LANNETT CO INC
Form 10QSB
February 11, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2002.

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ____________ TO ____________.

COMMISSION FILE NO. 0-9036

LANNETT COMPANY, INC.
(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

STATE OF DELAWARE	23-0787-699
(STATE OF INCORPORATION)	(I.R.S. EMPLOYER I.D. NO.)

9000 STATE ROAD
PHILADELPHIA, PA 19136
(215) 333-9000
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES AND TELEPHONE NUMBER)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO ____

As of February 3, 2003, there were 13,342,210 shares of the issuer's common stock, $.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

LANNETT COMPANY, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	(UNAUD 12/3
ASSETS	----

CURRENT ASSETS:	
Cash	$ 4
Trade accounts receivable (net of allowance of $113,000 and $42,000)	5,0
Inventories	6,3
Prepaid expenses	4
Deferred tax asset	3
Total current assets	12,6
PROPERTY, PLANT AND EQUIPMENT	10,9
Less accumulated depreciation	(4,0
	6,8
OTHER ASSETS	6
Total assets	$ 20,1
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Line of credit	$
Current portion of long-term debt	7
Accounts payable	4
Accrued expenses	3
Income taxes payable	
Total current liabilities	1,5
LONG-TERM DEBT, LESS CURRENT PORTION	2,7
DEFERRED TAX LIABILITY	6
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY:	
Common stock - authorized 50,000,000 shares par value $.001; issued and outstanding, 13,306,976 shares and 13,263,838 shares, respectively	
Additional paid-in capital	2,4
Retained earnings	12,7
Total shareholders' equity	15,1
Total liabilities and shareholders' equity	$ 20,1

See notes to consolidated financial statements

LANNETT COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	FOR THE THREE MONTHS ENDED		FOR
	12/31/02	12/31/01	12/3
NET SALES	$ 10,183,161	$ 5,391,341	$ 19,3
COST OF SALES	3,965,474	2,236,715	7,8
Gross profit	6,217,687	3,154,626	11,5
RESEARCH AND DEVELOPMENT EXPENSES	529,196	367,670	9
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,262,633	768,670	2,1
Operating profit	4,425,858	2,018,286	8,3
OTHER INCOME (EXPENSE):			
Interest income-restricted	-	6,732	
Interest expense	(13,321)	(91,136)	(
	(13,321)	(84,404)	(
INCOME BEFORE INCOME TAXES	$ 4,412,537	$ 1,933,882	$ 8,3
INCOME TAX EXPENSE	$ 1,649,624	$ 677,290	$ 3,0
NET INCOME	$ 2,762,913	$ 1,256,592	$ 5,3
BASIC INCOME PER SHARE	$ 0.21	$ 0.10	$
DILUTED INCOME PER SHARE	$ 0.21	$ 0.09	$
BASIC WEIGHTED AVERAGE NUMBER OF SHARES	13,288,331	13,219,127	13,2

DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	13,415,584	13,303,645	13,4

See notes to the consolidated financial statements

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LANNETT COMPANY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	FOR TH
	12/31/
OPERATING ACTIVITIES:	
Net income	$ 5,314,5
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	495,4
Deferred tax expense	
Changes in assets and liabilities which provided/(used) cash:	
Trade accounts receivable	(632,4
Inventories	(1,368,1
Prepaid expenses and other assets	(375,0
Accounts payable	(240,3
Accrued expenses	(334,2
Income taxes payable	(726,5
Net cash provided by operating activities	2,133,1
INVESTING ACTIVITIES:	
Purchases of property, plant and equipment	(793,6
Deposits paid on machinery or building additions not placed in service	(290,4
Net cash used in investing activities	(1,084,1
FINANCING ACTIVITIES:	
Net repayments under line of credit	(202,6
Repayments under line of credit -- shareholder	
Repayments of debt	(425,1
Proceeds from debt, net of restricted cash released	
Proceeds from issuance of stock	46,4

Net cash used in financing activities		(581,4
NET INCREASE IN CASH		467,6
CASH, BEGINNING OF YEAR		
CASH, END OF PERIOD	$	467,6
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during period	$	37,2
Income taxes paid during period	$	3,908,3

See notes to the consolidated financial statements

LANNETT COMPANY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and the results of operations and cash flows.

