LANNETT CO INC
Form DEF 14A
December 12, 2016
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

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

Check the appropriate box:

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

LANNETT COMPANY, INC.

(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

[X] No fee required
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1)	Title of each class of securities to which transaction applies:
2)	Aggregate number of securities to which transaction applies:
3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
4)	Proposed maximum aggregate value of transaction:
5)	Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1)	Amount Previously Paid:
2)	Form, Schedule or Registration Statement No.:
3)	Filing Party:
4)	Date Filed:

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Proxy Statement

2017 Annual Meeting of Stockholders

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Lannett Company, Inc.
13200 Townsend Road
Philadelphia, PA 19154
215-333-9000
www.Lannett.com

December 12, 2016

Dear Lannett Company, Inc. Stockholders:

It is my pleasure to invite you to the Annual Meeting of Stockholders of Lannett Company, Inc. which will be held on January 18, 2017 at 9:00 am EST, at 13200 Townsend Road, Philadelphia, PA 19154.

The purpose of the meeting is to (i) elect six members of our Board of Directors, (ii) vote to ratify the selection of Grant Thornton, LLP as our independent auditors, and (iii) to transact such other business as may properly come before the Annual Meeting.

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

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

Thank you.

	/s/ Arthur P. Bedrosian
December 12, 2016	**Arthur P. Bedrosian**
Philadelphia, Pennsylvania	**Chief Executive Officer**

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LANNETT COMPANY, INC.

9000 STATE ROAD

PHILADELPHIA, PENNSYLVANIA 19136

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JANUARY 18, 2017

TO THE STOCKHOLDERS OF LANNETT COMPANY, INC.

The annual meeting (the Annual Meeting) of the Stockholders of Lannett Company, Inc., a Delaware Corporation, (the Company or Lannett) will be held on January 18, 2017 at 9:00 a.m., local time, at the Company s facility located at **13200 Townsend Road, Philadelphia, Pennsylvania 19154**, for the following purposes:

1. To elect six (6) members of the Board of Directors (the Board) to serve until the next Annual Meeting of Stockholders;

2. To ratify the selection of Grant Thornton, LLP as independent auditors for the fiscal year ending June 30, 2017;

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

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

Only stockholders of record at the close of business on December 8, 2016 are entitled to notice and to vote at the 2017 Annual Meeting.

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

By Order of the Board of Directors

/s/ Jeffrey Farber
Jeffrey Farber
Chairman of the Board

December 12, 2016
Philadelphia, Pennsylvania

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LANNETT COMPANY, INC.

PROXY STATEMENT FOR

ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON JANUARY 18, 2017

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ATTENDANCE AND VOTING MATTERS

DATE, TIME, AND PLACE OF MEETING

This Proxy Statement is provided to you by the Board of Lannett in connection with the Annual Meeting. The Annual Meeting will be held on January 18, 2017 at 9:00 a.m., local time, at the Company s facility located at **13200 Townsend Road, Philadelphia, Pennsylvania 19154**, or at any adjournments or postponements of the Annual Meeting for the purposes set forth in the accompanying Notice of Annual Meeting. We intend to mail this Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders on or about December 21, 2016 to all stockholders of the Company entitled to vote at the Annual Meeting.

VOTING METHODS

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

- You may come to the Annual Meeting and cast your vote in person; or
- You may vote by internet or phone by following the instructions set forth on the proxy card; or
- You may vote by signing and returning the enclosed proxy card by mail. If you do so, the individuals named on the card will vote your shares in the manner you indicate. You may revoke your proxy at any time prior to the Annual Meeting by sending written notice to the Secretary of the Company at 13200 Townsend Road, Philadelphia, Pennsylvania 19154, or by attending the meeting.

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

You are entitled to cast one vote for each share of Lannett common stock owned on the record date, December 8, 2016. As of the record date, there were 37,160,286 shares of Lannett common stock outstanding. Stockholders are not entitled to cumulative voting in the election of directors.

QUORUM

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

VOTE NECESSARY FOR ACTION

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

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BOARD OF DIRECTORS

The Role of the Board and Risk Oversight

The Board is responsible for overall corporate governance as well as for management and the strategic direction of the Company as a whole. Actively working to strengthen your Company s corporate governance, the Board recently received a very strong, *Overall 2 Quality Score* rating from Institutional Shareholder Services Inc. (ISS), a leading proxy advisory firm, under its governance risk rating system (i.e., a 1 rating is the best possible rating and a 10 rating is the least favorable rating). The corporate governance guidelines are available at www.lannett.com. The Board and various committees of the Board meet regularly to discuss operating and financial reports presented by the Company including but not limited to the Chief Executive Officer, Chief Financial Officer, and other members of management.

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

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

The Board has adopted a Code of Business Conduct and Ethics (the code of ethics). The code of ethics applies to all employees including the Company s Chief Executive Officer, Chief Financial Officer, Corporate Controller, and other finance employees. The code of ethics is publicly available on our website at www.lannett.com. If the Company makes any substantive amendments to the code of ethics or grants any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer, or Corporate Controller, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K.

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

This past year the Board clarified its position regarding prohibiting: 1) the repricing of stock options or restricted stock awards, and, 2) the repurchasing of underwater or out-of-the-money stock options or restricted stock awards. On November 8, 2016, the Board approved amendments to the Company s 2006, 2011 and 2014 Long-Term Incentive Plans (the LTIP Plans), by adopting a new Section 16 to each of the LTIP Plans to expressly provide that except to the extent approved by the Company s stockholders, the LTIP Plans do not allow for any repricing of stock options or restricted stock awards or the repurchase of underwater or out-of-the-money stock options or restricted stock awards.

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

The Board met five times during the fiscal year ended June 30, 2016 (Fiscal 2016). In addition to meetings of the Board, Directors attended meetings of individual Board committees. Each of the Directors attended at least 75% of the Board meetings and meetings of Board committees of which they were a member during Fiscal 2016. All Directors were present at the 2016 Annual Meeting.

The Board is actively interviewing CEO-level board candidates with the intention of continuing to improve the ratio of independent Directors to non-independent Directors, as well as continue to add industry experts to its ranks. We are currently seeking board candidates with a strong, strategic understanding and vision of the dynamic and changing generic and specialty pharmaceutical landscape. In addition, the Board remains cognizant of the unique benefits that diverse board candidates (e.g., race, gender, age, etc.) can bring to organizational performance, corporate strategy, and shareholder value creation; therefore, we keenly consider this factor in our search process.

