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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

LANNETT COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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ASSETS	(UNAUDITED)	06/30/
-----	3/31/02	-----
CURRENT ASSETS:		
Cash	\$ -	\$ -
Trade accounts receivable (net of allowance of \$644,590 and \$291,314 for bad debts, chargebacks, rebates, and other adjustments)	6,299,818	4,100,000
Inventories	4,214,298	3,156,000
Prepaid expenses	119,765	112,000
Deferred tax asset	147,703	983,000
	-----	-----
Total current assets	10,781,584	8,352,000
	-----	-----
PROPERTY, PLANT AND EQUIPMENT	10,155,307	8,667,000
Less accumulated depreciation	(3,654,586)	(3,089,000)
	-----	-----
	6,500,721	5,578,000
	-----	-----
RESTRICTED CASH	-	1,225,000
OTHER ASSETS	484,993	437,000
	-----	-----
Total assets	17,767,298	\$ 15,399,000
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit	\$ 441,567	\$ 2,000,000
Line of credit-shareholder	1,871,439	4,225,000
Accounts payable	481,372	917,000
Accrued expenses	700,884	303,000
Income taxes payable	1,770,854	248,000
Current portion of long-term debt	728,330	728,000
	-----	-----
Total current liabilities	5,994,446	8,422,000
	-----	-----
LONG-TERM DEBT, LESS CURRENT PORTION	3,386,948	3,819,000
	-----	-----
DEFERRED TAX LIABILITY	641,285	641,000
	-----	-----
COMMITMENTS AND CONTINGENCIES:		
SHAREHOLDERS' EQUITY:		
Common stock - authorized 50,000,000 shares par value \$.001; issued and outstanding, 13,221,460 shares	13,222	13,000
Additional paid-in capital	2,327,444	2,312,000
Retained earnings	5,403,953	189,000
	-----	-----
Total shareholders' equity	7,744,619	2,515,000
	-----	-----

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Total liabilities and shareholders' equity	\$ 17,767,298	\$ 15,399
	=====	=====

See notes to consolidated financial statements

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LANNETT COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	3/31/02	3/31/01	3/31/02	3/31/01
	-----	-----	-----	-----
NET SALES	\$ 8,638,229	\$ 2,640,448	\$ 18,102,402	\$ 6,689,5
COST OF SALES	2,075,856	1,425,882	5,859,014	4,468,0
	-----	-----	-----	-----
Gross profit	6,562,373	1,214,566	12,243,388	2,221,4
RESEARCH AND DEVELOPMENT EXPENSES	551,215	314,422	1,265,691	1,036,6
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,072,342	449,367	2,506,316	1,265,1
	-----	-----	-----	-----
Operating profit /(loss)	4,938,816	450,777	8,471,381	(80,43
	-----	-----	-----	-----
OTHER INCOME (EXPENSE):				
Income from settlement of lawsuit, net of fees	-	-	-	1,173,1
Interest income-restricted	4,463	25,158	23,098	82,0
Interest expense	(36,715)	(209,089)	(249,149)	(604,6
	-----	-----	-----	-----
	(32,252)	(183,931)	(226,051)	650,4
	-----	-----	-----	-----
INCOME BEFORE TAXES	\$ 4,906,564	\$ 266,846	\$ 8,245,330	\$ 570,0
	-----	-----	-----	-----
INCOME TAX EXPENSE	\$ 1,862,281	\$ 91,000	\$ 3,031,281	\$ 227,0
NET INCOME	\$ 3,044,283	\$ 175,846	\$ 5,214,049	\$ 343,0
	=====	=====	=====	=====

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BASIC INCOME PER SHARE	\$.23	\$.01	\$.39	\$.
DILUTED INCOME PER SHARE	\$.23	\$.01	\$.39	\$.
BASIC WEIGHTED AVERAGE NUMBER OF SHARES	13,220,345	13,206,128	13,215,163	13,206,1
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	13,321,429	13,206,128	13,306,779	13,206,1

See notes to the consolidated financial statements

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LANNETT COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE NINE MONTHS ENDED	
	3/31/02	3/31/01
	-----	-----
OPERATING ACTIVITIES:		
Net income	\$ 5,214,049	\$ 343,043
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	604,170	562,092
Write-off of capitalized interest	35,773	-
Deferred income tax expense	835,700	173,115
Changes in assets and liabilities which provided/(used) cash:		
Trade accounts receivable	(2,562,821)	(621,809)
Inventories	(1,058,189)	(184,733)
Prepaid expenses and other assets	(280,858)	351,844
Accounts payable	(436,025)	(374,086)
Accrued expenses	760,555	(179,424)
Income taxes payable	1,522,745	-
	-----	-----
Net cash provided by operating activities	4,635,099	70,042