The results of operations for the three and six months ended December 31, 2002 and 2001 are not necessarily indicative of results for the full fiscal year.

While the Company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2002.

NOTE 2. NEW ACCOUNTING STANDARDS

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142. Major provisions of these

Statements and their effective dates for the Company are as follows:

- all business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.
- intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability
- goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective July 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.
- Effective July 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator
- all acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

Management's assessment is that these Statements did not have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations. SFAS 143 applies to all entities, including rate-regulated entities, that have legal obligations associated with the retirement of a tangible long-lived asset that results from acquisition, construction or development and (or) normal operations of the long-lived asset. The application of this Statement is not limited to certain specialized industries, such as the extractive or nuclear industries. This Statement also applies, for example, to a company that operates a manufacturing facility and has a legal obligation to dismantle the manufacturing plant and restore the underlying land when it cease operation of that plant. A liability for an asset retirement obligation should be recognized if the obligation meets the definition of a liability and can be reasonably estimated. The initial recording should be at fair value. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, with earlier application encouraged. The provisions of this Statement do not have a material impact on the financial condition or results of operations of the Company.

In August 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 retains the existing requirements to recognize and measure the impairment of long-lived assets to be held and used or to be disposed of by sale. However, SFAS 144 makes changes to the scope and certain measurement requirements of existing accounting guidance. SFAS 144 also changes the requirements relating to reporting the effects of a disposal or discontinuation of a segment of a business. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of this statement does not have a significant impact on the financial condition or results of operations of the Company.

In April 2002, FASB issued SFAS 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB No. 13, and Technical Corrections. SFAS No. 145 changes the accounting principles governing extraordinary items by clarifying and, to some extent, modifying the existing definition and criteria, specifying disclosure for extraordinary items and specifying disclosure requirements for other unusual or infrequently occurring events and transactions that are not extraordinary items. SFAS 145 is effective for financial statements issued for fiscal years beginning after June 15, 2002, with early adoption encouraged. The adoption of this statement does not have a significant impact on the financial condition or results of operations of the Company.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is effective prospectively for exit and disposal activities initiated after December 31, 2002. As the provisions of SFAS 146 are to be applied prospectively after adoption date, the Company cannot determine the potential effects that the adoption of SFAS 146 will have on its consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure, an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of SFAS No. 148 are effective beginning in the quarter ended March 29, 2003 and are not expected to have a material impact on the Company's financial position or results of operations.

NOTE 3. INVENTORIES

Inventories consist of the following:

	December 31, 2002 (unaudited)	June 30, 2002
Raw materials	$ 2,943,948	$ 2,479,344
Work-in-process	1,151,518	691,346
Finished goods	2,021,124	1,560,029
Packaging supplies	188,801	206,488
	$ 6,305,391	$ 4,937,207

NOTE 4. INCOME TAXES

The provision for federal and state income taxes for the three months ended December 31, 2002 and 2001 was $1,649,624 and $677,290, respectively. The provision for federal and state income taxes for the six months ended December 31, 2002 and 2001 was $3,014,241 and $1,169,000, respectively.

NOTE 5. RELATED PARTY TRANSACTIONS

The Company had sales of approximately $138,000 and $62,000 during the six months ended December 31, 2002 and 2001, respectively, to a distributor (the "related party") in which the owner is a relative of the Chairman of the Board of Directors and principal shareholder of the Company. The Company also incurred sales commissions expense to the related party of approximately $68,000 and $112,000 during the six months ended December 31, 2002 and 2001, respectively. Accounts receivable includes amounts due from the related party of approximately $60,000 and $59,000 at December 31, 2002 and June 30, 2002, respectively. Accrued expenses include amounts due to the related party of approximately $0 and $8,000 at December 31, 2002 and June 30, 2002, respectively. In the Company's opinion, the terms of these transactions were not more favorable than would have been from a non-related party.

