

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- (X) Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended March 31, 1996
- () Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 0-13976

AKORN, INC.
(Exact Name of Registrant as specified in its Charter)

LOUISIANA	72-0717400
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
100 Akorn Drive	
Abita Springs, Louisiana	70420
(Address of Principal Executive Offices)	(Zip Code)

(504) 893-9300
(Issuer's telephone number)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

At May 3, 1996 there were 15,076,427 shares of common stock, no par value, outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

The following financial statements are provided on the page numbers indicated below:

Condensed Consolidated Balance Sheets -
March 31, 1996 and June 30, 1995

Condensed Consolidated Statements of Income - Three months and nine months ended March 31, 1996 and 1995	4
Condensed Consolidated Statements of Cash Flows - Nine months ended March 31, 1996 and 1995	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	

The information called for by this item is provided on page 9.

AKORN, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 1996	June 30, 1995*
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,183,471	\$ 767,286
Short-term investments	892,290	1,568,793
Accounts receivable (less allowance for bad debts of \$267,611 and \$266,329 at March 31 and June 30, respectively)	5,218,825	4,918,753
Inventory	7,392,390	5,979,707
Prepaid expenses and other assets	1,638,839	1,068,338
TOTAL CURRENT ASSETS	----- 16,325,815	----- 14,302,877
OTHER ASSETS	1,031,209	957,099
PROPERTY, PLANT AND EQUIPMENT	18,228,049	13,820,135
Accumulated depreciation	(7,342,308)	(6,750,743)
Construction in progress	----- 10,885,741 636,534	----- 7,069,392 3,926,553
	----- 11,522,275	----- 10,995,945
TOTAL ASSETS	----- \$28,879,299 =====	----- \$26,255,921 =====

	March 31, 1996	June 30, 1995*
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	\$ 550,000	\$ -
Current installments of long-term debt and capital lease obligations	813,705	641,994
Current portion of pre-funded development costs	600,000	667,000
Trade accounts payable	2,114,914	1,718,893
Income taxes payable	707,015	781,824
Accrued payroll and commissions	503,407	625,839
Accrued reorganization costs	383,780	727,423
Deferred royalty	916,667	-
Accrued expenses and other liabilities	1,636,163	1,237,232
	-----	-----
TOTAL CURRENT LIABILITIES	8,225,651	6,400,205
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	3,730,361	3,900,389
OTHER LONG-TERM LIABILITIES	609,484	957,043
SHAREHOLDERS' EQUITY		
Common stock, no par value-- authorized 20,000,000 shares; issued 15,115,673 shares at March 31 and June 30; outstanding 14,976,427 and 14,904,653 shares at March 31 and June 30, respectively	13,701,845	13,701,845
Treasury stock, at cost--139,246 and 211,020 shares at March 31 and June 30, respectively	(147,519)	(291,067)
Retained earnings	2,759,477	1,500,109
Unrealized gain on marketable equity securities	-	87,397
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	16,313,803	14,998,284
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$28,879,299	\$26,255,921
	=====	=====

*Condensed from audited consolidated financial statements.
See notes to condensed consolidated financial statements.

AKORN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

Three Months ended		Nine Months ended	
March 31		March 31	
1996	1995	1996	1995
-----	-----	-----	-----

Net sales	\$7,624,835	\$7,502,580	\$22,900,600	\$24,427,958
Cost of sales	5,299,188	4,791,289	14,877,026	14,484,222
GROSS PROFIT	<u>2,325,647</u>	<u>2,711,291</u>	<u>8,023,574</u>	<u>9,943,736</u>
Selling, general and administrative expenses	1,525,783	1,936,062	5,426,698	6,654,320
Research and development	225,794	211,254	689,383	561,618
	<u>1,751,577</u>	<u>2,147,316</u>	<u>6,116,081</u>	<u>7,215,938</u>
OPERATING INCOME	<u>574,070</u>	<u>563,975</u>	<u>1,907,493</u>	<u>2,727,798</u>
Interest expense	(121,847)	-	(306,511)	-
Interest and other income, net	112,028	(237,834)	393,827	(186,176)
	<u>(9,819)</u>	<u>(237,834)</u>	<u>87,316</u>	<u>(186,176)</u>
INCOME BEFORE INCOME TAXES	564,251	326,141	1,994,809	2,541,622
Income taxes	208,774	97,842	738,290	922,206
NET INCOME	<u>\$355,477</u>	<u>\$228,299</u>	<u>\$1,256,519</u>	<u>\$1,619,416</u>