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	-----	-----
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,530,695)	(931,769)
	-----	-----
Net cash used in investing activities	(1,530,695)	(931,769)
	-----	-----
FINANCING ACTIVITIES:		
Net borrowings/(repayments) under line of credit	(1,558,433)	847,709
Repayments under line of credit - shareholder	(2,353,561)	-
Repayments of debt	(432,944)	(338,069)
Proceeds from debt, net of restricted cash released	1,225,649	352,087
Proceeds from issuance of stock	14,885	-
	-----	-----
Net cash provided by/(used in) financing activities	(3,104,404)	861,727
	-----	-----
NET CHANGE IN CASH	-	-
CASH, BEGINNING OF YEAR	-	-
	-----	-----
CASH, END OF PERIOD	\$ -	\$ -
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during period	\$ 161,433	\$ 306,763
Income taxes paid during period	\$ 672,836	\$ 0

See notes to the consolidated financial statements

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LANNETT COMPANY, INC. AND SUBSIDIARIES

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 nine months ended March 31, 2002 and 2001 are not necessarily indicative of results for the full year.

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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, 2001.

NOTE 2. NEW ACCOUNTING STANDARDS

In July 2000, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133, was effective for all fiscal quarters of fiscal years beginning after June 15, 2000. There has been no accounting, or financial effect on the Company for the three and nine months ended March 31, 2002 with respect to this Statement. The Company will continue to analyze the impact, if any, of adopting SFAS No. 133 will have on its consolidated financial position and results of operations.

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

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- 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

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impairment testing and segment reporting.

Although management is still reviewing the provisions of these Statements, its preliminary assessment is that these Statements will 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 result 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 ceases 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 the Statement are not expected to 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 is not expected to have a significant impact on the financial condition or results of operations of the Company.

NOTE 3. INVENTORIES

Inventories consist of the following:

	March 31, 2002	
	----- (unaudited)	
Raw materials	\$ 1,792,437	\$
Work-in-process	847,924	
Finished goods	1,368,124	
Packaging supplies	205,813	
	----- \$ 4,214,298	\$ =====

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NOTE 4. INCOME TAXES

The provision for federal and state income taxes for the three months ended March 31, 2002 and 2001 was \$1,862,281 and \$91,000, respectively. The provision for federal and state income taxes for the nine months ended March 31, 2002 and 2001 was \$3,031,281 and \$227,000, respectively.

NOTE 5. RELATED PARTY TRANSACTIONS

The Company had sales of approximately \$103,000 and \$76,000 during the nine months ended March 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 payable to the related party of approximately \$169,000 and \$297,000 during the nine months ended March 31, 2002 and 2001, respectively. Accounts receivable includes amounts due from the related party of approximately \$38,000 and \$34,000 at March 31, 2002 and June 30, 2001, respectively. Accrued expenses include amounts due to the related party of approximately \$13,000 and \$29,000 at March 31, 2002 and June 30, 2001, respectively.

NOTE 6. SETTLEMENT OF LAWSUIT

Included in other income for the nine months ended March 31, 2001 is \$1,173,149 in income from the settlement of a lawsuit, net of fees. The lawsuit was initiated after a chemical supplier failed to supply the Company with raw material for its manufacturing process, despite the existence of a signed five-year supply contract. Lannett alleged that the breach of contract delayed the introduction of one of its products into the marketplace. Consequently, the Company and the defending party settled the suit out of court. The Company received approximately \$1.5 million in First Quarter Fiscal 2001. The Company incurred approximately \$305,000 in legal fees relating to the lawsuit. These fees were netted with the income received in First Quarter Fiscal 2001.

NOTE 7. RECLASSIFICATIONS

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

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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 2001, and any Current Reports on Form 8-K filed by the corporation.

