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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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[ ] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

[x] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from July 1, 1996 to December 31, 1996

Commission File Number: 0-13976

AKORN, INC.
(Name of small business issuer as specified in its charter)

LOUISIANA	72-0717400
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

100 Akorn Drive, Abita Springs, Louisiana 70420
(Address of principal executive offices and zip code)
Issuer's telephone number: (504) 893-9300

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT:

None

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:

Common Stock, No Par Value
(Title of Class)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by nonaffiliates (affiliates being, for these purposes only, directors, executive officers and holders of more than 5% of the Issuer's common stock) of the Issuer as of February 28, 1997 was approximately $27,479,000.

The number of shares of the Issuer's common stock, no par value per share, outstanding as of February 28, 1997 was 16,591,918.

The information contained in this document, other than historical

information, consists of forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those described in such statements. Such statements regarding the timing of acquiring and developing new products, of bringing them on line and of deriving revenues and profits from them, as well as the effects of those revenues and profits on the company's margins and financial position, is uncertain because many of the factors affecting the timing of those items are beyond the company's control.

PART I

Item 1. Description of Business.

General Development of Business

Akorn, Inc. (Akorn or the Company) manufactures, markets and distributes an extensive line of therapeutic, diagnostic and surgical pharmaceutical and over-the-counter ophthalmic products. In addition, through its wholly-owned subsidiary Akorn Manufacturing, Inc., doing business as Taylor Pharmaceuticals (Taylor), the Company manufactures and distributes injectable pharmaceutical products and provides sterile contract manufacturing services to a number of large and small pharmaceutical companies. Akorn is a Louisiana corporation founded in 1971. For most of its 25 year history, the Company has been headquartered in Abita Springs, Louisiana, a suburb of New Orleans. Recently, the Company announced that it would be moving its headquarters and most of its Ophthalmic Division operations to Lincolnshire, Illinois, a suburb of Chicago.

Prior to the fiscal year beginning July 1, 1989, the Company purchased its entire ophthalmic product line on a contract basis from several suppliers, who packaged and labeled the products under the Company's name. In September 1989, in order to more vertically integrate its operations, the Company acquired Walnut Pharmaceuticals, Inc. (Walnut), a manufacturing facility in Los Angeles, California that was capable of manufacturing sterile ophthalmic solutions, suspensions, and human injectable products, among other products. This facility operated until mid 1991, at which time the facility was closed due to current Good Manufacturing Practices (cGMP) concerns.

In January 1992, the Company acquired Taylor of Decatur, Illinois. Akorn immediately began the process of transferring to Taylor the operations formerly conducted at the Los Angeles facility while maintaining the sterile contract manufacturing business conducted by Taylor. In May 1996, the Company acquired Pasadena Research Laboratories, Inc. (PRL), a developer and distributor of injectable products, and merged PRL into Taylor, thereby creating a fully-integrated injectable pharmaceutical company. The merger also expanded Taylor's current product line.

Upon its acquisition of PRL, the Company reorganized its operations into two divisions, the Ophthalmic Division and the Injectable Division. The Ophthalmic Division, which operates through Akorn, consists of the marketing and distribution of ophthalmic products. The Injectable Division, which is operated through Taylor, consists of the injectable products manufacturing and distribution business and contract manufacturing business. For information regarding sales, operating income and identifiable assets for each of the Company's segments, see Note R to the financial statements included in Item 8 of this report.

Ophthalmic Distribution Business

The Company distributes a complete line of therapeutic, diagnostic and over-the-counter ophthalmic pharmaceutical products as well as other surgical and office-based non-pharmaceutical products. The Company's therapeutic ophthalmic pharmaceutical product line is extensive and includes antibiotics, anti-infectives, steroids, steroid combinations,

glaucoma medications, decongestants/antihistamines, and anti-edema medications. Diagnostic products, primarily for use in doctors' offices, include a complete line of mydriatics and cycloplegics, anesthetics, topical stains, gonioscopic solutions and others. Surgical products available from Akorn include surgical knives and other surgical instruments, balanced salt solution, post-operative kits, surgical tapes, eye shields, anti-ultraviolet goggles, facial drape supports, and other supplies. Ophthalmic over-the-counter products include various artificial tear solutions, preservative-free lubricating ointments, lid cleansers, vitamin supplements and contact lens accessories.

Injectable Manufacturing and Distribution Business

Taylor markets a line of over 55 niche injectable pharmaceutical products through the newly acquired operations of PRL. Founded in 1936, PRL had over 50 years of history in the generic small volume parenteral market. The niche injectable products sold are used in the treatment of a broad spectrum of indications, including rheumatoid arthritis and pain management.

Contract Manufacturing Business

Taylor also manufactures sterile products on a contract basis for third parties. The majority of Taylor contracts are short-term in nature and operate on the basis of signed purchase orders. However, Taylor is in the process of developing longer-term contracts with minimum quantity requirements in order to strengthen the commitments from its contract customers. Because of the present nature of Taylor's contracts, its contract manufacturing is more volatile than the ophthalmic distribution and injectable distribution segments. Given that sales to contract customers are large in relation to the distribution segments, sharp reductions in contract manufacturing sales can occur should customers discontinue the contract for any reason.

Sales and Marketing

While the Company's distributed ophthalmic and injectable product lines include some unique products, the majority are non-proprietary. As a result, the Company relies on its expertise in marketing, distribution, development, and low cost manufacturing in order to maintain and increase market share.