Per Share:

NET INCOME	\$.02	\$.01	\$.08	\$.10
WEIGHTED AVERAGE SHARES OUTSTANDING	15,416,397	15,519,988	15,326,343	15,447,119

See notes to condensed consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Common Stock		Retained Earnings (Deficit)	Unrealized Loss on Noncurrent Marketable Equity Securities		Total
	Shares Outstanding	Amount		Treasury Stock		
Nine Months Ended March 31, 1995:						
Balances at July 1, 1994	14,798,217	\$13,701,845	\$ (822,806)	\$ (503,939)	\$ (32,044)	\$12,343,056
Net income for the nine months ended March 31			1,619,416			1,619,416
Additional unrealized loss on noncurrent marketable equity securities					(275,661)	(275,661)
Write-down of noncurrent marketable equity securities to market value					307,705	307,705
Exercise of stock options	34,917		8,824	69,834		78,658
Shares issued from treasury in connection with the Company's Employee Stock Purchase Plan	52,083		35,072	104,166		139,238
Balances at March 31, 1995	<u>14,885,217</u>	<u>\$13,701,845</u>	<u>\$840,506</u>	<u>\$ (329,939)</u>	<u>\$ -</u>	<u>\$14,212,412</u>
Nine Months Ended March 31, 1994:						
Balances at July 1, 1993	12,781,317	\$10,701,845	\$ (3,561,768)	\$ (641,573)	\$ -	\$ 6,498,504
Net income for the nine months ended March 31			1,222,621			1,222,621

Exercise of stock options and warrants	2,010,000	3,000,000	(700)	20,000	3,019,300
Shares issued from treasury in connection with the Company's Employee Stock Purchase Plan	43,509		13,760	87,018	100,778
Balances at March 31, 1994	<u>14,834,826</u>	<u>\$13,701,845</u>	<u>\$(2,326,087)</u>	<u>\$ (534,555)</u>	<u>\$ 10,841,203</u>

See notes to condensed consolidated financial statements.

AKORN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine months ended March 31,	
	1996	1995
OPERATING ACTIVITIES		
Net income	\$1,256,519	\$1,619,416
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	628,489	731,077
Gain on sale of investments	(79,859)	-
Realized loss on noncurrent marketable equity securities	-	307,705
Changes in operating assets and liabilities	(1,620,247)	(3,284,838)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	184,902	(626,640)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,117,895)	(4,047,143)
Net maturities of investments	668,965	322,791
Product licensing costs	(17,867)	(376,729)
NET CASH USED IN INVESTING ACTIVITIES	(466,797)	(4,101,081)
FINANCING ACTIVITIES		
Repayment of long-term debt	(288,727)	(905,341)
Proceeds from sale of stock	146,397	217,896
Proceeds from issuance of long-term debt	400,000	3,900,000
Reductions in capital lease obligations	(109,590)	(15,627)
Short-term borrowings, net	550,000	343,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	698,080	3,539,928
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	416,185	(1,187,793)
Cash and cash equivalents at beginning of period	767,286	1,914,735
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$1,183,471	\$ 726,942
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid, net of amount capitalized	\$ 306,303	\$ -
Income taxes paid, net of refunds	\$ 706,874	\$1,092,750

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Akorn, Inc. (the Company) and its wholly owned subsidiaries, Spectrum Scientific Pharmaceuticals, Inc., Walnut Pharmaceuticals, Inc. and Akorn Manufacturing, Inc. Intercompany transactions and balances have been eliminated in consolidation.

These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended March 31, 1996 are not necessarily indicative of the results that may be expected for the year ending June 30, 1996. For further information, refer to the consolidated financial statements and footnotes for the year ended June 30, 1995, included in the Company's Annual Report on Form 10-KSB.

NOTE B - INCOME TAXES

The Company is currently in discussions with the Internal Revenue Service (IRS) regarding the examination of tax returns for years 1988 through 1993. The IRS has proposed adjustments to such returns which would result in additional taxes and interest due of approximately \$1.5 million. Although the Company has agreed with approximately \$550,000 of the proposed adjustments, (all of which was paid during the quarter ended March 31, 1996 and funded by short-term bank financing), the Company is currently appealing the remainder of the assessment. The Company does not currently anticipate that the ultimate resolution of this matter will have a material adverse effect on the financial statements.