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

Net sales for the three months ended March 31, 2002 ("Third Quarter Fiscal 2002") increased by 227% to \$8,638,229 from net sales of \$2,640,448 for the three months ended March 31, 2001 ("Third Quarter Fiscal 2001"). Sales increased as a result of additions to the Company's prescription (Rx) line of products, including Primidone 50 mg tablets, first marketed in May 2001, Prednisolone tablets, first marketed in October 2001, Butalbital with Aspirin, Caffeine and Codeine Phosphate capsules, first marketed in December 2001, and Isoniazid tablets, first marketed in January 2002. Additionally, sales increased due to improved marketing activities, new customer accounts, favorable market conditions, increased unit sales, and increased unit revenues on a portion of the Company's niche line of products. During the current fiscal year, one of the Company's competitors suspended production and distribution of a generic product which Lannett continued to produce and market. Consequently, Lannett was able to increase its sales output to meet the unchanged demand for the item. Lannett increased the total revenue earned related to the product, thereby increasing total sales for the period compared to the prior period. The increase in Rx sales was offset by a decrease in over-the-counter (OTC) product sales, due to increased competition. Rx sales increased by approximately \$6,238,000 from Third Quarter Fiscal 2001 to Third Quarter Fiscal 2002. OTC product sales decreased by approximately \$241,000 from Third Quarter Fiscal 2001 to Third Quarter Fiscal 2002.

Cost of sales increased by 46%, to \$2,075,856 in Third Quarter Fiscal 2002 from \$1,425,882 in Third Quarter Fiscal 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 benefits expenses, depreciation expense, and manufacturing and laboratory supplies. Gross profit margins for Third Quarter Fiscal 2002 and Third Quarter Fiscal 2001 were 76% and 46%, respectively. The increase in the gross profit percentage is due to a more profitable product sales mix, higher absorption of fixed overhead and production costs, and improved unit profit margins on the Company's niche line of products.

Research and development expenses increased by 75% to \$551,215 in Third Quarter Fiscal 2002 from \$314,422 in Third Quarter Fiscal 2001. This increase is a result of increased payroll and benefits expenses due to the hiring of

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additional employees, and an increase in the cost of materials related to the development and formulation of new products not yet approved by the FDA.

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Selling, general and administrative expenses increased by 131% to \$1,036,569 in Third Quarter Fiscal 2002 from \$449,367 in Third Quarter Fiscal 2001. This increase is a result of increases in commissions to sales representatives for incremental sales programs, increased payroll and benefits expenses due to the hiring of additional administrative employees, and a general increase in other administrative expenses due to the growth of the Company, in terms of employees, production volume and sales.

As a result of the foregoing, the Company increased its operating profit from \$450,777 in Third Quarter Fiscal 2001 to \$4,938,816 in Third Quarter Fiscal 2002.

The Company's interest expense decreased from \$209,089 in Third Quarter Fiscal 2001 to \$36,715 in Third Quarter Fiscal 2002 as a result of principal repayments and reduced interest rates.

The Company's income tax expense increased from \$91,000 in Third Quarter Fiscal 2001 to \$1,862,281 in Third Quarter Fiscal 2002 as a result of the increase in taxable income.

The Company reported net income of \$3,044,283 for Third Quarter Fiscal 2002, or \$0.23 basic and diluted income per share, compared to net income of \$175,846 for Third Quarter Fiscal 2001, or \$0.01 basic and diluted income per share.

RESULTS OF OPERATIONS -NINE MONTHS ENDED MARCH 31, 2002 COMPARED WITH NINE MONTHS ENDED MARCH 31, 2001.

Net sales for the nine months ended March 31, 2002 increased by 171% to \$18,102,402 from net sales of \$6,689,504 for the nine months ended March 31, 2001. Sales increased as a result of additions to the Company's prescription (Rx) line of products, including Primidone 50 mg tablets, first marketed in May 2001, Prednisolone tablets, first marketed in October 2001, Butalbital with Aspirin, Caffeine and Codeine Phosphate capsules, first marketed in December 2001, and Isoniazid tablets, first marketed in January 2002. Additionally, sales increased due to improved marketing activities, new customer accounts, favorable market conditions, increased unit sales, and increased unit revenues on a portion of the Company's niche line of products. During the current fiscal year, one of the Company's competitors suspended production and distribution of a generic product which Lannett continued to produce and market. Consequently, Lannett was able to increase its sales output to meet the unchanged demand for the item. Lannett increased the total revenue earned related to the product, thereby increasing the total sales for the period compared to the prior period. The increase in Rx sales was offset by a decrease in over-the-counter (OTC) product sales, due to increased competition. Rx sales increased by approximately \$12,145,000 for the nine months ended March 31, 2002 compared to the nine months ended March 31, 2001. OTC sales decreased by approximately \$732,000 for the nine months ended March 31, 2002 compared to the nine months ended March 31, 2001.