The Company maintains an efficient three-pronged ophthalmic distribution sales effort. This effort includes 24 outside sales representatives who, together with two district managers, make personal calls on customers in the Northeast, Southeast, Midwest and West regions of the country. In addition, the Company maintains an in-house telemarketing and a customer service sales group of 21 persons and a direct-mail marketing effort. Ophthalmic distribution customers consist primarily of ophthalmologists, optometrists, independent pharmacies, and full-service wholesalers whose customers include hospitals and other institutions.

The Company's sales and marketing efforts in the injectable distribution business include seven telemarketing and customer service representatives and direct-mail activities. Injectable distribution customers consist primarily of hospitals and specialty physicians. In addition, the Company has established several strategic alliances to help distribute its injectable products to Group Purchasing Organizations (GPOs). The GPO market is expected to become a significant component of sales to the injectable distribution segment as the Company aggressively expands its generic injectable product offering to include more high volume products. The Company also intends to build a key account sales force for the injectable segment over the next several years as new products are introduced.

The Company's sales and marketing efforts in the contract manufacturing business have been limited to personal contact with major pharmaceutical companies and limited trade journal advertisements. Attendance at manufacturing trade shows and an aggressive marketing of the full-service capabilities of Taylor's contract operations have recently begun. The Company's contract customers include several large pharmaceutical companies. Throughout Taylor's history, it has performed contract manufacturing services for some of the largest pharmaceutical companies.

The Company stresses its service, quality and cost as means to attract and keep customers.

Research and Development

The acquisition of Taylor provided the Company with resources to begin its research and development program, which began in the last quarter of fiscal 1992 and has since expanded. As of December 31, 1996, the Company had three new ophthalmic Abbreviated New Drug Applications (ANDAs) in various stages of development for products which the Company has not previously manufactured. See "Government Regulation" these products, along with a recently approved ANDA product which the Company will market upon patent expiration of the innovator product, have a current aggregate brand market of approximately $150 million. In addition, by December 31, 1996, the Company had eleven injectable products in various stages of development. These injectable products have a current aggregate brand market of approximately $500 million. Several of these products require ANDA submission while others are considered Category B products (see "Government Regulation") and therefore do not require FDA approval. No assurance can be given as to whether the Company will develop marketable products based on these filings or as to the size of the market for any such products.

The Company has targeted its research and development efforts over the next three years on 25 to 30 additional ophthalmic and injectable products, the patents on which have expired or will expire in the near future. No assurance can be given as to whether any Company products will be developed as a result of these efforts or as to when any such products may be produced and marketed by the Company. Production and marketing of any such products are expected to take several years.

The Company also maintains an aggressive product licensing effort. This effort allows the Company to use its strength in marketing ophthalmic and injectable products. The Company also anticipates manufacturing many of the licensed products.

At December 31, 1996, 15 full-time employees of the Company were involved in research and development and product licensing. The Company's research and development expenditures for the six month period ended December 31, 1996 were $948,000. For the twelve month periods ended June 30, 1996, 1995 and 1994 these expenditures totaled $1.9 million, $1.7 million and $1.4 million, respectively.

The Company expects its research and development expenditures to increase in calendar 1997.

Employee Relations

The Company has 295 full-time employees, of whom 95 are employed in its Ophthalmic Division, 198 are employed in its Injectable Division, and 2 are employed in its Corporate Division. The Company enjoys good relations with its employees, none of whom are represented by a collective bargaining agent.

Competition

The manufacture and distribution of ophthalmic and injectable pharmaceutical products is highly competitive, with many established

manufacturers, suppliers and distributors actively engaged in all phases of the business. Most of the Company's competitors have substantially larger financial and other resources, including a larger volume of sales, more sales personnel and larger facilities than the Company.

The competitors which are dominant in the ophthalmic distribution industry are Alcon Laboratories, Inc., Allergan Pharmaceuticals, Inc., Steris Pharmaceuticals, Inc. (Steris) and Bausch & Lomb, Inc. (B&L). The Company competes primarily on the basis of price and service. The Company's principal suppliers of ophthalmic products, Steris and B&L are in direct competition with the Company in several markets. Both generic and name brand companies compete in the injectable generic distribution industry and include Abbott Labs, Gensia, Marsam, Steris, Elkin Sin and American Regent.

The manufacturing of sterile products must be performed under the most rigorous FDA-mandated Good Manufacturing Practices. Therefore the barriers to entry in the manufacturing of sterile products are very high. The number of independent contract manufacturers of sterile products continues to decline as a result of these barriers. Taylor's competitors in this area, generally, are larger companies with greater financial and other resources.

Product Supply

Since the acquisition of Taylor in 1992, the Company has been steadily regaining control of the supply of its ophthalmic pharmaceutical products, which had been impacted by the closure of the Los Angeles facility in 1991. The only unaffiliated supplier of products which accounted for more than 10% of the Company's ophthalmic distribution sales during the six month period ended December 31, 1996 was Sight Pharmaceuticals, Inc. (a division of B&L). This company supplied products accounting for approximately 15% of the Company's net ophthalmic distribution sales for the period.

The Company uses several suppliers for its injectable distribution business, none of which accounted for 10% or more of net injectable distribution sales in 1996. Several of the leading products distributed by this segment are in the process of being transferred to Taylor's manufacturing facilities. The Company intends to produce the majority of its high volume injectable distribution products over the next several years.

Government Regulation

All pharmaceutical manufacturers and distributors are subject to extensive regulation by the federal government, principally by the FDA and, to a lesser extent, by state governments. The federal Food, Drug and Cosmetic Act (the FDA Act), the Controlled Substance Act, and other federal statutes and regulations govern or influence the development, testing, manufacture, safety, labeling, storage, record keeping, approval, pricing, advertising, and promotion of products by the Company and its subsidiaries. Included among the requirements of these statutes is that the manufacturer's methods conform to cGMPs provided for in FDA regulations. Pursuant to its powers under the FDA Act, the FDA inspects drug manufacturers and storage facilities to determine compliance with its Good Manufacturing Practice regulations, non-compliance with which can result in fines, recall and seizure of products, total or partial suspension of production, refusal of the government to approve new drug applications, and criminal prosecution. The FDA also has authority to revoke approval of drug products.