NOTE C - EARNINGS PER SHARE

Earnings per share are based upon the weighted average number of common shares outstanding. The computation of the weighted average number of shares outstanding for all periods presented includes the dilutive effect of stock options and warrants using the treasury stock method.

NOTE D - INVENTORY

The components of inventory are as follows:

	March 31, 1996	June 30, 1995
Finished goods	\$3,760,467	\$3,742,411
Work in process	1,618,783	1,042,922
Raw materials and supplies	2,013,140	1,194,374
	<u>\$7,392,390</u>	<u>\$5,979,707</u>
	=====	=====

The inventories are reported net of reserves for unsaleable items

of \$493,441 and \$344,443 as of March 31, 1996 and June 30, 1995, respectively.

NOTE E - INVESTMENTS

At March 31, 1995, the cost of the Company's noncurrent marketable equity securities exceeded the market value by \$307,705. Given the significant decline in market value since June 30, 1994, and Management's assessment that a significant reversal was not imminent, the loss was determined to be permanent. Therefore, the unrealized loss previously charged to shareholders' equity was reversed, and the Company recorded a realized loss to recognize the decline in value. This loss is included in interest and other income (expense) for the quarter and nine months ended March 31, 1995.

At June 30, 1995, the market value of the Company's marketable equity securities exceeded the cost by \$87,397; therefore, an unrealized gain was recorded as a component of shareholders' equity to reflect this increase in value. Subsequent to year end, the Company sold the investment and recorded a realized gain of \$79,859 during the first quarter of fiscal 1996. This amount is included in interest and other income, net in the accompanying statement of income for the nine months ended March 31, 1996.

NOTE F - INTEREST CAPITALIZATION

Interest incurred during construction periods is capitalized as part of the cost of the expansion project. During the nine-month periods ended March 31, 1996 and 1995, the Company capitalized \$34,682 and \$179,499, respectively, in interest costs. During the quarter ended March 31, 1995, interest costs totaling \$135,774 were capitalized. No interest costs were capitalized during the third quarter of fiscal 1996.

NOTE G - LITIGATION

The Company is involved in various litigation and claims arising in the normal course of business. The Company's management believes that any liability the Company may have in these matters would not have a material effect on the consolidated financial statements.

NOTE H - PROPOSED ACQUISITION OF INJECTABLE DISTRIBUTION BUSINESS

On May 7, 1996, the Company signed a definitive agreement to acquire all of the outstanding common stock of Pasadena Research Laboratories, Inc. ("PRL") in exchange for 1.4 million shares of Akorn, Inc. Common Stock, in a transaction expected to be accounted for as a pooling-of-interests. The expected date for closing of this transaction is June 30, 1996. PRL is a distributor of niche injectable products. Akorn plans to utilize the PRL operations to distribute its own line of injectable products, while continuing the sale of PRL label products.

Following is selected unaudited financial information on a pro-forma basis, assuming the acquisition of PRL was consummated as of the date of the financial statements currently reported on:

	Three Months Ended March 31, 1996		Nine Months Ended March 31, 1995	
	1996	1995	1996	1995
	(In thousands, except per Share amounts)			
Net sales	\$ 8,815	\$8,636	\$25,764	\$28,274
	=====	=====	=====	=====

Net income	\$ 611	\$ 403	\$ 1,470	\$ 1,795
	=====	=====	=====	=====
Earnings per share	\$.04	\$.02	\$.09	\$.11
	=====	=====	=====	=====

NOTE I - CHANGE IN ACCOUNTING ESTIMATES

During the quarter ended March 31, 1996, the Company increased its estimate for unsaleable inventory by approximately \$300,000 (\$189,000 or one cent per share, net of tax). This change in estimate is reported as an increase in cost of goods sold.

Also, during the quarters ended March 31, 1995 and 1996, an evaluation by the Company resulted in a change in the estimated liability related to aged customer credits. This change resulted in a reduction of selling general and administrative expenses of approximately \$330,000 (\$231,000 or one cent per share, net of tax) for the quarter ended March 31, 1995. For the same period in 1996, the reduction to S,G&A expenses was \$85,000 (\$54,000 or less than one cent per share, net of tax).