NOTE 6. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

In addition to historical information, this Form 10-QSB contains forward-looking information. The forward-looking information contained herein is subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in the following section entitled "Management's Discussion and Analysis of Results of Operations and Financial Condition." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Form 10-QSB. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances which arise later. Readers should carefully review the risk factors described in other documents the Corporation files from time to time with the Securities and Exchange Commission, including the Annual report on Form 10-KSB filed by the Corporation in Fiscal 2002, and any Current Reports on Form 8-K filed by the corporation.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies include those described below. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to the Consolidated Financial Statements included herein.

REVENUE RECOGNITION

The Company recognizes revenue when its products are shipped. Under a contract in which product development occurs, the Company recognizes revenue when services are rendered. There are no inventory consignments held at customers' locations. Provisions for estimated rebates, chargebacks, returns and other adjustments are provided for in the period the related sales are recorded. If the historical data the Company uses to calculate these estimates does not accurately approximate future activity, its net sales, gross profit, net income and earnings per share could decrease. However, management believes that these estimates are reasonable based upon historical experience and current conditions.

ACCOUNTS RECEIVABLE

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of their current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the Company's expectations and

the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past.

INVENTORIES

The Company values its inventory at the lower of cost or market and regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on estimated forecasts of product demand and production requirements. The Company's estimates of future product demand may prove to be inaccurate, in which case it may have understated or overstated the provision required for excess and obsolete inventory. In the future, if the Company's inventory is determined to be overvalued, the Company would be required to recognize such costs in cost of goods sold at the time of such determination. Likewise, if inventory is determined to be undervalued, the Company may have recognized excess cost of goods sold in previous periods and would be required to recognize such additional operating income at the time of sale.

RESULTS OF OPERATIONS --THREE MONTHS ENDED DECEMBER 31, 2002 COMPARED WITH THREE MONTHS ENDED DECEMBER 31, 2001.

Net sales for the three months ended December 31, 2002 ("Second Quarter Fiscal 2003") increased by 89% to $10,183,161 from net sales of $5,391,341 for the three months ended December 31, 2001 ("Second Quarter Fiscal 2002"). Sales increased during Second Quarter Fiscal 2003 as a result of higher sales of a portion of the Company's products, including Butalbital, Aspirin, Caffeine with Codeine Capsules, which was first marketed in December 2001, and Digoxin Tablets, which was first marketed in September 2002. Additionally, sales increased due to improved marketing activities, new customer accounts, favorable market conditions, and increased unit sales on a portion of the Company's line of products.

Cost of sales increased by 77%, to $3,965,474 in Second Quarter Fiscal 2003 from $2,236,715 in Second Quarter Fiscal 2002. The cost of sales increase is due to an increase in direct variable costs and certain indirect overhead costs as a result of the increase in sales volume, and related production activities. These costs include raw materials, labor and benefit expenses, and depreciation expense. Gross profit margins for Second Quarter Fiscal 2003 and Second Quarter Fiscal 2002 were 61% and 59%, respectively. The increase in the gross profit percentage is due to the product sales mix, a higher absorption of fixed overhead and production costs, and improved unit profit margins on a portion of the Company's line of products.

Research and development expenses increased by 44% to $529,196 in Second Quarter Fiscal 2003 from $367,670 in Second Quarter Fiscal 2002. This increase is a result of an increase in the cost of materials related to the development and formulation of new products not yet approved by the FDA, and an increase in fees related to the services performed by external research and development firms.

Selling, general and administrative expenses increased by 64% to $1,262,633 in Second Quarter Fiscal 2003 from $768,670 in Second Quarter Fiscal 2002. This increase is a result of increased payroll and benefit expenses due to the hiring of additional administrative employees, higher professional services fees, and increased marketing and advertising expenses, partially offset by a decrease in commission expenses due to the Company's reduction of fees related to sales brokerage agreements.