Except in the case of drugs identified as Category B in the FDA Act, FDA approval is required before any drug can be manufactured and marketed. New drugs require the filing of a New Drug Application (NDA) with the FDA, which requires clinical studies demonstrating the safety and efficacy of the drug and compliance with additional regulatory requirements.

Abbreviated procedures are available for obtaining FDA approval for those generic drugs which are equivalents of existing brand name drugs, such as certain drugs that had been manufactured at the Los Angeles facility and are expected to be manufactured by Taylor. In order to obtain approval of a new generic drug, the Company files an Abbreviated New Drug Application (ANDA) with the FDA. An ANDA is similar to a NDA, except that the FDA waives the requirement of conducting clinical studies of safety and efficacy. Instead, for drugs which contain the same ingredients as drugs already approved for use in the United States, the FDA ordinarily requires data showing that the generic drug formulation is equivalent to the brand name drug and that the product is stable in its formulation.

Over the past several years, the FDA has increased its scrutiny of the operations of generic drug manufacturers like the Company and has increased the time required for its approval of ANDAs and NDAs submitted by such companies. In addition, the Office of Generic Drugs of the FDA, the division which monitors and approves ANDAs, has increased its scrutiny regarding concentrations of inactive ingredients for generic drugs as compared to the innovator drug. This change has resulted in an increase in the time spent on formulating ANDA products.

The Company also manufactures and distributes several controlled-drug substances, the distribution and handling of which are regulated by the Drug Enforcement Agency (DEA). Strict compliance with DEA regulations is necessary to continue distribution of controlled drugs. Failure to comply with regulations can result in fines or seizure of product.

Item 1A. Executive Officers of the Registrant.

The following table sets forth the executive officers of the Company as of February 28, 1997. Each officer serves as such at the pleasure of the Board of Directors.

Officer Name	Age	Position with the Company
John N. Kapoor, Ph.D.	53	Chairman of the Board and Chief Executive Officer
Floyd Benjamin	53	Executive Vice President of the Company and President of the Injectable Division
R. Scott Zion	46	Senior Vice President of the Company and General Manager of the Ophthalmic Division
Rita J. McConville	38	Vice President of the Company, Chief Financial Officer and Secretary

Item 2. Description of Property.

Currently, the Company's ophthalmic executive offices, sales and distribution center are based in two adjacent buildings totaling approximately 30,000 square feet located on ten acres of land in Abita Springs, Louisiana. The Company plans to sell and/or lease these facilities once the relocation of these operations to Lincolnshire, Illinois is completed.

The Company recently signed a lease for approximately 11,000 square feet of office space in Lincolnshire, Illinois. This space will be used primarily for the Ophthalmic Division sales and marketing and financial accounting operations, along with all corporate operations of the Company. Additional space will also be available for certain sales and marketing activities of the Injectable Division.

The Company also owns a 76,000 square-foot facility located on 15 acres of land in Decatur, Illinois. This facility is currently used for packaging, distribution, warehousing and office space. In addition, the Company owns a 55,000 square-foot manufacturing facility, also in Decatur, Illinois. The Company also leases 7,000 square feet of office and warehousing space in San Clemente, California for use in the injectable distribution segment, including sales, distribution and executive offices. This space, along with available space in Decatur, Illinois, is considered adequate to accommodate growth in the injectable distribution and contract manufacturing operations for the foreseeable future.

Item 3.Legal Proceedings.

From time to time the Company becomes involved, in the ordinary course of its business, in legal actions and claims. The amount, if any, of ultimate liability with respect to such matters cannot be determined. Management believes, however, that any such liability will not have a material effect on the Company's financial position.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 1996.

PART II

Item 5.Market for Common Equity and Related Stockholder Matters.

The Company's Common Stock is traded on the NASDAQ National Market under the symbol AKRN. On February 28, 1997, the Company estimated that the number of holders of its Common Stock was approximately 3,000, including record holders and individual participants in security position listings.

High and low prices per NASDAQ for the periods indicated were:

	Low	High
Six Months Ended December 31, 1996:		
1st Quarter	$ 2.06	$ 3.50
2nd Quarter	1.63	2.44
Fiscal Year Ended June 30, 1996:		
1st Quarter	$ 2.25	$ 2.81
2nd Quarter	2.06	3.13
3rd Quarter	2.44	3.19
4th Quarter	2.53	3.50
Fiscal Year Ended June 30, 1995:		
1st Quarter	$ 2.38	$ 3.19
2nd Quarter	2.94	4.00
3rd Quarter	2.88	3.63
4th Quarter	2.25	3.31

The Company's Board of Directors decided to suspend the payment of dividends in the first fiscal quarter of 1992. Any such future payments will be, in part, contingent upon the level of the Company's research and development efforts and expansion of operations. The Company's loan agreement includes restrictions on the payment of dividends. During fiscal 1996, dividends paid of $583,000 pertain to Subchapter S distributions made to former PRL shareholders for pre-acquisition earnings.

Item 6. Selected Consolidated Financial Data.