Cost of sales for the nine months ended March 31, 2002 increased by 31% to \$5,859,014, from \$4,468,081 for the nine months ended March 31, 2001. The cost

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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 benefits expenses, depreciation expense, and manufacturing and laboratory supplies. Gross profit margins for the nine months ended March 31, 2002 and the nine months ended March 31, 2001 were 68% and 33%, respectively. The increase in the gross profit percentage is due to a more profitable product sales mix, higher absorption of fixed overhead and production costs, and improved unit profit margins on the Company's niche line of products.

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Research and development expenses increased by 22% to \$1,265,691 for the nine months ended March 31, 2002 from \$1,036,658 for the nine months ended March 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.

Selling, general and administrative expenses increased by 95% to \$2,470,543 for the nine months ended March 31, 2002 from \$1,265,199 for the nine months ended March 31, 2001. This increase is a result of an increase in commissions to sales representatives for incremental sales programs, increased payroll and benefits expenses due to the hiring of additional administrative employees, and a general increase in other administrative expenses due to the growth of the Company, in terms of employees, production volume and sales.

As a result of the foregoing, the Company increased its operating income from a loss of \$80,434 for the nine months ended March 31, 2001 to a profit of \$8,507,154 for the nine months ended March 31, 2002.

Included in other income is \$1,173,149 in income from the settlement of a lawsuit, net of fees, for the nine months ended March 31, 2001. The lawsuit was initiated after a chemical supplier failed to supply the Company with raw material for its manufacturing process, despite the existence of a signed five-year supply contract. Lannett alleged that the breach of contract delayed the introduction of one of its products into the marketplace. Consequently, the Company and the defending party settled the suit out of court. The Company received approximately \$1.5 million in First Quarter Fiscal 2001. The Company incurred approximately \$305,000 in legal fees relating to the lawsuit. These fees were netted with the income received in First Quarter Fiscal 2001.

The Company's interest expense decreased from \$604,694 for the nine months ended March 31, 2001 to \$249,149 for the nine months ended March 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 \$227,000 for the nine months ended March 31, 2001 to \$3,031,281 for the nine months ended March 31, 2002 as a result of the increase in taxable income.

The Company reported net income of \$5,214,049 for the nine months ended March 31, 2002, or \$0.39 basic and diluted income per share, compared to net income of \$343,043 for the nine months ended March 31, 2001, or \$0.03 basic and diluted income per share.

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LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities of \$4,635,099 for the nine months ended March 31, 2002 was attributable to net income of \$5,214,049 as adjusted for the effects of non-cash items of \$1,475,643 and changes in operating assets and liabilities totaling (\$2,054,593). Significant changes in operating assets and liabilities are comprised of: i) an increase in trade accounts receivable of \$2,562,821 due to increased sales, and the timing of shipments and related invoices, ii) an increase in inventories of \$1,058,189 due primarily to the increases in raw materials and finished goods as a result of higher sales volume and the related inventory production, and larger buy-in's of certain raw materials, iii) an increase in prepaid expenses and other assets of \$280,858 due to deposits paid by the Company on certain production related equipment not yet received, iv) an increase in accrued expenses, net of the decrease in accounts payable, of \$324,530 due to increased operational expenses and capital equipment purchases and v) an increase in income taxes payable of \$1,522,745 due to higher taxable income and the accrual of the related income taxes, which will be paid when the Company's estimated tax filings and income tax returns are due.

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The net cash used in investing activities consisted of \$1,530,695 expended during the nine months ended March 31, 2002 for equipment and building additions. The Company's anticipated budget for capital expenditures in Fiscal 2002 is \$2,000,000. The anticipated additional capital expenditure requirements will support the Company's growth related to new product introductions and increased production output due to higher sales levels. As of March 31, 2002, none of the proceeds of the bonds issued during Fiscal 1999 was available in financing restricted for future capital expenditures; however approximately \$292,000 was paid by the Company prior to March 31, 2002 for production equipment expected to arrive, and be placed in service in the Company's fourth quarter ended June 30, 2002. This balance is included in Other Assets at March 31, 2002.