As a result of the foregoing, the Company increased its operating profit to $4,425,858 for Second Quarter Fiscal 2003, from $2,018,286 for Second Quarter Fiscal 2002.

The Company's interest expense decreased to $13,321 in Second Quarter Fiscal 2003 from $91,136 in Second Quarter Fiscal 2002 as a result of principal repayments and reduced interest rates. See Liquidity and Capital Resources below.

The Company's income tax expense increased from $677,290 in Second Quarter Fiscal 2002 to $1,649,624 in Second Quarter Fiscal 2003 as a result of the increase in taxable income.

The Company reported net income of $2,762,913 for Second Quarter Fiscal 2003, or $0.21 basic and diluted income per share, compared to net income of $1,256,592 for Second Quarter Fiscal 2002, or $0.10 basic and $0.09 diluted income per share.

RESULTS OF OPERATIONS --SIX MONTHS ENDED DECEMBER 31, 2002 COMPARED WITH SIX MONTHS ENDED DECEMBER 31, 2001.

Net sales for the six months ended December 31, 2002 increased by 104% to $19,309,817 from net sales of $9,464,173 for the six months ended December 31, 2001. Sales increased during the six months ended December 31, 2002 as a result of higher sales of a portion of the Company's products, including Butalbital, Aspirin, Caffeine with Codeine Capsules, which was first marketed in December 2001, and Digoxin Tablets, which was first marketed in September 2002. Additionally, sales increased due to improved marketing activities, new customer accounts, favorable market conditions, and increased unit sales on a portion of the Company's line of products.

Cost of sales for the six months ended December 31, 2002 increased by 106%, to $7,801,585 from $3,783,159 for the six months ended December 31, 2001. The cost of sales increase is due to an increase in direct variable costs and certain indirect overhead costs as a result of the increase in sales volume, and related production activities. These costs include raw materials, labor and benefit expenses, and depreciation expense. Gross profit margins for the six months ended December 31, 2002 and December 31, 2001 were each 60%.

Research and development expenses increased by 38% to $986,007 for the six months ended December 31, 2002 from $714,474 for the six months ended December 31, 2001. This increase is a result of an increase in the cost of materials related to the development and formulation of new products not yet approved by the FDA, and an increase in fees related to the services performed by external research and development firms.

Selling, general and administrative expenses increased by 50% to $2,156,158 for the six months ended December 31, 2002 from $1,433,974 for the six months ended December 31, 2001. This increase is a result of increased payroll and benefit expenses due to the hiring of additional administrative employees, higher professional services fees, and increased marketing and advertising expenses, partially offset by a decrease in commission expenses due to the Company's reduction of fees related to sales brokerage agreements.

As a result of the foregoing, the Company increased its operating profit to $8,366,067 for the six months ended December 31, 2002, from $3,532,566 for the six months ended December 31, 2001.

The Company's interest expense decreased from $212,434 for the six months ended December 31, 2001 to $37,261 for the six months ended December 31, 2002 as a result of principal repayments, and reduced interest rates. See Liquidity and Capital Resources below.

The Company's income tax expense increased from $1,169,000 for the six months ended December 31, 2001 to $3,014,241 for the six months ended December 31, 2002 as a result of the increase in taxable income.

The Company reported net income of $5,314,565 for the six months ended December 31, 2002, or $0.40 basic and diluted income per share, compared to net income of $2,169,767 for the six months ended December 31, 2001, or $0.16 basic and diluted income per share.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities of $2,133,149 for the six months ended December 31, 2002 was attributable to net income of $5,314,565 as adjusted for the effects of non-cash items of $495,459 and changes in operating assets and liabilities totaling $3,676,875. Significant changes in operating assets and liabilities are comprised of: i) an increase in trade accounts receivable of $632,471 due to increased sales, ii) an increase in inventories of $1,368,184 due to increases in raw materials, work-in-process and finished goods--due to the Company's decision to increase its inventory carrying levels to amounts sufficient to maximize customer fulfillment and minimize customer back-orders, iii) an increase in prepaid expenses and other assets of $375,024 due to deposits and advance payments made by the Company for equipment maintenance plans, and the prepayment of income taxes related to the Company's annual tax return extension forms, iv) a decrease in accounts payable of $240,388 due to the timing and receipts of certain inventory shipments, and reduced capital equipment purchases, v) a decrease in accrued expenses of $334,256 due to reduced capital equipment purchases, and the payment of accrued insurance premium costs and vi) a decrease in income taxes payable of $726,552 due to the payments of the Company's estimated tax liabilities.