In October 1996, the Board of Directors of the Company determined to change the Company's fiscal year from the year ending June 30 to the year ending December 31. The following table sets forth selected consolidated financial information for the Company for the six month transition period ended December 31, 1996 and for the five years ended June 30, 1996:

	Six months ended December 31	Years ended June 30				
	1996(1)	1996(1)	1995(1)	1994(1)	1993(3)	1992(4)
PER SHARE						
Equity	$ .98	$ 0.97	$ 0.93	$ 0.76	$ 0.47	$ 0.35
Net income (loss)	$ .00	$ 0.05	$ 0.15	$ 0.14	$ 0.12	$ (0.51)
Price: High	$ 3.50	$ 3.50	$ 4.00	$ 3.88	$ 3.13	$ 4.13
Low	$ 1.63	$ 2.06	$ 2.25	$ 1.88	$ 1.50	$ 1.25
P/E: High	NM	70x	27x	28x	26x	NM
Low	NM	41x	15x	13x	13x	NM
INCOME DATA (000)						
Net sales	16,519	33,925	37,505	31,266	23,612	20,914
Gross profit	5,758	11,953	15,177	13,218	9,699	7,942
Operating income (loss)	130	1,089	3,910	2,654	1,712	(7,237)
Interest expense	(243)	(441)	(25)	(181)	(288)	(305)
Pretax income (loss)	70	977	3,738	2,573	1,518	(7,370)
Income taxes (benefit)	26	189	1,232	158	(263)	(521)
Net income (loss)	44	788	2,506	2,415	1,781	(6,849)
Weighted average shares outstanding	16,763	16,788	16,799	16,711	14,799	13,522
BALANCE SHEET (000)						
Current assets	16,921	17,251	15,474	15,044	9,209	9,989
Net fixed assets	12,833	11,524	11,060	6,346	5,325	5,174
Total assets	31,094	29,817	27,491	22,190	15,008	15,692
Current liabilities	8,717	9,601	7,016	7,106	3,764	7,559
Long-term obligations	6,003	3,915	4,890	2,380	4,328	3,396
Shareholders' equity	16,374	16,301	15,585	12,704	6,916	4,737
FUNDS FLOW DATA (000)						
From operations	2,553	10	712	2,212	(479)	(414)
Dividends paid (2)	-	(583)	-	-	-	-
From investing	(2,028)	(873)	(4,943)	(3,745)	(531)	2,239
From financing	(36)	979	3,112	2,313	(26)	(1,001)
Change in cash & equivalents	489	116	(1,119)	780	(1,036)	824
RATIO ANALYSIS						
Gross margin	34.9%	35.2%	40.5%	42.3%	41.1%	38.0%
Operating margin	.8%	3.2%	10.4%	8.5%	7.3%	(34.6)%
Pretax margin	.4%	2.9%	10.0%	8.2%	6.4%	(35.2)%
Effective tax rate	37.1%	19.3%	33.0%	6.1%	(17.3)%	NM
Net margin	.3%	2.3%	6.7%	7.7%	7.5%	(32.7)%
Return on assets	.1%	2.8%	10.1%	13.0%	11.6%	(39.6)%
Return on equity	.3%	4.9%	17.7%	24.6%	30.6%	(89.0)%

All of the information shown in the table above for the five year period ended June 30, 1996 has been restated to reflect the combined operations of Akorn and Pasadena Research Laboratories, Inc. (PRL). The information shown in the table for 1992 has been restated to reflect the combined operations of Akorn and Taylor.

(1) For information regarding the effects of unusual, infrequently occurring or year end adjustments on reported results for the twelve month periods ended June 30, 1994 through 1996, and for the six month period ended December 31, 1996, see Notes B, E and P to the financial statements included in Item 8 of this report.

(2) Dividends paid pertain to Subchapter S distributions made to former PRL shareholders for pre-acquisition earnings.

(3) Includes the reversal of the provision for a litigation judgment ($0.7 million), the reduction of estimated costs of reorganizing manufacturing

operations ($0.4 million), and income tax benefits ($0.3 million).

(4) Includes charges for the reorganization of manufacturing operations ($5.3 million), acquisition costs of Taylor ($1.3 million), and provision for a litigation judgment ($0.8 million).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying financial statements.

RESULTS OF OPERATIONS

COMPARISON OF SIX MONTHS ENDED DECEMBER 31, 1996 AND 1995

Effective July 1, 1996, the Company changed its fiscal year end from June 30 to December 31. The table below includes the summary income statement for the six month periods ended December 31, 1996 and 1995 which should be considered for the discussions which follow.

	Six Months Ended December 31	
	1996	1995
	(in thousands, except per share amounts)	
Net Sales:		
Ophthalmic distribution	$ 10,271	$ 11,119
Injectable distribution	3,119	1,673
Contract manufacturing	3,129	4,157
	16,519	16,949
Cost of goods sold	10,761	10,472
GROSS PROFIT	5,758	6,477
Selling, general and administrative expenses	4,819	4,701
Research and development	809	478
	5,628	5,179
OPERATING INCOME	130	1,298
Interest and other income (expense) net	(60)	(9)
INCOME BEFORE INCOME TAXES	70	1,289
Income taxes	26	493
NET INCOME	$ 44	$ 796
NET INCOME PER SHARE	$ -	$ .05

Net Sales

The Company's consolidated net sales declined 3% to $16.5 million for the six months ended December 31, 1996 as compared to the same period in 1995. Ophthalmic distribution sales declined 8% from the comparable period in 1995. This decline is primarily related to the effect of the Company's decision to discontinue its practice of giving discounts to wholesalers at the end of every quarter effective with the quarter ended June 30, 1996. The effect of this decision was mainly realized in the quarter ended September 30, 1996, as sales for this division for the quarter ended December 31, 1996 were $5.4 million, or flat with sales for the quarter ended December 31, 1995.