The Company has a \$4,250,000 revolving line of credit from a shareholder who is also the Chairman of the Board ("Shareholder Line of Credit"). At March 31, 2002, the Company has \$1,871,439 outstanding and \$2,378,561 available under this line of credit. The maturity date on the Shareholder Line of Credit was extended to December 1, 2002. Accrued interest at March 31, 2002, and June 30, 2001 was \$101,762 and \$0, respectively.

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 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 were deposited into a money market account, which is restricted for future plant and equipment needs of the Company as specified in the Agreement. The Agreement 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 March 31, 2002, the Company had \$3,700,000 outstanding on the Authority loan, of which \$313,052 is classified as currently due. In April 1999,

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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 March 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 (the "Trust Indenture"). From the proceeds of the bonds, \$750,000 was utilized to pay deferred interest owed to the principal shareholder 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 May 2000 and continuing through May 2003, the year the bonds mature. At March 31, 2002, the Company had \$415,278 outstanding on the bonds, which is classified as currently due. In April 1999, an irrevocable letter of credit of approximately \$2,349,000 was issued by a bank to secure payment of the bonds and a portion of the related accrued interest. At March 31, 2002, no portion of the letter of credit has been utilized.

The Company has a \$2,000,000 line of credit from a bank. The line of credit was renewed and extended to November 30, 2002, at which time the Company expects to renew and extend the due date. The line of credit is limited to 80% of qualified accounts receivable and 50% of qualified inventory. At March 31, 2002, the Company had \$441,567 outstanding and \$1,558,433 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 March 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.

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PROSPECTS FOR THE FUTURE

As of March 31, 2002, several additional products are under development. Four of these products have been reformulated and submitted to the Food and Drug Administration ("FDA") for supplemental approval. The remainder of the developmental products are either previously approved Abbreviated New Drug Applications ("ANDA's") which the Company is planning to reintroduce, or new products that the Company is planning to introduce. Since the Company has no control over the FDA review process, management is unable to anticipate 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

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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 Claim. A claim of retaliatory discrimination has been filed by a former employee with the Pennsylvania Human Relations Commission ("PHRC"). The Company has denied liability in this matter, which is being investigated by the PHRC pursuant to its normal procedures. 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.

A claim of sexual harassment and retaliation also has been filed against the Company by another former employee. The claim was cross-filed with the PHRC and with the Equal Employment Opportunity Commission, which already has closed its file on the charge. The Company has filed an answer with the PHRC denying the charge, and the PHRC is investigating the claim pursuant to its normal procedures. At this time, management is unable to estimate a range of loss, if any, related to this action. However, management believes that the outcome of this charge also 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

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is unable to estimate a range of loss, if any, related to such actions. However, management believes that the outcome 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

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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 Quarter ended March 31, 2002.

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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: April 26, 2002

By: /s/ Larry Dalesandro

Larry Dalesandro
Chief Operating Officer

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EXHIBIT INDEX

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Exhibit Number -----	Description -----	Method of Filing -----	Page -----
3 (a)	Articles of Incorporation	Incorporated by reference to the Proxy Statement filed with respect to the Annual Meeting of Shareholders held on December 6, 1991 (the "1991 Proxy Statement").	-
3 (b)	By-Laws, as amended	Incorporated by reference to the 1991 Proxy Statement.	-
4 (a)	Specimen Certificate for Common Stock	Incorporated by reference to Exhibit 4(a) to Form 8 dated April 23, 1993 (Amendment No. 3 to Form 10-K f/y/e June 30, 1992) ("Form 8")	-
10 (a)	Loan Agreement dated August 30, 1991 between the Company and William Farber	Incorporated by reference to the Annual Report on Form 10-K f/y/e June 30, 1991	-
10 (b)	Amendment #1 to Loan Agreement dated March 15, 1993	Incorporated by reference to Exhibit 10(b) to the Annual Report on Form 10-KSB f/y/e June 30, 1993 ("1993 Form 10-K")	-
10 (c)	Amendment #2 to Loan Agreement dated August 1, 1994	Incorporated by reference to Exhibit 10(c) to the Annual Report on Form 10-KSB f/y/e June 30, 1994 ("1994 Form 10-K")	-
10 (d)	Amendment #3 to Loan Agreement dated May 15, 1995	Incorporated by reference to Exhibit 10(d) to the Annual Report on Form 10-KSB f/y/e June 30, 1995 ("1995 Form 10-K")	-
10 (e)	Amendment #4 to Loan Agreement dated December 31, 1995	Incorporated by reference to Exhibit 10(e) to the Annual Report on Form 10-KSB f/y/e June 30, 1996 ("1996 Form 10-K")	-
10 (f)	Amendment #5 to Loan Agreement dated June 30, 1996	Incorporated by reference to Exhibit 10(f) to the Annual Report on Form 10-KSB f/y/e June 30, 1996 ("1996 Form 10-K")	-
10 (g)	Amendment #6 to Loan Agreement dated November 1, 1996	Incorporated by reference to Exhibit 10(g) to the Annual Report on Form 10-KSB f/y/e June 30, 1997 ("1997 Form 10-KSB")	-
10 (h)	Amendment #7 to Loan Agreement dated September 9, 1997	Incorporated by reference to Exhibit 10(h) to the Annual Report on 1997 Form 10-KSB	-
10 (i)	Amendment #8 to Loan Agreement dated June 30,	Incorporated by reference to Exhibit 10(i) to the Annual Report on Form	-