Regarding C-Suite leadership succession planning and leadership development   and pursuant to last year s proxy statement   this year the Board has complemented its in-house capabilities by partnering with two world class service providers. We have retained

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and worked throughout the year with - one of the top global leadership consulting and executive recruitment firms to assist with succession planning, and we will continue to work with them throughout 2017. On the leadership development front, we have partnered with one of the top business schools in the world - the Wharton School (i.e., The Aresty Institute of Executive Education at the Wharton School) and we have begun to send the next generation of our leaders to a variety of their classes to obtain skills that will assist them in leading the Company into the future.

Board Leadership Structure

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

Our Board leadership structure is one under which Jeffrey Farber serves as Chairman of the Board. We currently have five other Directors, including Arthur P. Bedrosian, Chief Executive Officer. Four of the six Directors currently serving on the Board of Directors are independent as defined by the NYSE. The Board has four committees: the Audit Committee, Compensation Committee, Governance and Nominating Committee, and Strategic Planning Committee. In addition, the non-management members of the Board of Directors meet regularly without management directors or management personnel present.

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

Lead Independent Director

The Board has established the policy of having a Lead Independent Director to be elected by and from the independent Directors - if the Chairman of the Board is not an independent Director. As our current Chairman of the Board is not an independent Director, the independent Directors elected an independent Director, David Drabik, to be the Lead Independent Director subject to an annual review by the independent Directors and subject to being re-elected as a director.

The role of the Lead Independent Director includes:

- Collaborating with the Chairman of the Board to set and approve the Board agenda;

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

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

Communicating with the Board of Directors

Interested persons may contact the non-management directors by sending written comments to 13200 Townsend Road, Philadelphia, Pennsylvania 19154 Attn: Board of Directors. The original communication as addressed or a summary of the submissions will be forwarded to the directors for discussion in the next directors meeting. If a summary of the communication is provided, the original communication will be maintained on file and available for the directors review upon request.

Board Committees

The Board has four standing committees - Audit Committee, Compensation Committee, Governance and Nominating Committee and Strategic Planning Committee. There were nine Audit Committee meetings, one Strategic Planning Committee meeting, four Governance and Nominating Committee meetings, and seven Compensation Committee meetings held during Fiscal 2016. The following table shows the directors who are currently members of each Board Committee:

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Name	Audit Committee	Compensation Committee	Governance and Nominating Committee	Strategic Planning Committee
Jeffrey Farber	-	-	-	Member
Arthur P. Bedrosian, J.D.	-	-	-	Chairman
David Drabik	Member	Member	Chairman	Member
Paul Taveira	Member	Chairman	Member	-
James M. Maher	Chairman	Member	Member	-
Albert Paonessa, III	-	Member	-	Member

The **Audit Committee** has responsibility for overseeing the Company s financial reporting process on behalf of the Board. In addition, Audit Committee responsibilities include selection of the Company s independent auditors, conferring with the independent auditors regarding their audit of the Company s consolidated financial statements, pre-approving and reviewing the independent auditors fees and considering whether non-audit services are compatible with maintaining their independence, and considering the adequacy of internal financial controls. The Audit Committee operates pursuant to a written charter adopted by the Board, which is available on the Company s website at www.lannett.com. The charter describes the nature and scope of the Audit Committee s responsibilities. All members of the Audit Committee are independent directors as defined by the rules of the NYSE. See Report of the Audit Committee.

Financial expert on Audit Committee: The Board has determined that James M. Maher, current director and chairman of the audit committee, is the audit committee financial expert as defined in section 3(a)(58) of the Exchange Act and the related rules of the Commission.

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

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee during Fiscal 2016 or as of the date of this Proxy Statement is or has been an officer or employee of the Company and no executive officer of the Company served on the compensation committee or board of any company that employed any member of the Company s Compensation Committee or Board.

The **Governance and Nominating Committee** is responsible for identifying and evaluating individuals qualified to become Board members and for recommending such individuals for nomination. All candidates must possess an unquestionable commitment to high ethical standards and have a demonstrated reputation for integrity. Other factors considered in identifying and evaluating candidates include an individual s business experience, education, civic and community activities, knowledge and experience with respect to the issues impacting the pharmaceutical industry and public companies, as well as the ability of the individual to devote the necessary time to service as a director. Although the Committee does not have a formal diversity policy, it believes diversity is an important factor in determining the composition of the Board.

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

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

- The name of the stockholder and evidence of the person s ownership of Company stock, including the number of shares owned and the length of ownership; and

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- The name of the candidate, the candidate s resume or a listing of his or her qualifications to be a director of the Company and the person s consent to be considered as a director nominee if recommended by the Governance and Nominating Committee to the Board and nominated by the Board to be included in the proxy statement for election at the Annual Meeting.

The stockholder recommendation and information described above must be sent to the Company at 13200 Townsend Road, Philadelphia, Pennsylvania 19154, and must be received not less than 120 days prior to the anniversary date of the Company s most recent Annual Meeting.

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

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

Executive Sessions of Independent Directors

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

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REPORT OF THE AUDIT COMMITTEE

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

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

Management has represented to the Audit Committee that the Company s consolidated financial statements were prepared, in all material respects, in accordance with accounting principles generally accepted in the United States, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm.

The Audit Committee has received from its independent registered public accounting firm written communications regarding the matters required to be discussed with the Audit Committee. These matters included information regarding the scope and results of their audit of the Company s financial statements, including with respect to (i) their responsibilities under generally accepted auditing standards, (ii) significant accounting policies, (iii) management judgments and estimates, (iv) any significant accounting adjustments, (v) any disagreements with management and (vi) any difficulties encountered in performing the audit. The Committee discussed these matters with the Company s independent registered public accounting firm, with and without management present.

The Company s independent registered public accounting firm also provided to the Audit Committee the written disclosures required by the Public Company Accounting Oversight Board, and the Audit Committee discussed the firm s independence with the independent registered public accounting firm. The Audit Committee also pre-approved all fiscal 2016 audit and non-audit services and fess and concluded that the non-audit services performed and related fees did not impair the independence of the independent registered public accounting firm.