While this decision has resulted in lower sales volumes, it is expected to have a positive impact on margins in the future and it has allowed for the better management and projection of sales for the division. The generic pharmaceutical market continues to experience price erosion which has impacted sales and margins. However, the patent of the most significant therapeutic ophthalmic pharmaceutical product (Timolol Maleate) will expire in late March 1997. As previously announced, the Company has received pre-approval from the FDA to manufacture and sell this product as a generic pharmaceutical and is aggressively pursuing negotiations with wholesalers and chain pharmacies for the stocking of this product once patent expiration occurs. The Company's core business of sales to practitioners remains solid and margins are relatively stable. Efforts of the ophthalmic division sales and marketing group, now headed by the recently hired General Manager R. Scott Zion, will continue to be focused in this area.

For the six months ended December 31, 1996, injectable distribution sales nearly doubled as compared to the same period in 1995. This increase includes the effects of the acquisition of an injectable product line from Janssen Pharmaceutica, Inc. (Janssen) on July 1, 1996. Prior to the acquisition, sales of this product line were reported as contract manufacturing sales. Sales of the Janssen product line for the six month period ended December 31, 1996 were $1.1 million. In addition, the injectable distribution segment has experienced growth on several of its high-margin niche products.

Since the merger of Taylor with Pasadena Research Laboratories, Inc. (PRL) in May 1996, the Company has redirected a significant amount of its R&D efforts towards the development of generic injectable products that will enhance the current product portfolio offering of the injectable distribution segment. Several Category B products are expected to be available for sale in early 1997, pending the outcome of the Company's R&D efforts.

For the six months ended December 31, 1996, contract manufacturing sales declined 25% from the comparable period in 1995. This decline is primarily attributable to the transfer of sales of the Janssen product line to the injectable distribution segment as noted above. Since the merger with PRL, and the addition of new management, the Company has increased its marketing efforts in the area of contract manufacturing. This marketing effort focuses on Taylor's ability to provide a full range of services, including product development, regulatory and sterile manufacturing. These efforts are expected to help establish more long-term relationships with contract customers.

Gross Profit

Consolidated gross profit declined 10% to $5.8 million in the six months ended December 31, 1996 compared to $6.5 million for the same period of the previous year, with gross profit margin declining approximately three percentage points to 34.9%. Gross profit margin for the ophthalmic distribution segment improved slightly by one percentage point. While gross profit margin improved in the injectable distribution segment, reduced volume in the contract manufacturing segment resulted in an overall decline in consolidated gross profit margin due to underabsorption of overhead.

In August 1996, the Company took steps to reduce a significant portion of its fixed and variable costs in the manufacturing operations. However, low plant volume related to weakness in the contract manufacturing segment and lower ophthalmic production due to high inventory levels caused by the change in wholesaler discounting policies, had a negative impact on manufacturing margins.

In the quarter ended December 31, 1996, the Company increased its reserve for estimated unsaleable inventory by approximately $260,000. This change in estimate is reported as a decrease in gross profit.

Excluding this change in estimate, the gross margin of the six months ended December 31, 1996 and 1995 was 36.4% and 38.2%, respectively.

The Company anticipates that gross margins will continue to be impacted by price erosion on generic pharmaceuticals. However, with anticipated growth in certain higher margin niche products, the Company's overall gross margins should remain relatively stable during 1997. As the injectable segment begins the marketing of more commodity generic products, overall Company margins are expected to decline beyond 1997.

Selling, General and Administrative Expenses

Selling, general and administrative (S,G&A) expenses increased 3% during the six months ended December 31, 1996 as compared to the same period in 1995. This slight increase is primarily associated with changes in the timing of certain large promotional expenses for the Ophthalmic Division and enhanced sales and marketing efforts in the contract manufacturing and injectable distribution segments.In the quarter ended December 31, 1996, the Company reduced its reserve for products being transferred from the Company's previous manufacturing facilities (site transfers) by $207,000, primarily due to the decision not to pursue an exclusive raw material source on one of these products.

The percentage of S,G&A expenses to sales increased to 29.2% for the six months ended December 31, 1996 from 27.7% in the comparable prior year period.

Research and Development

Research and development (R&D) expense for the six months ended December 31, 1996 increased by 69% to $809,000, compared to $478,000 for the same period in 1995. This increase reflects a change in the mix of products under development due to a reduced emphasis on site transfers. The estimated cost of these site transfers has been previously accrued and therefore does not have an effect on R&D expense as reported in the statements of income. In addition, through most of the six months ended December 31, 1996, the Company continued the aggressive R&D efforts that had been ongoing at PRL through contractual arrangements

As noted previously, the Company has redirected a significant portion of its R&D efforts to injectable products in response to the PRL merger. These efforts include development of new products and the in-house manufacture of products distributed by the injectable distribution segment. The Company also continues the development of a non-steroidal, anti-inflammatory drug (NSAID) for ophthalmic use which was licensed from Pfizer Inc. (Pfizer). Phase III studies for the NSAID are expected to begin in early 1997. As of December 31, 1996, approximately $600,000 of funds received from Pfizer remain available for the financing of this project. Based on the above, it is anticipated that R&D expense will increase in 1997. However, the Company will continue to monitor such expenses in light of operating performance.

Interest and other income/expense

Interest and other expense, net increased $51,000 for the six months ended December 31, 1996 as compared to the same period in 1995. This increase is primarily related to the increase in interest expense associated with a greater average outstanding loan balance on the Company's term debt. The primary increase in the term debt resulted from the borrowing of $1.5 million in July 1996 in connection with the acquisition of the Janssen product line which included certain production equipment for the products.