In the quarter ended March 31, 1996, the Company decided to no longer pursue Abbreviated New Drug Applications (ANDAs) for several products which had been produced in previously-owned facilities, and for which estimated costs of transferring such ANDAs had been accrued. This decision was based on a reevaluation of the costs of developing such products as compared to their potential market, given the emergence of alternate suppliers, since the Company suspended their production. This change in estimate was also based on the Company's recent decision to enter into the injectable distribution marketplace and the need to free up R&D resources for the pursuit of injectable ANDAs. The total amount of the accrual reversed was approximately \$316,000 (\$199,000 or one cent per share, net of tax). This is included as a reduction in S,G&A expense.

NOTE J - DEFERRED ROYALTY

In March 1996, the Company received \$1 million of prepaid royalties from Pfizer, representing the guaranteed amount of first year royalties under the licensing agreement with Pfizer. The Company will recognize this royalty on a straight-line basis over one year. One month of royalties, or \$83,333 was recognized in the quarter ended March 31, 1996

AKORN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net Sales

The following table sets forth, for the periods indicated, net sales by segment (in thousands), excluding intersegment sales:

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	1996	1995	1996	1995
Ophthalmic distribution	\$ 5,161	\$5,382	\$16,282	\$17,740
Contract manufacturing	2,464	2,121	6,619	6,688

Total net sales	\$ 7,625	\$7,503	\$22,901	\$ 24,428
	=====	=====	=====	=====

Net sales increased 2% in the quarter ended March 31, 1996, compared to the same period in 1995, with sales of \$7.6 million versus \$7.5 million. For the first nine months of fiscal 1996, sales of \$22.9 million were 6% lower than the prior-year sales of \$24.4 million. The decline in sales for the nine month period is primarily due to the absence of the Company's lead allergy product, AK-Con-A, since the second quarter of fiscal 1995.

For the quarter ended March 31, 1996, ophthalmic distribution sales declined 4% over the comparable period in 1995. For the nine month period ended March 31, 1996, net sales for this segment declined 8% as compared to the same period in the prior fiscal year. The decline for the quarter is primarily related to a weakness in sales of generic ophthalmic products in the retail sector. This was partially due to the effect of harsh weather, throughout the second and third fiscal quarters, resulting in higher than expected inventory levels at several wholesalers. The decline for the nine-month period was primarily related to the absence of AK-Con-A which accounted for approximately \$2 million in sales for the prior year nine month period.

Ophthalmic distribution sales, exclusive of AK-Con-A sales, were \$15.7 million, for the nine-month period ended March 31, 1995. Excluding AK-Con-A sales, ophthalmic distribution sales for the nine-month period ended March 31, 1996 were 3% greater than the same period in 1995. The low rate of growth for the nine-month period is partially due to the overstocking in wholesalers noted above.

As previously announced, AK-Con-A was converted to over-the-counter (OTC) from prescription status by the Food and Drug Administration (FDA). The Company recently obtained approval of its OTC version of AK-Con-A which has been licensed to Pfizer Inc. (Pfizer). In March 1996, the Company received \$1 million of prepaid royalties from Pfizer for the first year under the agreement. The Company will recognize this royalty on a straight-line basis over one year. One month of prepaid royalty was recognized in the quarter ended March 31, 1996. The Company also recognized some manufacturing sales in this quarter.

The Company has recently received several Abbreviated New Drug Application approvals (ANDAs) for ophthalmic products at its Akorn Manufacturing, Inc. (AMI) facilities. These approvals are expected to add incremental revenues to the ophthalmic distribution segment commencing in the fourth quarter of fiscal 1996, as the Company plans to introduce "commodity generic" labels for these products. Some of these incremental sales, however, may be offset by continued increase in competition in the ophthalmic generic market.

For the quarter ended March 31, 1996, contract manufacturing sales increased 16% over the comparable period in 1995. For the nine-month period ended March 31, 1996, this segment's sales were relatively flat as compared to the same period in 1995. The increase in the third quarter was primarily related to the inclusion of contract sales to Pfizer and Jordan Pharmaceuticals under a previously announced contract agreement. Contract sales will continue to vary from quarter to quarter as a result of fluctuations in ordering patterns from contract customers which is common to this segment. In addition, declines in contract revenues have occurred due to a recent shift by several contract customers who, based on economic evaluation, have opted to transfer the manufacture of their injectable products in-house,

or to discontinue the product line entirely.