Based upon the Audit Committee s discussions and reviews referred to above, the Audit Committee recommended that the audited consolidated financial statements be included in Lannett s Annual Report on Form 10-K for the fiscal year ended June 30, 2016 as filed with the Securities and Exchange Commission.

Audit Committee:

James M. Maher (Chairman)
David Drabik
Paul Taveira

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PRINCIPAL STOCKHOLDERS

The following table sets forth, as of October 31, 2016, information regarding the security ownership of the directors and certain executive officers of the Company and persons known to the Company to be beneficial owners of more than five (5%) percent of the Company s common stock. Although grants of restricted stock under the Company s 2006, 2011 and 2014 Long Term Incentive Plans (LTIPs) generally vest equally over a three year period from the grant date, the restricted shares are included below because the voting rights with respect to such restricted stock are acquired immediately upon grant.

Name and Address of Beneficial Owner / Director / Executive Officer	Office	Excluding Options (*)				Including Options (**)	
		Shares Held Directly	Shares Held Indirectly	Total Shares	Percent of Class	Number of Shares	Percent of Class
John M. Abt 13200 Townsend Road Philadelphia, PA 19154	VP of Quality	**6,110**		**6,110(1)**	**0.02%**	**6,766(1),(2)**	**0.02%**
Arthur P. Bedrosian 13200 Townsend Road Philadelphia, PA 19154	Chief Executive Officer	**675,558**	**36,500**	**712,058(3)**	**1.92%**	**1,129,651(3),(4)**	**3.02%**
David Drabik 13200 Townsend Road Philadelphia, PA 19154	Director	**24,575**		**24,575**	**0.07%**	**24,575**	**0.07%**
Robert Ehlinger 13200 Townsend Road Philadelphia, PA 19154	VP and Chief Information Officer	**20,017**		**20,017(5)**	**0.05%**	**28,783(5),(6)**	**0.08%**
Jeffrey Farber 13200 Townsend Road Philadelphia, PA 19154	Chairman of the Board, Director	**2,433,826**	**2,260,327**	**4,694,153(7)**	**12.69%**	**4,699,153(7),(8)**	**12.70%**
David Farber 13200 Townsend Road Philadelphia, PA 19154		**1,940,870**	**2,432,455**	**4,373,325(9)**	**11.82%**	**4,373,325(9)**	**11.82%**
Jeffrey and Jennifer Farber Family Foundation 2354 Bellingham Drive Troy, MI 48083		**1,603,498**		**1,603,498(10)**	**4.33%**	**1,603,498(10)**	**4.33%**
David and Nancy Farber Family Foundation 2354 Bellingham Drive Troy, MI 48083		**1,583,499**		**1,583,499(11)**	**4.28%**	**1,583,499(11)**	**4.28%**
Farber Family LLC 2354 Bellingham Drive Troy, MI 48083		**528,142**		**528,142(12)**	**1.43%**	**528,142(12)**	**1.43%**
Farber Investment LLC 2354 Bellingham Drive Troy, MI 48083		**38,000**		**38,000(13)**	**0.10%**	**38,000(13)**	**0.10%**
Martin Galvan 13200 Townsend Road	Chief Financial Officer	**38,370**		**38,370(14)**	**0.10%**	**183,366(14),(15)**	**0.50%**

Philadelphia, PA 19154							
James M. Maher 13200 Townsend Road Philadelphia, PA 19154	Director	**20,320**		**20,320**	**0.05%**	**20,320**	**0.05%**
Albert Paonessa, III 13200 Townsend Road Philadelphia, PA 19154	Director	**7,105**		**7,105**	**0.02%**	**7,105**	**0.02%**
Kevin R. Smith 13200 Townsend Road Philadelphia, PA 19154	SVP of Sales and Marketing	**16,498**		**16,498(16)**	**0.04%**	**78,124(16),(17)**	**0.21%**
Paul Taveira 13200 Townsend Road Philadelphia, PA 19154	Director	**24,798**		**24,798**	**0.07%**	**24,798**	**0.07%**
All directors and executive officers as a group (10 persons)		**3,267,177**	**2,296,827**	**5,564,004**	**15.04%**	**6,202,641**	**16.48%**

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(1)Includes 3,144 unvested shares received pursuant to restricted stock awards granted in March 2015, July 2015 and July 2016.

(2)Includes 656 vested options to purchase common stock at an exercise price of $59.20 per share.

(3)Includes 36,500 shares owned by Arthur P. Bedrosian s wife and daughter. Mr. Bedrosian disclaims beneficial ownership of these shares. Includes 14,972 unvested shares received pursuant to restricted stock awards granted in April 2014, July 2014, July 2015 and July 2016.

(4)Includes 30,000 vested options to purchase common stock at an exercise price of $2.80 per share, 75,000 vested options to purchase common stock at an exercise price of $6.94 per share, 89,500 vested options to purchase common stock at an exercise price of $3.55 per share, 64,000 vested options to purchase common stock at an exercise price of $4.16 per share, 90,000 vested options to purchase common stock at an exercise price of $13.86 per share, 64,000 vested options to purchase common stock at an exercise price of $34.77 per share and 5,093 vested options to purchase common stock at an exercise price of $59.20 per share.

(5)Includes 2,768 unvested shares received pursuant to restricted stock awards granted in July 2015 and July 2016.

(6)Includes 6,666 vested options to purchase common stock at an exercise price of $34.77 per share and 2,100 vested options to purchase common stock at an exercise price of $59.20 per share.

(7)Includes 1,603,498 shares held by the Jeffrey and Jennifer Farber Family Foundation which is managed by Jeffrey Farber. Jeffrey Farber disclaims beneficial ownership of these shares. Includes 528,142 shares held by Farber Family LLC (FFLLC) which is managed by Jeffrey and David Farber. David Farber and Jeffrey Farber each disclaim beneficial ownership of these shares. Includes 73,408 shares held by Jeffrey Farber as custodian for his children, 17,279 shares held as joint custodian with David Farber for a relative and also includes 38,000 shares held by Farber Investment Company (FIC). Jeffrey Farber and David Farber each beneficially own 25% of FIC and each disclaim beneficial ownership of all but 9,500 shares held by FIC.