The Company anticipates that interest expense will increase significantly in 1997 as a result of the new long-term debt associated with the Janssen product acquisition and 1997 anticipated capital improvements. A portion of this interest is expected to be capitalized during 1997 during validation and construction periods.

Income taxes

The effective tax rate for the six months ended December 31, 1996 and 1995 was 36.9% and 38.2%, respectively. The Company has reached a preliminary settlement with the Internal Revenue Service (IRS) regarding proposed adjustments made during the examination of tax returns for the periods of 1988 through 1993 which the Company appealed. These proposed adjustments primarily related to the timing of deductions taken for tax purposes in connection with the reorganization of the Company's manufacturing operations in 1991. The settlement which has been obtained through the appeals process must be approved by the Joint Committee on Taxation. Adjustments to reflect the proposed settlement, primarily related to interest of approximately $300,000 to $400,000 have been made in previous financial statements.

Net Income

Net income for the six months ended December 31, 1996 was approximately break-even compared to the prior year income of $796,000 or five cents per share, primarily due to the low overhead absorption in the Company's manufacturing facility and the increase in R&D expenditures noted above.

COMPARISON OF THE TWELVE MONTHS ENDED JUNE 30, 1996, 1995 AND 1994

In the following discussions, references to financial results during a given year relate to the twelve-month period ending June 30 of that year, unless otherwise indicated.

Net Sales

The Company's consolidated net sales declined 10% to $33.9 million in 1996 compared to the prior year. This follows a 20% increase in the prior year as compared with 1994. The following table sets forth, for the periods indicated, net sales by segment, excluding intersegment sales:

	Years Ended June 30		
	1996	1995	1994
	(In millions)		
Ophthalmic distribution	$ 20.8	$ 23.8	$ 20.7
Injectable distribution	4.2	4.6	2.9
Contract manufacturing	8.9	9.1	7.7
Total net sales	$ 33.9	$ 37.5	$ 31.3

Ophthalmic distribution sales include a broad range of therapeutic, diagnostic, surgical and office-based products. Ophthalmic distribution sales declined 13% in 1996 as compared to 1995 and increased 15% in 1995 as compared to 1994. The decline in sales for 1996 is attributable primarily to two factors. These include the loss of sales for AK-Con-A, the Company's previously best-selling allergy product, and the discontinuance of certain discounting practices with wholesalers in the fourth quarter of 1996 discussed above.

As previously announced, AK-Con-A was converted to over-the-counter status by the FDA, which required the filing of a NDA. Sales of AK-Con-A were discontinued in October 1994, pending FDA approval of the NDA. The Company received approval of the OTC version of the product in January 1996. The OTC version is being marketed through a joint venture with Pfizer. Royalties earned under this joint venture totaled $333,000 in fiscal 1996. Sales of AK-Con-A were approximately $2 million and $1.4 million, respectively, in 1995 and 1994.

As discussed above, in the fourth quarter of 1996, the Company

discontinued the practice employed by the Ophthalmic Division of giving discounts to wholesalers at the end of every quarter. The Company was willing to forego the additional sales in the quarter in an effort to maintain margins at an acceptable rate in the future. Because of the discontinuance of this practice, the Company estimates that sales for the quarter and fiscal year ended June 30, 1996 were negatively impacted by approximately $1 million.

Excluding the effects of the loss of AK-Con-A and the discontinuance of the wholesaler discounting practice, sales for the ophthalmic segment were relatively flat. Continued erosion of generic pricing along with some product shortages have offset sales increases in other products during 1996. The Company continues to experience increases in its sales of surgical products which includes surgical instruments and surgical packs. The surgical products area will continue to be a major focus for the ophthalmic segment since margins are generally higher than for generic pharmaceuticals and sales are controlled more directly by physicians, a customer base which has been traditionally a strength for Akorn.

In 1995, ophthalmic distribution sales were enhanced by sales of AK-Con-A, the introduction of several new surgical products, including new surgical instruments and surgical packs, and sales of the Company's generic therapeutic products.

Injectable distribution sales (attributable to PRL, which was acquired by the Company on May 31, 1996 in a pooling of interests transaction) declined 9% in 1996 as compared to 1995 and increased 59% in 1995 as compared to 1994. The current year decline is primarily attributable to delays in new product introductions and additional competition on a few of the Company's injectable products. The sales increase in 1995 is primarily attributable to an expanded offering of certain grandfathered products, including this segment's lead product for the treatment of rheumatoid arthritis. In addition, in 1995, the Company established several marketing alliances which gave it an entree into the Group Purchasing Organization (GPO) market for injectables.

Contract manufacturing sales were relatively flat in 1996 versus 1995 and increased 18% in 1995 as compared to 1994. Contract sales for 1995 were enhanced by a new contract from Janssen, which increased sales significantly beginning in the second half of fiscal 1994. Sales to Janssen accounted for 12% and 13% of consolidated net sales in 1996 and 1995, respectively. Janssen had recently notified the Company that it would be transferring the production of certain products during fiscal 1996 and 1997 to its own facilities in Puerto Rico. Such products accounted for $1.3 million and $1.4 million in contract manufacturing sales for 1996 and 1995, respectively.

As noted above, effective July 1, 1996, Janssen agreed to transfer to the Company ownership of three injectable products in the analgesia/anesthesia area, two of which previously had been produced for Janssen by Taylor, but which Janssen had determined to discontinue. These products accounted for approximately $2.6 million and $2.9 million in sales for Taylor in 1996 and 1995, respectively. The acquisition of these products will help maintain plant volume from these products and has provided the injectable distribution segment with two highly recognized products.