As noted in previous Company disclosures, one of these customers is Akorn's largest contract customer, which accounted for 10% and 13% of consolidated net sales for the quarter and nine-month periods ended March 31, 1996, respectively. This customer has transferred a portion of its contract business to its own facilities and has decided to discontinue the remaining products currently being manufactured by AMI.

The transferred and discontinued products accounted for approximately \$1.4 million and \$2.9 million in sales, respectively, for AMI in fiscal 1995. The Company is in late stage negotiations to acquire the discontinued products. In the meantime, this customer has agreed to continue to order these products and keep them in the marketplace. The acquisition of these products would help to continue the current plant throughput, while obtaining some incremental distribution profits.

In October, 1995, the Company signed a contract manufacturing agreement with Jordan Pharmaceuticals, Inc. (Jordan) to develop and manufacture three new generic injectable pharmaceutical products. In addition, the agreement secured the long-term manufacture of three generic injectables currently produced by AMI for Jordan. The three new products are exempt from FDA approval under "grandfather" rules, and, as such, the first of the three new products should be in commercial production during the fourth quarter of fiscal 1996. The combined contractual payments in the first year of the contract, including fees for product development, are expected to approximate \$2 million. Previously, Jordan represented approximately \$900,000 of the Company's contract business. This additional throughput will help offset declines from other contract customers noted above.

The Jordan agreement allows for Akorn to use information supporting the development of the products to pursue recently announced strategies in the injectable marketplace. The agreement further provides that best efforts will be used by both parties to add two new products each year to the agreement, under the same terms and conditions.

On May 7, 1996 the Company signed a definitive agreement to acquire Pasadena Research Labs, Inc. (PRL), a specialized distributor of injectables, based in southern California. Under the proposed transaction, Akorn will issue 1.4 million shares of its common stock, in exchange for all of the outstanding shares of PRL, in a pooling-of-interests transaction. It is anticipated that the transaction will be closed in June 1996. The acquisition of PRL would form the cornerstone of Akorn's strategy to expand its presence in the injectable market. This, together with Akorn's current injectable contract manufacturing operations, will create a \$13 - \$14 million injectable division presently.

Commensurate with the signing of the definitive agreement, the Company has reorganized its operations into two distinct divisions, the Ophthalmic Division and the Injectable Division. It is anticipated that in future filings, separate segment reporting will be made for these two divisions.

Gross Profit

Consolidated gross profit declined 14% to \$2.3 million in the quarter ended March 31, 1996 compared to \$2.7 million for the same period of the previous year. For the first nine months of fiscal 1996, gross profit of \$8.0 million was 19% lower than the comparable fiscal 1995 amount of \$9.9 million.

During the quarter ended March 31, 1996, the Company increased its estimate for unsaleable inventory by approximately \$300,000. This change in estimate is reported as an increase in cost of goods sold. Excluding this change in estimate, gross profit for the quarter and nine-month period ended March 31, 1996 was approximately \$2.6 million and \$8.3 million, respectively. Exclusive of the change in estimate, gross profit declined 3% (150 basis points) and 16% (430 basis points), respectively for the quarter and nine-month periods ended March 31, 1996 as compared to the same periods in 1995.

The loss of AK-Con-A sales, (Akorn's highest margin product at 75%), and higher product costs imposed by some suppliers, were the primary reasons for the decline in gross profit and margins for the nine months ended March 31, 1996. In addition, continued increases in competition, resulting in price suppression in the ophthalmic generic market effected gross profit and margins in the current quarter and nine month periods. For the quarter ended March 31, 1996, the Company's gross margin was also impacted by a higher percentage of wholesaler chargebacks to gross sales. Gross margins are expected to remain relatively stable for the remainder of fiscal 1996 as the royalties from Pfizer are expected to offset any negative impact of price competition.

Selling, General and Administrative Expenses

Selling, general and administrative (S,G&A) expenses declined 21% during the quarter ended March 31, 1996, as compared to the same period in 1995. For the first nine months of fiscal 1996, S,G&A expenses were 18% lower than the comparable period in fiscal 1995.