(8)Includes 5,000 vested options to purchase common stock at an exercise price of $6.89 per share.

(9)Includes 1,583,499 shares held by the David and Nancy Family Foundation. David Farber disclaims beneficial ownership of these shares. Includes 528,142 shares held by FFLLC which is managed by Jeffrey and David Farber. David Farber and Jeffrey Farber each disclaim beneficial ownership of these shares. Includes 265,535 shares held by David Farber as custodian for his children and 17,279 shares held as joint custodian with Jeffrey Farber for a relative. Also includes 38,000 shares held by FIC. Jeffrey Farber and David Farber each beneficially own 25% of FIC and each disclaim beneficial ownership of all but 9,500 shares held by FIC.

(10)Jeffrey and Jennifer Farber Family Foundation is managed by Jeffrey Farber.

(11)David and Nancy Farber Family Foundation is managed by David and Nancy Farber.

(12)Farber Family LLC is managed by Jeffrey Farber and David Farber.

(13)Farber Investment LLC is beneficially owned 25% each by Jeffrey and David Farber and 50% by Larry Farber.

(14)Includes 7,637 unvested shares received pursuant to restricted stock awards granted in April 2014, July 2014, July 2015 and July 2016.

(15)Includes 40,000 vested options to purchase common stock at an exercise price of $4.73 per share, 32,000 vested options to purchase common stock at an exercise price of $4.16 per share, 50,000 vested options to purchase common stock at an exercise price of $13.86 per share, 20,000 vested options to purchase common stock at an exercise price of $34.77 per share and 2,996 vested options to purchase common stock at an exercise price of $59.20 per share.

(16)Includes 7,795 unvested shares received pursuant to restricted stock awards granted in April 2014, July 2014, July 2015 and July 2016.

(17)Includes 11,667 vested options to purchase common stock at an exercise price of $4.16 per share, 30,000 vested options to purchase common stock at an exercise price of $13.86 per share, 17,333 vested options to purchase common stock at an exercise price of $34.77 per share and 2,626 vested options to purchase common stock at an exercise price of $59.20 per share.

* Percent of class calculation is based on 37,001,732 outstanding shares of common stock at October 31, 2016.

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

The following table sets forth, as of October 31, 2016, information regarding the names and addresses of the shareholders known to the Company to be beneficial owners of more than five (5%) percent of the Company s common stock.

Name and Address of Beneficial Owner	Number of Shares	Percent of Class
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	**2,876,155(1)**	**7.77%**
Snow Capital Management, L.P. 2000 Georgetown Drive, Suite 2000 Sewickley, PA 15143	**2,117,912(2)**	**5.72%**
Deerfield Management, L.P. 780 Third Avenue, 37th Floor New York, NY 10017	**2,008,051(3)**	**5.43%**
The Vanguard Group 100 Vanguard Blvd	**2,439,551(4)**	**6.59%**

Malvern, PA 19355

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(1) Based on Schedule 13G/A filed by BlackRock, Inc. with the SEC on January 26, 2016. BlackRock, Inc. has sole voting power over 2,811,893 shares, shared voting power over 0 shares, sole dispositive power over 2,876,155 shares and shared dispositive power over 0 shares.

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(2) Based on Schedule 13G filed by Snow Capital Management, L.P. with the SEC on November 9, 2016. Snow Capital Management, L.P. has sole voting power over 2,027,489 shares, shared voting power over 0 shares, sole dispositive power over 2,117,912 shares, and shared dispositive power over 0 shares.

(3) Based on Schedule 13G filed by Deerfield Management, L.P. with the SEC on November 10, 2016. Deerfield Management, L.P. has sole voting power over 0 shares, shared voting power over 2,008,051 shares, sole dispositive power over 0 shares, and shared dispositive power over 2,008,051 shares.

(4) Based on Schedule 13G/A filed by The Vanguard Group with the SEC on February 10, 2016. The Vanguard Group has sole voting power over 59,111 shares, shared voting power over 1,800 shares, sole dispositive power over 2,380,540 shares and shared dispositive power over 59,011 shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors, officers and persons who own more than 10% of a registered class of the Company s equity securities to file with the SEC reports of ownership and changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater-than-10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such reports furnished to the Company or written representations that no other reports were required, the Company believes that during Fiscal 2016 all filing requirements applicable to its officers, directors and greater-than-10% beneficial owners under Section 16(a) of the Exchange Act were complied with in a timely manner, except for a Form 4 for Dr. Mahendra Dedhiya related to a purchase of shares on February 5, 2016, a Form 4 for John Abt related to shares withheld by the Company to satisfy tax withholding obligations for a restricted stock vesting on March 30, 2016 and Form 4s for various executive officers related to shares withheld by the Company to satisfy tax withholding obligations for restricted stock vestings on April 24, 2016.

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DIRECTORS AND OFFICERS

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

	Age	Position
Directors:		
Jeffrey Farber	56	Chairman of the Board
Arthur P. Bedrosian	70	Director
David Drabik	48	Director; Lead Independent Director
Paul Taveira	57	Director
James M. Maher	64	Director
Albert Paonessa, III	56	Director
Officers:		
Arthur P. Bedrosian	70	Chief Executive Officer
Martin P. Galvan	64	Vice President of Finance, Chief Financial Officer and Treasurer
Kevin R. Smith	56	Senior Vice President of Sales and Marketing
John M. Abt	51	Vice President of Quality
Robert Ehlinger	59	Vice President and Chief Information Officer

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

Arthur P. Bedrosian See Proposal No. 1 - Election of Directors for matters pertaining to Mr. Bedrosian

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

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

James M. Maher See Proposal No. 1 - Election of Directors for matters pertaining to Mr. Maher.

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

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

Kevin R. Smith joined the Company in January 2002 as Vice President of Sales and Marketing. Prior to this, from 2000 to 2001, he served as Director of National Accounts for Bi-Coastal Pharmaceutical, Inc., a pharmaceutical sales representation company. Prior to this, from 1999 to 2000, he served as National Accounts Manager for Mova Laboratories Inc., a pharmaceutical manufacturer. Prior to this, from 1991 to 1999, Mr. Smith served as National Sales Manager at Sidmak Laboratories, a pharmaceutical manufacturer. Mr. Smith has extensive experience in the generic sales market and brings to the Company a vast network of customers, including retail

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chain pharmacies, wholesale distributors, mail-order wholesalers and generic distributors. Mr. Smith has a Bachelor of Science Degree in Business Administration from Gettysburg College.