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	1998	10-KSB f/y/e June 30, 1998 ("1998 Form 10-KSB")
10(j)	Amendment #9 to Loan	Incorporated by reference to Exhibit 10(j) to

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Exhibit Number -----	Description -----	Method of Filing -----	Page ---
	Agreement dated December 30, 1998	the Annual Report on Form 10-KSB f/y/e June 30, 1999 ("1999 Form 10-KSB")	
10(k)	Amendment #10 to Loan Agreement dated December 31, 1999	Incorporated by reference to Exhibit 10(k) to the Annual Report on Form 10-KSB f/y/e June 30, 1999 ("1999 Form 10-KSB")	
10(l)	Amendment #11 to Loan Agreement dated October 1, 2000	Incorporated by reference to Exhibit 10(l) to the Form 10-QSB for Quarter ended December 31, 2000	
10(m)	Loan Agreement dated May 4, 1993 between the Company and Meridian Bank	Incorporated by reference to Exhibit 10(c) to the 1993 Form 10-K	
10(n)	Amendment to Loan Documents between the Company and Meridian Bank dated as of December 8, 1993	Incorporated by reference to Exhibit 10(e) to the Annual Report on Form 10-KSB f/y/e June 30, 1994 ("1994 Form 10-K")	-
10(o)	Letter Agreement between the Company and Meridian Bank dated December 21, 1993	Incorporated by reference to Exhibit 10(f) to the Annual Report on Form 10-KSB f/y/e June 30, 1994 ("1994 Form 10-K")	-
10(p)	Third Amendment to Loan Agreement dated as of June 9, 1994	Incorporated by reference to Exhibit 10(g) to the Annual Report on Form 10-KSB f/y/e June 30, 1994 ("1994 Form 10-K")	-
10(q)	Fourth Amendment to Loan Documents between the Company and Meridian Bank as of October 27, 1994	Incorporated by reference to Exhibit 10(i) to the Annual Report on Form 10-KSB f/y/e June 30, 1995 ("1995 Form 10-K")	-
10(r)	Letter Agreement between the Company and Meridian	Incorporated by reference to Exhibit 10(j) to the Annual Report on Form	-

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	Bank dated October 27, 1994	10-KSB f/y/e June 30, 1995 ("1995 Form 10-K")	
10(s)	Letter Agreement between the Company and Meridian Bank dated July 10, 1995	Incorporated by reference to Exhibit 10(k) to the Annual Report on Form 10-KSB f/y/e June 30, 1995 ("1995 Form 10-K")	-
10(t)	Amendment to Security Agreement between the Company and Meridian Bank dated as of July 31, 1995	Incorporated by reference to Exhibit 10(l) to the Annual Report on Form 10-KSB f/y/e June 30, 1995 ("1995 Form 10-K")	-
10(u)	Line of Credit Note dated July 31, 1995	Incorporated by reference to Exhibit 10(m) to the Annual Report on Form 10-KSB f/y/e June 30, 1995 ("1995 Form 10-K")	-

