel	$	$ 400,000	N/A
John Kozlowski	$	$ 325,000	N/A
John M. Abt	$ 295,000	$ 344,500	16.8%
Arthur P. Bedrosian	$ 735,000	$ 735,000	
Kevin Smith	$ 370,000	$ 370,000	

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. Actual payouts can range from 0% (below threshold) to 200% (superior performance) of target awards 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:

	Annual Bonus Opportunity As a % of Salary		
NEO	Threshold (25% of Target)	Target (100% of Target)	Superior (200% of Target)
Arthur P. Bedrosian, Timothy C. Crew	25%	100%	200%
All Other NEOs	15%	60%	120%

In Fiscal 2018, Mr. Bedrosian s target award opportunity was increased from 90% of salary to 100% of salary to align more closely with 50th percentile market values. Upon his appointment as CEO, Mr. Crew s target award opportunity was also set at 100% of base salary. Expressed as percentages of salary, Fiscal 2018 award opportunities were the same as those established in Fiscal 2017 for all other NEOs who were employed during both years.

The overall annual bonus plan for Fiscal 2018 was comprised of two components:

- **Corporate Financial & Operational Goals: 80% 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:

Performance Metric	**Weighting (out of 100%)**
Adjusted Operating Income	40%
Adjusted Earnings Per Share (EPS)	20%
Adjusted Net Sales	20%
Strategic / Individual Objectives	20%

Fiscal 2018 performance metrics were the same as those established in Fiscal 2017. However, the weighting on strategic / individual objectives was increased to 20% of the total target award opportunity to place further emphasis on key strategic initiatives such as new product launches, and the weighting on Adjusted Operating Income was reduced to 40% of the total target award opportunity. Adjusted Operating Income is defined as operating income excluding bonus and stock-based compensation expense, as further adjusted for certain non-recurring items.

Adjusted EPS is defined as diluted EPS excluding bonus and stock-based compensation expense, as further adjusted for certain non-recurring items. Adjusted Net Sales is defined as Net Sales excluding the impact of customer settlement charges. Any adjustments are reviewed and approved by the Committee.

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- **Strategic / Individual Objectives: 20% of the total target award opportunity** is based on the achievement of pre-established quantitative and qualitative strategic and individual goals, to reinforce key strategic objectives and to promote individual accountability and line of sight. For Fiscal 2018, half of the award opportunity for all NEOs was tied to new product launches and half was tied to various other strategic, financial and operational objectives, taking into consideration each NEO s job function and responsibilities. For competitive harm reasons, the Company does not disclose specific details on individual goals and other strategic objectives.

2018 Short-Term Incentives (Annual Bonus): Results and Payouts

- **Corporate Financial & Operational Results (Collectively Weighted 80% of Total Target Award).** Fiscal 2018 Target goals for Adjusted Operating Income, Adjusted EPS, and Adjusted Net Sales were set above Fiscal 2017 actual levels and 2018 internal budgets which anticipated continued challenging market conditions within the generic pharmaceuticals sector. For Fiscal 2018, the Committee established Threshold performance hurdles at 95% of Target goals, to further encourage the achievement of Target goals, and Superior hurdles at 102% to 104% of Target to account for stretch goals. The Committee viewed these performance hurdles as very challenging in light of then-current internal forecasts and economic conditions. Fiscal 2018 financial performance goals and actual results are shown in the following table:

		Performance Goals			
Performance Metric	**Weighting (Out of 80%)**	**Threshold**	**Target**	**Superior**	**Actual**
Adjusted Operating Income ($ millions)	40%	$ 242.4	$ 255.4	$ 261.4	$ 236.3
Adjusted EPS	20%	$ 3.00	$ 3.16	$ 3.23	$ 2.97
Adjusted Net Sales ($ millions)	20%	$ 663.0	$ 695.9	$ 725.0	$ 684.6