John M. Abt joined the Company in March 2015 as Vice President of Quality. Prior to joining the Company, Mr. Abt held senior level positons in both quality and operations and has extensive knowledge in pharmaceutical manufacturing, quality, strategy, business improvement and site transformation. He most recently served as Teva Pharmaceuticals Vice President Global Quality Strategy, overseeing the development and implementation of strategy and associated initiatives for the global quality organization. Before that, he held a number of leadership positions of increasing responsibility in operations, continuous improvement, quality systems and compliance. He earned his Masters of Administrative Science in Business Management from John Hopkins University and a Bachelor of Science in Biochemistry from Niagara University.

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

To the best of the Company s knowledge, there have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions that are material to the evaluation of the ability or integrity of any director, executive officer, or significant employee during the past ten years.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) describes our 2016 Executive Compensation Program. It provides an overview of the compensation program for the following Named Executive Officers (NEOs) and how the Compensation Committee of the Board of Directors (the Committee) made its decisions for our 2016 fiscal year (July 1, 2015 June 30, 2016).

NEO	Title/Role
Arthur P. Bedrosian	Chief Executive Officer (CEO)
Martin P. Galvan	Vice President of Finance, Chief Financial Officer and Treasurer
Kevin Smith	Senior Vice President of Sales and Marketing
John M. Abt	Vice President of Quality
Robert Ehlinger	Vice President of Logistics and Chief Information Officer
Michael Bogda	Former President*
William Schreck	Former Chief Operating Officer*

* Mr. Bogda departed the Company effective June 3, 2016

** Mr. Schreck departed the Company effective September 11, 2015

Say on Pay Results in 2015

At our annual shareholders meeting in January 2012, our shareholders supported a triennial cycle for say-on-pay advisory votes relating to our Executive Compensation Program for NEOs. At that time, and again in January 2015, we provided our shareholders with the opportunity to approve, or to vote against, the compensation of our NEOs, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). At our January 2015 meeting, approximately 96% of the shareholders who voted on the say-on-pay proposal supported our program.

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

The following pages of this CD&A highlight performance results since Fiscal 2013 that have had a direct impact on the compensation paid to our NEOs over the same period of time. It looks specifically at the performance measures used in the short- and long-term incentive awards under the Executive Compensation Program that the Committee believes drive shareholder value. It also describes recently approved changes for

Fiscal 2017 to further align our Executive Compensation Program with our objectives and best competitive practice.

A Word About Risk

The Committee believes that incentive plans, along with the other elements of the Executive Compensation Program, provide appropriate rewards to our NEOs to keep them focused on our goals. The Committee also believes that the program s structure, along with its oversight, continues to provide a setting that does not encourage the NEOs to take excessive risks in their business decisions.

Executive Summary

Business Highlights

The Company achieved a number of strategic milestones in Fiscal 2016, including the acquisition of Kremers Urban Pharmaceuticals Inc. (KUPI), which significantly increased our product portfolio and scope of operations. After several years of extraordinary performance, our profitability and total shareholder return results were lower in Fiscal 2016, primarily due to some short-term challenges associated with the KUPI acquisition and softness in the generic pharmaceuticals market. The decline in our Fiscal 2016 performance results adversely impacted executive pay levels as discussed further below.

Compared with Fiscal 2015 results, and including the impact of the KUPI acquisition, we increased Total Net Sales in Fiscal 2016 by approximately 33%, while Operating Income declined by 42%, and Diluted Earnings Per Share (EPS) declined by 70%. These results

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include approximately $166 million in KUPI Total Net Sales between the time of acquisition and fiscal year end, a $24 million reduction in Net Sales related to a customer settlement, $27 million in acquisition-related expenses, and $70 million of interest expense associated with the financing of the KUPI transaction. Excluding the impact of the KUPI acquisition, Total Net Sales declined by 7%, Operating Income decreased by 17%, and Diluted EPS declined by 19%. Our stock price decreased by approximately 60% during the 12-month period ending June 30, 2016 and increased in total by approximately 100% over the past three years.

The KUPI acquisition, which closed in November 2015, further diversified our product portfolio. Since the closing, our leadership team has worked diligently to integrate KUPI into our Company and restore / expand its customer base. In February 2016, we implemented the 2016 Restructuring Plan to further enhance synergies, reduce costs, and strengthen our balance sheet. While Fiscal 2016 profitability was adversely impacted by the KUPI acquisition, we believe this transaction positions the Company for long-term growth and shareholder value creation. During Fiscal 2016, we also completed the integration of Silarx, Inc. (Silarx), which was acquired in June 2015 to further enhance our product portfolio. Using Silarx as an example, sales from their facility have doubled in terms of revenue and profits post integration. While we cannot assume a similar outcome for KUPI at this time, the management team is very optimistic that additional value in KUPI can be realized.

In addition, we continued to make important advances in product development and mix, market share, and in our regulatory approval process, allowing us to efficiently and safely place our products that span a variety of categories (e.g., thyroid deficiencies, central nervous system, gastrointestinal, pain management, etc.) on the market. Following the recent acquisitions of KUPI and Silarx, we currently have approximately 100 products available to the market, with an additional 28 Abbreviated New Drug Applications (ANDAs) pending regulatory approval. We also have 25 product candidates in development, and continue to capitalize on our strategic partnerships, both domestically and internationally.

Key financial performance highlights, as reported in accordance with U.S. generally accepted accounting principles and including the impact of the KUPI acquisition, include:

Peer Group average pertains to the Fiscal 2016 peer group.

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Comparison of CEO Pay (In Year Earned) Versus Performance

The following charts compare CEO pay with Company performance, as measured by diluted Earnings Per Share (EPS) and indexed Total Shareholder Returns (TSR), between fiscal years 2013 and 2016. To more accurately demonstrate the alignment between executive pay and Company performance, comparisons include performance-based annual equity grants in the year earned, as opposed to the year granted. This approach differs from current reporting requirements for the Summary Compensation Table and Grants of Plan-Based Awards Table, which reflect equity award values in the year of grant. While NEO pay is tied to a variety of performance criteria and other factors, we believe these selected charts demonstrate our commitment to aligning executive pay with Company performance.