The net cash used in investing activities of $1,084,102 for the six months ended December 31, 2002 was attributable to $793,612 expended for equipment and building additions and $290,490 in deposits paid for equipment not yet received or placed in service, or building additions not yet completed. The Company's anticipated budget for capital expenditures in Fiscal 2003 is approximately $1,700,000. The anticipated additional capital expenditure requirements will support the Company's growth related to new product introductions and increased production output due to expected higher sales levels. As of December 31, 2002, none of the financing proceeds received from the bonds issued during Fiscal 1999 were available for future capital expenditures; however approximately $290,490 was paid by the Company prior to December 31, 2002 for production equipment expected to arrive, or be placed in service during the Fiscal Year 2003. This balance is included in Other Assets at December 31, 2002.

The net cash used in financing activities of $581,419 for the six months ended December 31, 2002 was attributable to principal repayments on a bank line of credit of $202,688, principal repayments on bond debt of $425,198, and cash proceeds of $46,467 related to the Company's sale of common stock pursuant to the exercise of employee stock options.

In April 1999, the Company entered into a loan agreement (the "Agreement") with a governmental authority (the "Authority") to finance future construction and growth projects of the Company. The Authority has issued $3,700,000 (the "Authority Loan") in tax-exempt variable rate demand and fixed rate revenue bonds to provide the funds to finance such growth projects pursuant to a trust indenture ("the "Trust Indenture"). A portion of the Company's proceeds from the bonds was used to pay for bond issuance costs of approximately $170,000. The remainder of the proceeds was deposited into a money market account, which is restricted to future plant and equipment needs of the Company as specified in the Agreement. The Trust Indenture requires the Company to repay the Authority Loan through installment payments beginning in May 2003 and continuing through May 2014, the year the bonds mature. At December 31, 2002, the Company has $3,514,652 outstanding on the Authority Loan, of which $730,008 is classified as currently due. The remainder is classified as a long-term liability. In April 1999, an irrevocable letter of credit of $3,770,000 was issued by a bank to secure payment

of the Authority Loan and a portion of the related accrued interest. At December 31, 2002, no portion of the letter of credit has been utilized.

In April 1999, the Company authorized and directed the issuance of $2,300,000 in taxable variable rate demand and fixed rate revenue bonds pursuant to a trust indenture between the Company and a bank as trustee. From the proceeds of the bonds, $750,000 was utilized to pay deferred interest owed to Mr. Farber, the Chairman of the Board of Directors and Chief Executive Officer of the Company, and approximately $1,440,000 was paid to a bank to refinance a mortgage term loan and equipment term loans. The remainder of the proceeds was used to pay bond issuance costs of approximately $109,000. The Trust Indenture requires the Company to repay the bonds through installment payments beginning in June 1999 and continuing through May 2003, the year the bonds mature. During the Second Quarter Fiscal 2003, the Company repaid the balance of these bonds in full.

The Company has a $3,000,000 line of credit from a bank. The line of credit is due December 1, 2003, at which time the Company may renew and extend the due date. At December 31, 2002, the Company had $0 outstanding and $3,000,000 available under the line of credit.

The Company believes that cash generated from its operations and the balances available under the Company's existing loans and lines of credit as of December 31, 2002, are sufficient to finance its level operations and currently anticipated capital expenditures.