Income and Expenses

The following table sets forth the relationship to sales of various income statement items:

	Years Ended June 30		
	1996	1995	1994

Net sales	100.0%	100.0%	100.0%
Cost of goods sold	64.8	59.5	57.8
Gross margin	35.2	40.5	42.2
Selling, general and administrative expenses	26.4	27.7	30.8
Research and development	3.6	2.4	2.9
Acquisition and severance costs	2.0	-	-
Operating income	3.2	10.4	8.5
Interest and other income (expense), net	(.3)	(.4)	(.3)
Income before income taxes	2.9	10.0	8.2
Income taxes	.6	3.3	.5
Net income	2.3%	6.7%	7.7%

Gross Profit

The consolidated gross margin percentage declined by 5.3 percentage points from 40.5% in 1995 to 35.2% in 1996. The decline in gross profit margin is primarily due to continued price pressure in the ophthalmic generic pharmaceuticals area due to competition, as well as the loss of the Company's high margin sales of AK-Con-A. In addition, lower plant throughput, primarily in the second half of fiscal 1996, resulted in margin declines for the contract manufacturing segment. Also, in the second half of fiscal 1996, the Company increased its estimate for unsaleable inventory by approximately $500,000. In the quarter ended June 30, 1996, the Company increased its estimate for wholesaler chargebacks by approximately $250,000. These changes in estimate are reported as a decrease in gross margin. Excluding these changes, the gross margin for 1996 was 37.4%, a 3.1 percentage point decline from 1995.

The gross margin percentage declined 1.7 percentage points from 42.2% in 1994 to 40.5% in 1995. The decline in gross margin percentage in 1995 is primarily due to the effects of price increases from manufacturers (primarily in the second half of the fiscal year), which were not fully offset by price increases to customers. In addition, a shift in the mix of lower margin catalog products added to the decline in gross margin. The decline in gross margin was more prevalent in the second half of the fiscal year as a result of the loss of sales from AK-Con-A discussed earlier.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of net sales declined 1.3 percentage points from 27.7% in 1995 to 26.4% in 1996. In the quarter ended March 31, 1996, the Company decided to no longer pursue ANDAs for several ophthalmic site transfer products. 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 changed market conditions. This change in estimate was also based on the Company's recent decision to enter into the injectable distribution marketplace and the need to redeploy 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 expenses. During the quarter ended March 31, 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 $330,000.

The decline in S,G&A expenses as a percentage of net sales, in spite of the decrease in sales from 1995 to 1996, is primarily due to the decision to eliminate approximately $1 million to $1.5 million of S,G&A expenses and other manufacturing operating expenses in response to a slowing in sales growth during the third quarter of fiscal 1995.

Selling, general and administrative expenses as a percentage of net sales declined 3.1 percentage points from 30.8% in 1994 to 27.7% in 1995 primarily due to the Company's operating leverage and the increase in net sales from 1994 to 1995.

Research and Development

R&D expense increased 36% in 1996 as compared to 1995. This increase was primarily attributable to the increase in R&D associated with the recently acquired operations of PRL. Prior to fiscal 1996, PRL had very little R&D expense. Research and development expense was relatively flat in 1995 as compared to 1994. In 1995, the Company maintained a stable mix of new ophthalmic ANDAs and site-transfers from its previous manufacturing facility in Los Angeles.

Throughout 1995 and the first half of 1996, the Company incurred R&D costs associated with its NDA for the over-the-counter version of AK-Con-A in connection with the licensing arrangement with Pfizer. This NDA was approved in January 1996. Costs associated with this NDA have been capitalized in connection with the long-term contract for manufacturing and royalty rights. The Company also continued its work on an NDA for the ophthalmic NSAID Piroxicam licensed from Pfizer. The first $1 million of costs associated with this NDA are offset by funds obtained from Pfizer. Total cash expenditures for all research and development activities were approximately $1.9 million, $1.7 million and $1.4 million in 1996, 1995 and 1994, respectively.

As noted above, with the acquisition of PRL, the Company expects to increase its mix of injectable Category B and ANDA products. PRL had several ANDA filings in process through joint venture arrangements. Some of these arrangements have continued subsequent to the acquisition and some of the projects have been brought in house. The Company has also continued to develop other injectable products for manufacture by Taylor. Several of the products currently marketed and distributed by the injectable distribution segment do not require FDA approval and production of such products will be transferred to the Taylor facilities as soon as practicable

Acquisition and Severance Costs

In connection with the merger of PRL and Taylor, the Company recorded certain charges in the fourth quarter of fiscal 1996 for transaction costs ($110,000) and transitional costs ($568,000) associated with the realignment of the Company into two separate reporting divisions. The transaction costs include legal, accounting and other directly related acquisition costs. Transitional costs consist primarily of provisions for severance related costs.

Operating Income

Operating income in 1996 of $1.1 million or 3.2% of sales was 72% lower than 1995 operating income of $3.9 million. The decline in operating income for 1996 is attributable to several factors noted above. These include acquisition and severance costs, the loss of high-margin sales of AK-Con-A, the Company's decision to discontinue wholesaler discounting practices in the fourth quarter, and the changes in estimate noted above. In addition, the overall reduction in gross margins for the Company, primarily associated with increased price sensitivity for ophthalmic generic pharmaceuticals, reduced operating

margins.

Operating income in 1995 was $3.9 million or 10.4% of sales compared to the 1994 amount of $2.7 million or 8.5% of sales. The increase in 1995 operating income was primarily the result of increased sales and operating leverage, coupled with stable research and development expenses. The sales increase was somewhat offset by the decline in gross margin resulting from cost increases of products distributed but not manufactured and continued price sensitivity in the generic ophthalmic pharmaceutical market.