Fiscal 2016 Executive Compensation Program Changes

As our Company grows, the Committee is committed to the evolution and improvement of our Executive Compensation Program to ensure alignment with our business strategy and shareholder interests, as well as best competitive practices. The Committee made the following adjustments to the program s core compensation elements for 2016:

What s Changed	**How It s Changed**	**Explanation**
Short-Term Incentives (Annual Bonus)	• Increased Threshold performance hurdles from 80% of Target to 90% of Target, to account for the anticipated lack of growth in Fiscal 2016 performance results. • Increased the target award opportunity for the CEO from 75% of salary to 80% of salary, to improve pay competitiveness.	No changes were made to performance metrics or weightings. Following several years of extraordinary growth, Fiscal 2016 financial performance results were expected to be slightly below Fiscal 2015 levels. As a result, the Committee increased the Threshold performance hurdle, relative to Target, to focus NEOs on achieving Fiscal 2016 performance targets.

Long-Term Incentives	• Increased target award opportunities for several NEOs to improve pay competitiveness, with grants for Fiscal 2016 performance to be provided through a value mix of 65% restricted stock and 35% stock options. • Grant levels will continue to be tied to Company performance, and can range from 0% to 150% of target awards based on actual results versus pre-established goals. • Grants under this program occurred in July 2016, following the determination of actual results for Fiscal 2016.	The Committee continued to link equity grant levels to Company performance to strengthen alignment with shareholder interests. The increased emphasis on restricted stock relative to stock options helps manage equity plan share usage and dilution levels, focuses executives on long-term shareholder value creation, and further reinforces the Company s leadership retention strategy.

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Our Commitment to Sound Corporate Governance

In order to align our executive compensation program with long-term shareholder interests, we have adopted a variety of sound corporate governance practices, as illustrated in the following table:

What We Do	**What We Don t Do**
•Emphasize variable incentives to align pay with performance	•Provide multi-year pay guarantees within employment agreements
•Tie incentive compensation to multiple performance metrics that reinforce key business objectives	•Allow stock option repricing without shareholder approval
•Place primary emphasis on equity compensation to align executive and shareholder interests	•Permit stock hedging or pledging activities
•Use stock ownership guidelines for executive officers and non-employee directors	•Provide uncapped incentive awards
•Maintain a clawback policy allowing for the recoupment of excess compensation in the event of a material financial restatement and fraud or misconduct	•Pay tax gross-ups on any awards
•Engage an independent compensation consultant to advise the Compensation Committee	•Provide excessive executive perquisites

Overview of the Executive Compensation Program

Our Philosophy

A fundamental objective of our Executive Compensation Program is to focus our executives on creating long-term shareholder value all aspects of our program are rooted in this goal and designed around the following guiding principles:

•**Pay for performance:** A significant portion of compensation should be variable and directly linked to corporate and individual performance goals and results.

•**Competitiveness:** Compensation should be sufficiently competitive to attract, motivate and retain an executive team fully capable of driving exceptional performance.

•**Alignment:** The interests of executives should be aligned with those of our shareholders through equity-based compensation and performance measures that help to drive shareholder value over the long term.

To support these guiding principles, our program includes the following compensation elements:

Pay Element	Form	Purpose
Base Salary	Cash (Fixed)	Provides a competitive level of compensation that reflects position responsibilities, strategic importance of the position and individual experience.
Short-Term Incentives (Annual Bonus)	Cash (Variable)	Provides a cash-based award that recognizes the achievement of corporate goals in support of the annual business plan, as well as specific, qualitative and quantitative individual goals for the most recently completed fiscal year.
Long-Term Incentives	Equity (Variable)	Provides incentives for management to execute on financial and strategic goals that drive long-term shareholder value creation and support the Company s retention strategy.

Target Compensation Mix

The charts below show that most of our NEO s target compensation for Fiscal 2016 is variable (74% for our CEO and an average of 62% for our other NEOs). Variable pay includes the target value of short-term cash incentives (STI), stock options, and restricted stock.

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Based upon Fiscal 2016 compensation as reported in the Summary Compensation Table on page 26 of this Proxy Statement, variable pay represents 75% of total pay for our CEO and 66% of average total pay for our other NEOs. This mix reflects below-target annual incentives earned in Fiscal 2016 under the Annual Bonus Plan (shown as STI), above-target equity grants in Fiscal 2016 based on Fiscal 2015 Company performance, and one-time special recognition cash awards for the successful closing of the KUPI transaction and related integration activities during Fiscal 2016. The emphasis on variable pay would be lower if comparisons included equity grants in the year earned, since equity grants in Fiscal 2017 based on Fiscal 2016 performance were well below target levels.

How Compensation Decisions Are Made

- **The Role of the Compensation Committee.** The Committee, composed entirely of independent directors, is responsible for making executive compensation decisions for the NEOs. The Committee works closely with its independent compensation consultant, Pearl Meyer & Partners (Pearl Meyer), and management to examine pay and performance matters throughout the year. The Committee s charter, which sets out its objectives and responsibilities, can be found at our website at www.lannett.com under Investor Relations.

The Committee has authority and responsibility to establish and periodically review our Executive Compensation Program and compensation philosophy. Importantly, the Committee also has the sole responsibility for approving the corporate performance goals upon which compensation for the CEO is based, evaluating the CEO s performance and determining and approving the CEO s compensation, including equity-based compensation, based on the achievement of his goals. The Committee also reviews and approves compensation levels for other NEOs, taking into consideration recommendations from the CEO.

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In making its determinations, the Committee considers market data and advice from Pearl Meyer, as well as budgets, reports, performance assessments and other information provided by management. It also considers other factors, such as the experience, skill sets, and contributions of each NEO towards our overall success. However, the Committee is ultimately responsible for all compensation-related decisions for the NEOs and may exercise its own business judgment when evaluating performance results and making compensation decisions.

