



Arthur P. Bedrosian
President and
Chief Executive Officer

DEAR SHAREHOLDERS:

Our solid performance in fiscal 2009 was the result of strong sales of Lannett's key products. In addition, our adherence to current Good Manufacturing Practice (cGMP) standards continued to help us differentiate ourselves from our competitors and deliver important medications to the marketplace. We expanded our product pipeline, strengthened our balance sheet and focused on key areas of our business to capture more market share. Our progress in fiscal 2009 set an important tone that we believe is a testament to Lannett's underlying strength and ability to continue to grow.

In fiscal 2009, net sales grew more than 64% to \$119.0 million from \$72.4 million for the prior year. Gross profit nearly tripled to \$45.2 million from \$16.3 million in fiscal 2008. Net income rose to \$6.5 million, or \$0.27 per diluted share, compared with a net loss of \$2.3 million, or \$0.10 per share, for the prior year.

PRODUCT APPROVALS/LAUNCHES

In fiscal 2009, we significantly increased our investment in product development in order to add to our growing product offering and further diversify our portfolio. Over the last year, we received FDA approvals for three new products, including Doxycycline 75 mg and 150 mg tablets, indicated for the treatment of bacterial infections, such as urinary tract infections, among others; Ursodiol 300 mg capsules, indicated for patients with radiolucent noncalcified gallbladder stones; and Pilocarpine HCl 7.5 mg tablets, indicated for the treatment of symptoms of dry mouth from salivary gland hypofunction caused by radiotherapy and Sjorgen's syndrome.

Additionally, Lannett launched a certain topical anesthetic product used in a variety of hospital and outpatient settings, as well as Amantadine HCL, which is the first product resulting from Lannett's joint venture with Banner Pharmacaps, Inc. Amantadine is indicated for use as an anti-viral, anti-Parkinson and treatment of drug induced extrapyramidal symptoms.

PAIN MANAGEMENT

In July 2008, we announced that our wholly owned subsidiary, Cody Laboratories (Cody), received approval for its import registration application from the U.S. Drug Enforcement Administration (DEA), allowing the company to enter the pain management market. We continue to make progress building our capabilities, developing product candidates and upgrading Cody's facilities to commercialize this opportunity. In October 2008, Cody received approval from the U.S. Patent and Trademark Office regarding a method for the preparation of Hydromorphone and Hydrocodone.

Cody continued to demonstrate its commitment to meeting high-quality standards, receiving a positive FDA inspection in fiscal 2009 that is a key step to clearing the way for approval of our pending application for Hydromorphone Tablets.

MARKET OPPORTUNITIES

These accomplishments fortify our foundation as we navigate challenging economic conditions and seize opportunities in a highly competitive industry. Our ability to adapt to the marketplace is related to our more than six decades of operating experience in generic pharmaceuticals. When our market research team found that a number of our large volume

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customers, including chain drug stores and national drug distributors, would prefer to purchase a selection of our products in large quantities, we immediately began offering bulk packs to meet demand. Providing these types of services, in addition to seeking FDA approval for important products, differentiates Lannett and is imperative for strong customer relations.

To ensure we maintain our competitive edge, Lannett strengthened and augmented its management team in fiscal 2009. We named Keith Ruck as chief financial officer. Keith has an extensive financial background and expertise in identifying areas to enhance operating efficiencies. Terence Vollrath, with his more than two decades of operations and business development experience, was appointed executive vice president of Cody Labs. And, Stephen Kovary, who brings a deep breadth of operations, plant management and manufacturing experience to our company, was named vice president of operations of Lannett. These appointments, coupled with how we execute our business strategies ultimately will determine the future performance of our company.

GIVING BACK

Our dedicated employees strive to position Lannett as an industry leader that is focused on quality and integrity, as well as giving back to the community we serve. Lannett has a history of supporting schools, hospitals, veterans and their families, institutions, rehabilitation centers, cancer research, as well as the local fire and police departments. In fiscal 2009, we contributed to Make-A-Wish Foundation, Air Force Assistance Fund, Navy-Marine Corps Relief Society, Coast Guard Foundation, USO, Honor Flight, DEA Survivor Benefit Fund, Army Emergency Relief, CJ Foundation for SIDS, University of the Sciences in Philadelphia, and the Jerry Segal Classic to benefit Magee Rehabilitation Hospital, among others. We have donated in good times and in bad, and believe that giving back to the community is being a responsible corporate citizen.

We are also doing our part with respect to the environment. We have implemented a recycling program, even though businesses are not required to do so in metropolitan Philadelphia, and we are taking steps to reduce the company's carbon footprint, as well as cut energy costs.

MOVING FORWARD

These initiatives, along with our dedication to enhancing the performance of our company are indicative of Lannett's core values. We have made excellent progress to grow the company, as evidenced by Lannett's recent inclusion in the Russell 2000 Index.

As we move forward, we are excited about the opportunities ahead and confident that our hard work will continue to help us achieve our goals. I would like to thank our customers and shareholders for their continued support, and our dedicated employees without whom these achievements would not be possible.

Sincerely,



Arthur P. Bedrosian, J.D.
President and
Chief Executive Officer