During the quarters ended March 31, 1996 and 1995, the Company, based on evaluations made by management, changed the estimated liability related to aged customer credits. This resulted in a reduction in S,G&A expenses of approximately \$85,000 and \$330,000 for the respective periods. Also, in the quarter ended March 31, 1996, the Company decided to no longer pursue Abbreviated New Drug Applications (ANDAs) for several products which had been produced in previously-owned facilities, and for which estimated costs of transferring such ANDAs had been accrued. This decision was based on the cost of the ANDAs versus the future incremental profit to be derived from the sales of these products, given the emergence of alternate suppliers, since the Company suspended production.

This change in estimate was also based on the Company's recent decision to enter into the injectable distribution marketplace and the need to free up R&D resources for the pursuit of injectable ANDAs. The total amount of the accrual reversed was approximately \$316,000 and is included as a reduction in S,G&A expense.

Without these changes in estimate, the Company would have realized S,G&A expenses of \$1.9 million and \$2.3 million for the quarters ended March 31, 1996 and 1995, respectively, a 15% decline. For the nine months ended March 31, 1996 and 1995, S,G&A, exclusive of these adjustments would have been \$5.8 million and \$7.0 million, respectively, representing a 17% decline. The reduction in S,G&A expenses is partly due to lower sales and partly due to the plan, implemented in the quarter ended March 31, 1995, to reduce certain S,G&A expenses.

The percentage of S,G&A expenses to sales, excluding the effects of the changes in estimates, were 25% and 30% for the quarters

ended March 31, 1996 and 1995, respectively. These percentages were 25% and 29% for the nine-month periods ended March 31, 1996 and 1995, respectively. The Company continues to monitor the required level of S,G&A expenses in relation to sales performance.

Research and Development

Research and development expenses increased 7% and 23%, respectively for the quarter and nine months ended March 31, 1996, as compared to the same periods in 1995. This increase reflects the change in the mix of products under development to a lower concentration of products for which costs have been previously accrued.

The Company also continues its development of a non-steroidal anti-inflammatory drug for ophthalmic use licensed from Pfizer. It is anticipated that the majority of these development costs, which are expected to be funded substantially by monies obtained from Pfizer, will be incurred over the next 12 to 15 months.

With the acquisition of PRL, the Company expects to increase its mix of injectable ANDA filings. PRL has several filings underway through joint venture arrangements. It is anticipated that these arrangements would continue and that the Company would also continue to develop other injectable ANDAs for manufacture at its Decatur facilities. Due to the factors noted above, it is anticipated that the Company's R&D expenditures will increase over the next twelve months. However, the level of R&D will continue to be monitored in light of operating performance.

Interest and Other Income/Expense

Interest costs incurred during the entire prior fiscal year and through July 1995 were capitalized as part of the cost of construction related to the Company's expansion project at AMI. The expansion is now complete and the first production of product from the new clean room began in the current quarter. In addition, the Company has under construction, additions related to the expansion of its R&D facilities and the installation of a hot loop for its water for injection. The R&D additions are substantially complete and the hot loop project should be completed over the next two quarters. A portion of interest expense associated with this project is expected to be capitalized during the construction period.

March 31, 1996 are \$90,000 and \$240,000, respectively, in fees associated with the international licensing of certain technologies in two separate agreements. Under the agreements, Akorn will provide product information to be used in obtaining approvals for these products for manufacture and distribution internationally. In addition, Akorn will manufacture the product for international distribution for a period of time and will receive a royalty stream on international sales of the product. The Company is in discussions with other companies regarding similar arrangements in other international markets.

Also included in interest and other income (expense) for the nine month period ended March 31, 1996 is a gain of \$80,000 recognized on the sale of the Company's only equity investment. The prior year quarter and nine month periods include a \$308,000 loss related to an other than temporary decline in the fair market value of this equity investment.

Income Taxes

The effective tax rates for the quarter ended March 31, 1996 and 1995 was 37% and 30%, respectively. For the nine month periods ended March 31, 1996 and 1995, the effective rate was 37% and

36%, respectively. The decline in the effective rate for the quarter ended March 31, 1995 as compared to the current year rate, reflects changes associated with lower anticipated income levels for fiscal year 1995 and minor adjustments related to filed tax returns.

The Company has been in discussions with the Internal Revenue Service (IRS) regarding the examination of tax returns for the periods of 1988 through 1993. The IRS has proposed adjustments to such returns, some of which the Company has agreed to and some which the Company will appeal. The agreed issues were paid in full in the quarter ended March 31, 1996. Short-term bank debt totaling \$550,000 was used to pay these agreed items. The Company does not currently anticipate that the ultimate resolution of the unagreed matters will have a material adverse effect on the financial statements.