Timing of Committee Meetings and Grants; Option and Share Pricing

The Committee meets as necessary to fulfill its responsibilities, and the timing of these meetings is established during the year. The Committee holds special meetings from time to time as its workload requires. Annual equity grants typically occur after finalizing fiscal year end performance results. Historically, annual grants of equity awards were typically approved at a meeting of the Committee in August/September of each year to reward prior year performance. Beginning with grants made in Fiscal 2015, equity grants occur in the July/August time frame, reflecting the Company s status change to a large accelerated filer (with an expedited filing date requirement) as a result of our strong growth and significant increase in equity market capitalization. Individual grants (for example, associated with the timing of a new NEO or promotion to an NEO position) may occur at any time of year. The exercise price of each stock option and fair value of restricted stock awarded to our NEOs is the closing price of our common stock on the date of grant.

- **The Role of the CEO.** The CEO does not play any role in the Committee s determination of his own compensation. However, he presents the Committee with recommendations for each element of compensation including base salaries and short- and long-term incentive awards for the other NEOs, as well as non-executive employees who are eligible for equity grants. The CEO bases these recommendations upon his assessment of each individual s performance, as well as market practice. The Committee has full discretion to modify the recommendations of the CEO in the course of its approvals.

- **The Role of the Independent Consultant.** The Committee consults, as needed, with an outside compensation consulting firm. As it makes decisions about executive compensation, the Committee reviews data and advice from its consultant about current compensation practices and trends among publicly-traded companies in general and comparable generic pharmaceutical companies in particular.

The Committee also reviews recommendations from its outside consultant and makes recommendations to the Board about the compensation for non-employee directors.

In Fiscal 2015**,** Pearl Meyer was retained by the Committee, as its independent consultant, to review the competitiveness of the Executive Compensation Program. Pearl Meyer provided the Committee with compensation data with respect to similarly sized biopharmaceutical and life sciences companies and consulted with the Committee about a variety of issues related to competitive compensation practices and incentive plan designs. Pearl Meyer was also retained by the Committee in Fiscal 2016 to review the competitiveness of the Executive Compensation Program and to provide ongoing advice relating to the Executive Compensation Program. The Committee assessed the independence of Pearl Meyer pursuant to the SEC rules and concluded that no conflict of interest exists that would prevent Pearl Meyer from independently advising the Committee.

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Peer Group & Benchmarking

The Committee evaluates industry-specific and general market compensation practices and trends to ensure the Executive Compensation Program is appropriately competitive. When making decisions about the program for Fiscal 2016, the Committee considered publicly-available data, as well as a market study conducted by Pearl Meyer in July 2015. The Pearl Meyer study developed market values using a blend of peer group proxy pay data for the companies shown below as well as published survey data for the broader life sciences industry. Using this information, the Committee compared our program to the compensation practices of other companies which the Committee believes are comparable to the Company in terms of size, scope and business complexity (the peer group). As shown below, the Company ranked in the upper half of the peer group in terms of revenues and profitability and slightly below the 50th percentile for equity market capitalization.

Following the KUPI acquisition, and based on recommendations from Pearl Meyer, the Committee approved changes to the peer group for Fiscal 2017 to account for the Company s significant increase in size. The Committee approved the exclusion of former peers Albany Molecular Research Inc., Pernix Therapeutics Holdings Inc., and Sagent Pharmaceuticals Inc., on the basis of size and business focus. The Committee also approved the addition of Horizon Pharma plc, Jazz Pharmaceuticals plc, Prestige Brand Holdings Inc., and United Therapeutics Corporation. These additional companies compete with us for business and executive talent, and were added to the peer group to round out the sample size. Compared with the revised peer group, the Company is near the 50th percentile in terms of net sales and between the 50th and 75th percentiles in terms of operating income.

The Committee uses external market data as a reference point to ensure the Company s executive compensation program is sufficiently competitive to attract, retain, and motivate highly experienced and talented NEOs. The Committee generally seeks to position target total direct compensation for NEOs at or near 50th percentile market values for comparable positions, but does not utilize a purely formulaic benchmarking approach. Based on the July 2015 Pearl Meyer study, target total direct compensation, including the sum of base salary plus target short-term and long-term incentives, was within a competitive range (defined as +/- 10%) of 50th percentile market values for then-current NEOs except for Messrs. Bedrosian and Galvan, who were below the competitive range, and Mr. Abt, who was recently recruited to the Company and was above the competitive range. Excluding Mr. Bedrosian, whose target pay was below the 25th percentile, aggregate target total direct compensation was equal to 96% of the 50th percentile. As previously noted, when evaluating our executive compensation program, the Committee considers a variety of other factors in addition to external market data, such as Company and individual performance, and each NEO s qualifications, skill sets, and past and expected future contributions towards our success.

2016 Executive Compensation Program Decisions

Base Salary

We attribute much of our success to our highly-experienced executive management team, and the strength of their leadership has been clearly demonstrated by our exceptional long-term performance results and growth. In order to remain competitive among our industry peers, the Committee believes it must set compensation at market-competitive levels that reflect the executive s experience, role and responsibilities. In Fiscal 2016, the Committee approved base salary increases to Messrs. Bedrosian, Galvan, and Smith to

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bring them to the 50th percentile of comparable organizations, as reported in Pearl Meyer s July 2015 market pay analysis, and modest merit increases for Messrs. Ehlinger and Abt. No base salary increases were provided for Messrs. Bogda and Schreck, both of whom departed from the Company during Fiscal 2016.

NEO		2015 Base Salary		2016 Base Salary	% Change
Arthur P. Bedrosian	$	555,170	$	615,129	11%
Martin P. Galvan	$	326,510	$	354,916	9%
Kevin Smith	$	286,340	$	314,974	10%
Robert Ehlinger	$	236,900	$	242,823	3%
John Abt*	$	286,000	$	289,632	1%

** Mr. Abt was hired during Fiscal 2015*

Short-Term Incentives (Annual Bonus)

The Company s NEOs participate in an annual bonus program, which is designed to reinforce the annual business plan and budgeted goals and to recognize yearly performance achievements focused primarily on financial and operating results. Actual payouts can range from 0% (below threshold) to 200% (superior performance) of target awards and are paid in cash. The Committee sets each NEO s threshold, target and superior bonus opportunity as a percentage of base salary, as follows:

	Annual Bonus Opportunity As a % of Salary		
NEO	Threshold (25% of Target)	Target (100% of Target)	Superior (200% of Target)
Arthur P. Bedrosian	20%	80%	160%
Martin P. Galvan Kevin Smith John Abt	15%	60%	120%
Robert Ehlinger	12.5%	50%	100%

In Fiscal 2016, Mr. Bedrosian s target award opportunity was increased from 75% of salary to 80% of salary to align more closely with 50th percentile market values. Expressed as percentages of salary, Fiscal 2016 award opportunities for all other NEOs were the same as those established in Fiscal 2015.

