

LANNETT CO INC
Form 10-Q
May 15, 2008

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 MARCH 31, 2008

☐ **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.)

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 ☒

No ☐

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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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12B-12 of the Exchange Act).

Yes ☐

No ☒

As of May 13, 2008, there were 24,283,963 shares of the issuer's common stock, \$.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LANNETT COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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| | March 31, 2008 (unaudited) | June 30, 2007 |
|---|-------------------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 6,599,019 | \$ 5,192,341 |
| Trade accounts receivable (net of allowance of \$438,000 and \$250,000, respectively) | 18,946,727 | 19,473,978 |
| Inventories | 12,018,415 | 14,518,484 |
| Interest receivable | 69,483 | 36,260 |
| Prepaid taxes | 3,193,685 | 3,193,685 |
| Deferred tax assets - current portion | 1,590,175 | 1,258,930 |
| Other current assets | 536,368 | 611,512 |
| Total Current Assets | 42,953,872 | 44,285,190 |
| Property, plant, and equipment | 39,310,358 | 39,260,689 |
| Less accumulated depreciation | (14,224,639) | (11,817,528) |
| | 25,085,719 | 27,443,161 |
| Construction in progress | 923,545 | 176,003 |
| Investment securities - available for sale | 2,502,755 | 3,320,632 |
| Intangible asset (product rights) - net of accumulated amortization | 10,808,001 | 12,046,502 |
| Deferred tax assets | 18,877,745 | 17,150,174 |
| Other assets | 204,382 | 234,438 |
| TOTAL ASSETS | \$ 101,356,019 | \$ 104,656,100 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 8,787,457 | \$ 7,013,985 |
| Accrued expenses | 2,965,743 | 6,719,782 |
| Deferred revenue | 1,177,189 | 1,637,993 |
| Unearned grant funds | 500,000 | 500,000 |
| Current portion of long term debt | 703,570 | 692,119 |
| Rebates and chargebacks payable | 6,148,307 | 5,686,364 |
| Total Current Liabilities | 20,282,266 | 22,250,243 |
| Long term debt, less current portion | 8,533,181 | 8,987,846 |
| Deferred tax liabilities | 3,226,090 | 3,202,835 |
| Other long term liabilities | 30,080 | 32,001 |
| TOTAL LIABILITIES | 32,071,617 | 34,472,925 |
| SHAREHOLDERS' EQUITY | | |
| Common stock - authorized 50,000,000 shares, par value \$0.001; issued and outstanding - 24,270,577 and 24,171,217 shares, respectively | 24,271 | 24,171 |
| Additional paid-in capital | 74,208,805 | 73,053,778 |
| Accumulated deficit | (4,513,174) | (2,472,621) |
| Accumulated other comprehensive income (loss) | 33,446 | (27,583) |
| | 69,753,348 | 70,577,745 |
| Less: Treasury stock at cost - 74,970 shares and 50,900 shares, respectively | (468,946) | (394,570) |
| TOTAL SHAREHOLDERS' EQUITY | 69,284,402 | 70,183,175 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 101,356,019 | \$ 104,656,100 |

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

LANNETT COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net sales | \$ 16,579,512 | \$ 20,302,576 | \$ 51,654,484 | \$ 65,186,747 |
| Cost of sales | 12,276,526 | 14,127,421 | 36,688,446 | 44,770,101 |
| Amortization of intangible assets | 446,166 | 446,166 | 1,338,498 | 1,338,498 |
| Product Royalties | (40,674) | 516,576 | 196,672 | 1,746,200 |
| Gross profit | 3,897,494 | 5,212,413 | 13,430,868 | 17,331,948 |
| Research and development expenses | 1,516,904 | 2,269,677 | 3,715,334 | 5,586,213 |
| Selling, general, and administrative expenses | 4,222,103 | 2,615,910 | 12,457,030 | 7,739,524 |
| Loss on impairment | | 7,775,890 | | 7,775,890 |
| Operating loss | (1,841,513) | (7,449,064) | (2,741,496) | (3,769,679) |
| OTHER INCOME(EXPENSE): | | | | |
| Interest income | 45,239 | 99,000 | 170,967 | 309,805 |
| Interest expense | (75,025) | (76,102) | (291,146) | (208,497) |
| | (29,786) | 22,898 | (120,179) | 101,308 |
| Loss before income tax (benefit) expense | (1,871,299) | (7,426,166) | (2,861,675) | (3,668,371) |
| Income tax (benefit) expense | (615,454) | (818,807) | (821,122) | 685,791 |
| Net loss | \$ (1,255,845) | \$ (6,607,359) | \$ (2,040,553) | \$ (4,354,162) |
| Basic loss per common share | \$ (0.05) | \$ (0.27) | \$ (0.08) | \$ (0.18) |
| Diluted loss per common share | \$ (0.05) | \$ (0.27) | \$ (0.08) | \$ (0.18) |
| Basic weighted average number of shares | 24,268,449 | 24,164,385 | 24,208,830 | 24,155,556 |
| Diluted weighted average number of shares | 24,268,449 | 24,164,385 | 24,208,830 | 24,155,556 |

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

LANNETT COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

| | Common Stock Shares Issued | Amount | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Accum. Other Comp. (Loss) Income | Shareholders Equity |
|--|----------------------------------|-----------|----------------------------------|------------------------|-------------------|--|------------------------|
| Balance, June 30, 2007 | 24,171,217 | \$ 24,171 | \$ 73,053,778 | \$ (2,472,621) | \$ (394,570) | \$ (27,583) | \$ 70,183,175 |
| Shares issued in connection with employee stock purchase plan | 24,896 | 25 | 106,479 | | | | 106,504 |
| Share based compensation | | | | | | | |