



# LABORATORY SERVICES — Analytical, Development,



## LANNETT Dear Shareholders:



William Farber  
Chairman



Arthur P. Bedrosian  
President and  
Chief Executive Officer

In fiscal 2007, Lannett Company made excellent progress laying the groundwork for future growth. We successfully completed plans for plant expansion, significantly added to our product pipeline, established new strategic relationships and acquired a bulk raw materials supplier. The year also posed some challenges, most notably a backlog at the U.S. Food and Drug Administration (FDA) that has delayed the approval of our Abbreviated New Drug Applications (ANDAs). We are confident, however, that these product applications will ultimately be approved.

Net sales for fiscal 2007 were \$82.6 million, an increase of 29% over the prior year. Gross profit was \$25.2 million, compared with \$30.2 million for the prior year. Our topline growth was fueled by increased sales of distributed products, which generally carry lower margins than in-house manufactured products.

The Company reported a net loss for fiscal 2007 of \$6.9 million, which included a \$7.8 million impairment of a note receivable due from a bulk raw materials supplier that we acquired in April 2007. This compares with net income of \$5.0 million in fiscal 2006. Cash was \$5.2 million at June 30, 2007.

### Room to Grow

In August of last year, we announced plans to lease, with an option to purchase, a new 65,000 square-foot facility located on seven acres in the City of Philadelphia. We added this facility to broaden our manufacturing, product development and warehousing capacity. The new space also allows us to reconfigure existing facilities, as well as more than double our manufacturing capacity.

### Product Approvals and Distribution

In fiscal 2007, we received FDA approval and commenced marketing several products, including Danazol capsules 50mg and 100mg, a drug used to treat endometriosis. The addition of these two dosages to our already approved 200mg product allows us to market the full line of oral Danazol. Lannett also received FDA approval to market Baclofen 10mg tablets, bolstering our existing product offering of Baclofen 20mg tablets. Baclofen is used to help alleviate signs and symptoms of spasticity resulting from multiple sclerosis.

In addition to product approvals, Lannett commenced marketing and distribution of Meloxicam, a drug indicated for the relief of signs and symptoms of osteoarthritis and rheumatoid arthritis. We currently have more than 70 products in various stages of development, including 18 product applications pending at the FDA.

# Stability, & Product Identification



## Research Agreement

In January 2007, we signed a research agreement with Pharmaseed Bioservices to formulate a certain topical pharmaceutical product, sales of which were more than \$400 million in the year ending June 2007, according to Wolters Kluwer. Under the terms of the agreement, Lannett will assemble, submit and own the ANDA for the product. We also acquired the worldwide distribution rights to this product.

## Supply Agreements and Acquisitions

We also signed a supply agreement in January 2007 with Banner Pharmacaps, Inc. for a certain pharmaceutical product, sales of which were approximately \$54 million in 2005, according to Wolters Kluwer. In April, we acquired a privately-owned manufacturer/supplier of bulk active pharmaceutical ingredients (API) to help facilitate the Company's growth and expand our product offering. This acquisition provides access to raw materials, including certain difficult-to-source pharmaceutical ingredients, as well as the capability to manufacture a new dosage form, thereby vertically integrating the Company.

## Internal Efficiencies

Recently, we introduced a new Company-wide program, called "Savings for Success," to help manage costs. This new program encourages and rewards employees to think creatively about ways to reduce costs throughout the organization. Since the program's inception, we have reduced costs by more than \$1.5 million. We expect additional savings in the future.

During the last few years, we have focused on adding to our product offering by forming strategic relationships as well as through an internal product development program. Our pipeline is now the largest in the Company's history.

We are confident that our robust pipeline, coupled with the progress we made in fiscal 2007, will help us reap solid returns and realize the goals of our customers, employees and shareholders.

Sincerely,

William Farber  
Chairman

Arthur P. Bedrosian  
President and  
Chief Executive Officer

Lannett produces and distributes its own line of high quality pharmaceutical products.

These products are available to chain drug stores, wholesalers and distributors under Lannett's name or as a private label.