The overall annual bonus plan for Fiscal 2016 is comprised of two components:

- **Corporate Financial & Operational Goals: 90% (95% for the CEO) of the total target award opportunity** is tied to operating results versus targets established by the Committee to promote a focus on Company-wide profitable growth and collaboration:

	Weighting (Out of 100%)	
Performance Metric	**CEO**	**Other NEOs**
Adjusted Operating Income	50%	50%
Adjusted Earnings Per Share (EPS)	25%	20%
Adjusted Net Sales	20%	20%
Individual Objectives	5%	10%

Fiscal 2016 performance metrics and weightings were the same as those established in Fiscal 2015. Adjusted Operating Income is defined as operating income excluding bonus and stock-based compensation expense, as further adjusted for certain non-recurring items. Adjusted EPS is defined as diluted EPS excluding bonus and stock-based compensation expense, as further adjusted for certain non-recurring items. Adjusted Net Sales is defined as Net Sales excluding the impact of a customer settlement charge. Any adjustments are reviewed and approved by the Committee.

- **Individual Objectives: 10% (5% for the CEO) of the total target award opportunity** is based on the achievement of pre-established quantitative and qualitative individual goals, to promote individual accountability and line of sight. Fiscal 2016 goals were tied to various strategic, financial and operational objectives, taking into consideration each NEO s job function and responsibilities. For competitive harm reasons, the Company does not disclose specific details on individual goals and strategic objectives, although major accomplishments in Fiscal 2016 for each NEO are listed on page 21.

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2016 Short-Term Incentives (Annual Bonus): Results and Payouts

- **Corporate Financial & Operational Results (Collectively Weighted 90% to 95% of Target Award).** Following several years of extraordinary growth, Fiscal 2016 performance results were expected to be at or below Fiscal 2015 levels. Fiscal 2016 Target goals for Adjusted Operating Income and Adjusted EPS were set at Fiscal 2015 actual levels, and the Adjusted Net Sales Target was set slightly above Fiscal 2015 actual results. These goals were established prior to the KUPI acquisition, and therefore, all Fiscal 2016 performance goals and actual results exclude the KUPI transaction. Based on the established Target goals, the Committee increased the hurdle for Fiscal 2016 Threshold performance goals from 80% of Target to 90% of Target goals. The Committee viewed these performance hurdles as very challenging in light of then-current internal forecasts and economic conditions. For Fiscal 2016, the Committee established financial performance goals ranging from 90% of Target (Threshold) to 120% of Target (Superior):

Performance Metric	Weighting (Out of 100%)	Performance Goals (Excluding KUPI Transaction) Threshold	Target	Superior	Actual
Adjusted Operating Income ($ millions)	50%	$ 220.7	$ 245.2	$ 294.2	$ 207.1
Adjusted Earnings Per Share (EPS)	20% (25% for CEO)	$ 3.93	$ 4.37	$ 5.24	$ 3.79
Adjusted Net Sales ($ millions)	20%	$ 393.3	$ 437.0	$ 524.4	$ 400.4

Excluding the impact of the KUPI acquisition, actual Fiscal 2016 performance results were below Threshold levels for Adjusted Operating Income and Adjusted EPS, and between Threshold and Target levels for Adjusted Net Sales. Actual Adjusted Operating Income for Fiscal 2016 excluded pre-tax items totaling $76 million, including acquisition-related expenditures, purchase accounting-related expenses due to the KUPI acquisition, and other non-recurring one-time items.

Actual Adjusted EPS excluded the same $76 million in pre-tax items that were excluded from Adjusted Operating Income plus $70 million in interest expense and the tax effects for all of these items. The Adjusted Net Sales performance metric excluded items totaling $142 million, including KUPI sales of approximately $166 million between the date of acquisition and fiscal year end and $24 million related to a customer settlement.

- **Individual Results (Collectively Weighted 5% of Target Award for the CEO and 10% for other Current NEOs).**

NEO	Performance Highlights
Arthur P. Bedrosian	• Doubled the size of the Company through acquisitions • Reduced product concentrations • Restored relations with major KUPI customer

	• Refinanced $250 million 12% Senior Note within six months of closing the Acquisition • Led and managed C-Suite leadership/succession planning with Human Resources
Martin P. Galvan	• Delivered accurate financial reports on a required quarterly and annual basis as an accelerated filer with the SEC while integrating the two M&A transactions • Worked with CEO to refinance $250 million Senior Note • Contributed to the integration of Silarx and KUPI • Assembled and mentored an executive M&A and banking team
Kevin Smith	• Doubled sales of Silarx products and integrated KUPI acquisition and reorganized sales team • Introduced Silarx and KUPI products and increased market share on Lannett products • Transitioned CSO into in-house sales team for C-Topical brand sales
John Abt	• Introduced new quality initiatives at all sites in systemic Quality procedures • Headed the Integration Management Office to integrate the two M&A transactions
Robert Ehlinger	• Assembled team to upgrade SAP at Lannett • Introduced SAP at both Silarx and Cody Labs sites • Assembled and headed the separation and eventual integration of SAP from UCB to Lannett • Made IT software compatible with internal SOX compliance initiatives

Individual goals are not shown for Messrs. Bogda and Schreck, both of whom departed from the Company during Fiscal 2016 and did not receive a bonus.

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Total Annual Bonus

Based on our performance results and individual contributions, the NEOs earned below-Target awards for the corporate operational component and awards between Threshold and Target levels for the individual component under the Annual Bonus Plan. Overall awards for current NEOs were equal to approximately 11.3% (9.3% for the CEO) of target amounts. Total awards for each of the NEOs were as follows:

NEO	Operational Results Portion of the Bonus (90% to 95%)