Net Income

As a result of the factors noted above, net income for the quarter ended March 31, 1996 increased to \$355,000 or two cents per share compared to the prior year amount of \$228,000 or one cent per share. Net income for the first nine months of fiscal 1996 declined to \$1.3 million or eight cents per share versus \$1.6 million or ten cents per share in the comparable 1995 period. Weighted average shares used in the calculation of per share amounts were relatively unchanged from year to year.

Financial Condition and Liquidity

The net cash provided by operating activities for the nine months ended March 31, 1996 was \$185,000 compared to net cash used of \$627,000 for the corresponding period in 1995. While the Company remains profitable, significant investments in inventory, primarily for raw materials and components associated with new ophthalmic products and research and development efforts have been made. In addition, several contract customers have recently required AMI to inventory some components which were previously supplied by these customers. Prior to the introduction of ophthalmics, raw material and component inventories were relatively insignificant, as such inventories were generally supplied by contract customers. All ophthalmic manufacturing, however, requires AMI to inventory the raw materials and components, thus resulting in the noted increases. Further increases in raw material and component inventory will be based on future product approvals.

In 1996, the Company will continue to fund the payment of certain previously accrued research and development activities, including the site transfer of ANDAs and development of the NSAID discussed previously. Management believes that existing cash, cash flows from operations, and available working capital lines of credit are sufficient to handle these short-term needs.

In addition to these short-term needs, the Company may be required to pay additional interest and taxes in connection with the examination by the IRS of tax returns for the periods of 1988 through 1993. The proposed adjustments by the IRS would result in additional interest and taxes currently due of approximately \$1.5 million. To date, the Company and the IRS have agreed upon

issues resulting in approximately \$600,000 of current net taxes and interest due. Payment of the agreed upon items was made in the current quarter and has been financed with short-term bank debt. Payment of the remaining unsettled issues, if any, would be based on the timing of the appeals process and the success of the Company in arguing its position with the IRS. The Company does not currently anticipate any adverse financial statement effect

from this proposed assessment.

The Company invested \$1.1 million in new property, plant and equipment during the nine-month period ended March 31, 1996, compared to \$4.0 million in the prior year comparable period. The current year additions were primarily related to expansion of the Company's R&D facilities and the hot loop noted above, while the prior year additions were associated with the expansion of the Company's manufacturing facilities, including the addition of a high-speed ophthalmic line.

The Company has the following availability under existing bank financing arrangements:

- A \$2.0 million Line of Credit for working capital purposes. This is expected to increase to \$2.5 million in availability as a result of the PRL acquisition.
- \$1,250,000 remaining available under construction loan agreements and commitments.

The Company has plans for capital improvements of approximately \$1.5 million to \$2 million for the remainder of calendar 1996. Such expenditures will be financed through internal cash flows and \$1,250,000 remaining available under bank commitments. The timing of expenditures will be staged to ensure compliance with debt covenant requirements.

Financing activities provided \$698,000 and \$3.5 million in the nine-month periods ended March 31, 1996 and 1995, respectively. The increases in both periods is primarily related to draws on the various bank financing arrangements in support of the Company's capital projects and working capital needs.

In connection with the negotiations with its lead contract customer, discussed previously, the Company has a commitment from its commercial bank to lend up to \$1.5 million for the product line acquisition should it occur.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Certain legal proceedings in which the registrant, Akorn, Inc. (the "Company"), is involved are described in Item 3 to the Company's Form 10-KSB for the fiscal year ended June 30, 1995 and in Note R to the consolidated financial statements included in that report.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(99.1) Press release issued by Akorn, Inc. on May 7, 1996
announcing its third quarter 1996 financial results
and the acquisition of Pasadena Research Labs, Inc.,
incorporated by reference to Form 8-K dated May 9, 1996.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of
1934, the registrant has duly caused this report to be signed on
its behalf by the undersigned thereunto duly authorized.

AKORN, INC.

/s/ Barry D. LeBlanc

Barry D. LeBlanc
Executive Vice President
(Duly Authorized Officer)

/s/ Eric M. Wingerter

Eric M. Wingerter
Vice President - Finance and Administration
(Principal Financial Officer)

Date: May 7, 1996

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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