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Exhibit Number	Description	Method of Filing	Page
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10(v)	Fifth Amendment to Loan Agreement dated July 31, 1995	Incorporated by reference to Exhibit 10(n) to the Annual Report on Form 10-KSB f/y/e June 30, 1995 ("1995 Form 10-K")	-
10(w)	Amendment to Loan agreement between the Company and Meridian Bank, dated March 5, 1996.	Incorporated by reference to Exhibit 10(q) to the Annual Report on Form 10-KSB f/y/e June 30, 1996 ("1996 Form 10-K")	-
10(x)	Amendment to Loan agreement between the Company and Corestates Bank, dated March 20, 1997.	Incorporated by reference to Exhibit 10(h) to the Annual Report on 1997 Form 10-KSB	
10(y)	Amendment to Loan agreement between the Company and Corestates Bank, dated March 20, 1997.	Incorporated by reference to Exhibit 10(h) to the Annual Report on 1997 Form 10-KSB	
10(z)	Amendment to Loan agreement between the Company and Corestates Bank, dated May 23, 1997.	Incorporated by reference to Exhibit 10(h) to the Annual Report on 1997 Form 10-KSB	
10(aa)	Amendment to Loan agreement between the Company and Corestates	Incorporated by reference to Exhibit 10(h) to the Annual Report on 1997 Form 10-KSB Bank,	

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dated September 24, 1997.

10(ab)	Amendment to Loan agreement between the Company and Corestates December 10, 1997.	Incorporated by reference to Exhibit 10(h) to the Annual Report on 1997 Form 10-KSB Bank, dated
10(ac)	Amendment to Loan agreement between the Company and Corestates December 10, 1997.	Incorporated by reference to Exhibit 10(h) to the Annual Report on 1997 Form 10-KSB Bank, dated
10(ad)	Amendment to Loan agreement between the Company and Corestates Bank, dated June 11, 1998.	Incorporated by reference to Exhibit 10(aa) to the Annual Report on 1998 Form 10-KSB
10(ae)	Amendment to Loan agreement between the	Incorporated by reference to Exhibit 10(ab) to the Annual Report on 1998 Form 10-KSB

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Exhibit Number -----	Description -----	Method of Filing -----	Pag ---
	Company and Corestates Bank, dated June 1998.		
10(af)	Line of Credit Note dated March 11, 1999	Incorporated by reference to Exhibit 10(ad) to the Annual Report on 1999 Form 10-KSB	
10(ag)	Taxable Variable Rate Demand/Fixed Rate Revenue Bonds, Series of 1999	Incorporated by reference to Exhibit 10(ae) to the Annual Report on 1999 Form 10-KSB	
10(ah)	Philadelphia Authority for Industrial Development Tax-Exempt Variable Rate Demand/Fixed Revenue Bonds (Lannett Company, Inc. Project) Series of 1999	Incorporated by reference to Exhibit 10(af) to the Annual Report on 1999 Form 10-KSB	
10(ai)	Reimbursement and Agreements supporting bond	Incorporated by reference to Exhibit 10(ag) to the Annual Report on 1999	

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	issues	Form 10-KSB
10 (aj)	Amendment No. 1 to Reimbursement Agreement and Waiver	Incorporated by reference to Exhibit 10(i) to the Annual Report on 1999 Form 10-KSB
10 (ak)	Employment Agreement between the Company and Vlad Mikijanic	Incorporated by reference to Exhibit 10(ah) to the Annual Report on 1994 Form 10-KSB
10 (al)	Supply Agreement dated January 14, 1997	Incorporated by reference to Exhibit 10(ad) to the Annual Report on 1998 Form 10-KSB
10 (am)	Supply Agreement dated January 17, 1997	Incorporated by reference to Exhibit 10(ae) to the Annual Report on 1998 Form 10-KSB
10 (an)	Supply Agreement dated January 17, 1997	Incorporated by reference to Exhibit 10(af) to the Annual Report on 1998 Form 10-KSB
10 (ao)	Supply Agreement dated February 11, 1997	Incorporated by reference to Exhibit 10(ag) to the Annual Report on 1998 Form 10-KSB
10 (ap)	Supply Agreement dated May 27, 1997	Incorporated by reference to Exhibit 10(ah) to the Annual Report on 1998 Form 10-KSB
11	Computation of Per Share Earnings	Filed Herewith
22	Subsidiaries of the Company	Incorporated by reference to the Annual Report on Form 10-K f/y/e June 30, 1990
23 (b)	Consent of Deloitte & Touche	Incorporated by reference to Exhibit 23(B) to the Annual Report on 1999 Form 10-KSB