

LANNETT CO INC  
Form 10-Q  
February 08, 2013  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2012**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM                      TO                      .**

**Commission File No. 001-31298**

## **LANNETT COMPANY, INC.**

(Exact Name of Registrant as Specified in its Charter)

**State of Delaware**  
(State of Incorporation)

**23-0787699**  
(I.R.S. Employer I.D. No.)

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9000 State Road

Philadelphia, PA 19136

(215) 333-9000

(Address of principal executive offices and telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o  
(Do not check if a smaller reporting company)

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12B-12 of the Exchange Act). Yes x No o

Indicate the number of shares outstanding of each class of the registrant's common stock, as of the latest practical date.

Class	Outstanding as of January 31, 2013
Common stock, par value \$0.001 per share	28,389,531

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(In thousands, except share and per share data)	(Unaudited)	
	December 31, 2012	June 30, 2012
<b><u>ASSETS</u></b>		
Current Assets		
Cash and cash equivalents	\$ 31,455	\$ 22,562
Investment securities	6,638	6,667
Trade accounts receivable (net of allowance of \$111 and \$124, respectively)	41,370	42,212
Inventories, net	30,688	27,064
Prepaid income taxes	249	2,120
Deferred tax assets	4,955	4,833
Other current assets	1,309	1,023
<b>Total Current Assets</b>	<b>116,664</b>	<b>106,481</b>
Property, plant and equipment, net	38,876	37,068
Intangible assets, net	3,488	4,429
Deferred tax assets	8,540	9,069
Other assets	810	1,171
<b>TOTAL ASSETS</b>	<b>\$ 168,378</b>	<b>\$ 158,218</b>
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts payable	\$ 18,625	\$ 17,989
Accrued expenses	1,982	1,518
Accrued payroll and payroll related	3,810	3,198
Current portion of long-term debt	654	648
Rebates, chargebacks and returns payable	18,961	17,039
<b>Total Current Liabilities</b>	<b>44,032</b>	<b>40,392</b>
Long-term debt, less current portion	6,255	6,513
<b>TOTAL LIABILITIES</b>	<b>50,287</b>	<b>46,905</b>
Commitment and Contingencies, See notes 13 and 14		
<b><u>SHAREHOLDERS EQUITY</u></b>		
Common stock - authorized 50,000,000 shares, par value \$0.001; issued 28,822,773 and 28,594,437 shares, respectively; outstanding, 28,386,894 and 28,252,192 shares, respectively	29	29
Additional paid-in capital	100,913	99,515
Retained earnings	19,043	13,236
Accumulated other comprehensive loss	(26)	(63)
Treasury stock at cost 435,879 and 342,245 shares, respectively	(2,034)	(1,594)
<b>Total Shareholders Equity Attributable to Lannett Company, Inc.</b>	<b>117,925</b>	<b>111,123</b>

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Noncontrolling Interest		166		190
<b>TOTAL SHAREHOLDERS EQUITY</b>		<b>118,091</b>		<b>111,313</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	\$	<b>168,378</b>	\$	<b>158,218</b>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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**LANNETT COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

(In thousands, except share and per share data)	Three months ended December 31,		Six months ended December 31,	
	2012	2011	2012	2011
Net sales	\$ 36,564	\$ 27,734	\$ 71,858	\$ 56,612
Cost of sales	22,620	19,771	43,784	39,513
Amortization of intangible assets	470	470	941	938
Product royalties	53	66	86	118
<b>Gross profit</b>	<b>13,421</b>	<b>7,427</b>	<b>27,047</b>	<b>16,043</b>
Research and development expenses	3,572	2,513	7,336	4,939
Selling, general, and administrative expenses	5,155	4,419	11,326	9,164
<b>Operating income</b>	<b>4,694</b>	<b>495</b>	<b>8,385</b>	<b>1,940</b>
Other income (expense):				
Foreign currency gain (loss)		(8)	3	(3)
Gain (loss) on sale of assets	(112)	(3)	(42)	4
Realized gain (loss) on investments	132	27	96	(146)
Unrealized gain (loss) on investments	(61)	675	209	(151)
Litigation settlement			1,250	
Interest and dividend income	27	36	62	89
Interest expense	(72)	(73)	(135)	(150)
	(86)	654	1,443	(357)
Income before income tax expense	4,608	1,149	9,828	1,583
Income tax expense	1,749	519	4,026	731
<b>Net income</b>	<b>2,859</b>	<b>630</b>	<b>5,802</b>	<b>852</b>
Less net income (loss) attributable to noncontrolling interest	22	(21)	5	(37)
<b>Net income attributable to Lannett Company, Inc.</b>	<b>\$ 2,881</b>	<b>\$ 609</b>	<b>\$ 5,807</b>	<b>\$ 815</b>
Basic earnings per common share - Lannett Company, Inc.	\$ 0.10	\$ 0.02	\$ 0.21	\$ 0.03
Diluted earnings per common share - Lannett Company, Inc.	\$ 0.10	\$ 0.02	\$ 0.20	\$ 0.03
Basic weighted average number of shares	28,347,464	28,526,658	28,312,989	28,479,195
Diluted weighted average number of shares	28,450,597	28,773,477	28,424,027	28,733,435

The accompanying notes to the consolidated financial statements are an integral part of these statements.



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**LANNETT COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

(In thousands)	Three months ended December 31,		Six months ended December 31,	
	2012	2011	2012	2011
<b>Net Income</b>	\$ 2,859	\$ 630	\$ 5,802	\$ 852
Foreign currency translation adjustments	(4)	(32)	37	(35)
Unrealized holding loss on securities		(1)		(2)
Tax effect				1
<b>Total Other Comprehensive Income (Loss), net of tax</b>	(4)	(33)	37	(36)
<b>Comprehensive Income</b>	2,855	597	5,839	816
Less: Total Comprehensive Income (loss) attributable to noncontrolling interest	22	(21)	5	(37)
<b>Comprehensive Income attributable to Lannett Company Inc.</b>	\$ 2,877			