Except as set forth in this report, the Company is not aware of any trends, events or uncertainties that have or are reasonably likely to have a material adverse impact on the Company's short-term or long-term liquidity or financial condition.

PROSPECTS FOR THE FUTURE

As of December 31, 2002, there are several new products under development. Five of these products have been redeveloped and submitted to the Food and Drug Administration ("FDA") for supplemental approval. The remainder of the products in development represent either previously approved Abbreviated New Drug Applications ("ANDA's") which the Company is planning to reintroduce, or new formulations which the Company will submit ANDA's for FDA approval. The Company has also contracted for and initiated the services of outside research and development firms to supplement the Company's internal research and development efforts. Since the Company has no control over the FDA review process, management is unable to anticipate whether or when it will be able to begin producing and shipping additional products.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Regulatory Proceedings. The Company is engaged in an industry which is subject to considerable government regulation relating to the development, manufacturing and marketing of pharmaceutical products. Accordingly, incidental to its business, the Company periodically responds to inquiries or engages in administrative and judicial proceedings involving regulatory authorities, particularly the FDA and the Drug Enforcement Agency.

Employee Claims. A claim of retaliatory discrimination has been filed by a former employee with the Pennsylvania Human Relations Commission ("PHRC"), and the Equal Employment Opportunity Commission ("EEOC"). The Company has denied liability in this matter. The PHRC has made a determination that the complaint against the Company should be dismissed because the facts do not establish probable cause of the allegations of discrimination. The matter is still pending before the EEOC. At this time, management is unable to estimate a range of loss, if any, related to this action. However, management believes that the outcome will not have a material adverse impact on the financial position of the Company.

Additionally, two separate claims of discrimination have been filed against the Company with the PHRC and the EEOC. The Company was notified of the Complaints in June 2001 and July 2001, respectively. The Company has denied liability in these matters. The EEOC has made a determination that the former Complaint should be dismissed because the EEOC was unable to conclude that the information obtained during its investigation establishes violations of the relevant statutes. The matter is still pending before the EEOC. The latter Complaint is being investigated by the PHRC and EEOC pursuant to their normal procedures. At this time, management is unable to estimate a range of loss, if any, related to these actions. However, management believes that the outcomes will not have a material adverse impact on the financial position of the Company.

DES Cases. The Company is currently engaged in several civil actions as a co-defendant with many other manufacturers of Diethylstilbestrol ("DES"), a synthetic hormone. Prior litigation established that the Company's pro rata share of any liability is less than one-tenth of one percent. The Company was represented in many of these actions by the insurance company with which the Company maintained coverage during the time period that damages were alleged to have occurred. The insurance company denied coverage of actions filed after January 1, 1992. With respect to these actions, the Company paid nominal damages or stipulated to its pro rata share of any liability. The Company has either settled or is currently defending over 500 such claims. At this time, management is unable to estimate a range of loss, if any, related to these actions. However, management believes that the outcomes will not have a material adverse impact on the financial position of the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5. OTHER INFORMATION

NONE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) A list of the exhibits required by Item 601 of Regulation S-B to be filed as a part of this Form 10-QSB is shown on the Exhibit Index filed herewith.

(b) The Company did not file any reports on Form 8-K during the six months ended December 31, 2002.

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANNETT COMPANY, INC.

Dated: February 3, 2003 By: / s / Larry Dalesandro

Larry Dalesandro
Chief Operating Officer

Dated: February 3, 2003 By: / s / William Farber

William Farber
Chairman of the Board and Chief Executive Officer

I, Larry Dalesandro, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Lannett Company, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial date and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicted in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 3, 2003

/s/Larry Dalesandro

Chief Operating Officer

I, William Farber, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Lannett Company, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial date and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicted in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 3, 2003

/s/William Farber

Chief Executive Officer

EXHIBIT INDEX

Exhibit Number	Description	Method of Filing	Page
11	Computation of Per Share Earnings	Filed Herewith	
99.1	Certification Pursuant to 18 USC Section 1350	Filed Herewith	