Interest and Other Income (Expense)

Net interest and other expense declined $60,000 from 1995 to 1996. During these periods, interest income remained relatively constant. Interest expense increased significantly in 1996 to $441,000 as compared to $25,000 in 1995. Most interest expense in 1995 was capitalized in connection with construction at Taylor's facilities in Decatur, Illinois. The increase in interest expense in 1996 was offset by a gain on the sale of marketable equity securities of $80,000. In 1995, a $308,000 decline in market value of an equity investment was determined to be other than temporary. This determination was based on the significant deterioration in the value of the investment and the evaluation that a price recovery was not imminent.

From 1994 to 1995, net interest and other expense increased $91,000. During these periods, interest income remained relatively constant. Interest expense declined in 1995 from $181,000 to $25,000. As noted above, the majority of interest expense in 1995 was capitalized. The loss of $308,000 related to the decline in market value of an equity investment more than offset the decline in interest expense.

Income Taxes

The Company's consolidated effective income tax rate was 19.3%, 33.0% and 6.1% for 1996, 1995 and 1994, respectively. The effective rate for 1996 varies from the statutory rates primarily due to the inclusion of net income for PRL prior to the acquisition date as a result of the pooling of interests. PRL was a Subchapter S corporation and therefore was not subject to corporate income taxes. The effects of pre-acquisition earnings or loss of PRL did not have a material effect on the 1995 or 1994 effective rate since such income or loss was immaterial to consolidated pretax income.

The effective rate for 1994 varies from the statutory rates primarily due to the effects of adoption of Statement of Financial Accounting Standards Board (SFAS) No. 109, "Accounting for Income Taxes," effective July 1, 1993. Under SFAS 109, the Company was able to recognize estimated future tax benefits attributable to expenses recorded for book purposes but not currently deductible for tax purposes. In July 1993, the Company recorded a net deferred tax asset in the amount of $896,000 along with a 100% valuation reserve to reflect the uncertainties surrounding the ultimate realization of the benefits. In the fourth quarter of fiscal 1994, the Company decided to reverse the entire remaining balance of the valuation reserve since uncertainties regarding the ultimate realization of the benefits were reduced to a relatively low level. This resulted in the recording of a $384,000 ($.03 cents per share) benefit in the fourth quarter.

Net Income

Net income declined $1.7 million or $.10 cents per share in 1996 from $2.5 million or $.15 cents per share in 1995. The decline in sales along with certain unusual, infrequently occurring adjustments noted previously, including acquisition and severance costs, and certain other changes in accounting estimates, are the primary reasons for the decline in net income.

Net income increased $100,000 or $.01 cent per share from $2.4 million or $.14 cents per share in 1994 to $2.5 million or $.15 cents per share in 1995. This marginal increase, in spite of the significant increase in operating income in 1995, is due to the lower effective tax rate incurred in 1994 as a result of the adoption of SFAS 109 and full realization of the benefit of deferred tax assets.

FINANCIAL CONDITION AND LIQUIDITY

Management assesses the Company's liquidity by its ability to generate cash to fund its operations. The significant components in managing liquidity are: funds generated by operations; levels of working capital items including accounts receivable, inventories, wholesaler chargeback accruals and accounts payable; capital expenditure and debt repayment requirements; adequacy of available lines of credit; and availability of long-term capital at competitive prices.

In December 1996, the Company successfully obtained the restructuring of its existing debt facilities. The restructuring , which was completed in March 1997, included the following:

* an increase in the current working capital line of credit from $2.5 million to $3.0 million
* a consolidation of all term debt into one note, with an increase in available term funding from $1.2 million to $2.0 million, resulting in maximum term financing of $7 million
* reduction in the interest rate on all the facilities to prime rate
* postponement of principal repayments on the term facility until January 1998
* Restructuring of loan covenants based on current financial condition and cash flow of the Company

With this restructuring in place, the Company is confident that it can meet its capital requirements for 1997.

The Company traditionally has generated cash from operations in excess of working capital requirements. The net cash provided by operating activities was $2.5 million for the six months ended December 31, 1996. For the twelve months ended June 30, 1996, 1995 and 1994, net cash provided by operating activities was $10,000, $712,000, and $2.2 million, respectively. The increase in cash provided by operating activities for the six months ended December 31, 1996 is primarily related to the increase in accruals for wholesaler chargebacks (see Note A to the financial statements). This increase in the chargeback accrual is primarily related to the Janssen product line which has a significant price difference between the wholesale price and the majority of contract prices for the products. This accrual has stabilized as of December 31, 1996.

The decline in cash provided from operating activities in 1996 and 1995 is primarily related to the increase in inventory associated with new product additions and a continual increase in the amount of products produced in-house which require Akorn to inventory related raw materials and components. Also in 1996, the majority of new contract manufacturing business requires that the Company inventory raw materials and components. In 1995, cash provided from operations was also negatively impacted by a decrease in the average days outstanding for payables. This decline was due to more timely payments to vendors by the Company resulting from the availability of working capital credit lines.

The Company recently announced that it would be moving its Corporate offices and the majority of its Ophthalmic Distribution offices to Lincolnshire, Illinois. The costs of this relocation, for which a charge will be made in the quarter ended March 31, 1997, are estimated to be in the range of $850,000 to $950,000 after taxes. These costs include severance, asset write downs and relocation costs, the cash portion of which are expected to be financed by current cash, available

lines of credit, and operating cash flows. In 1997, the Company will also continue to fund the development of the NDA for Piroxicam discussed previously which will be funded primarily from funds received from Pfizer.

In addition to these short-term needs, the Company will be required to make payments of additional interest and taxes, currently estimated to be approximately $300,000 to $400,000, in connection with the anticipated settlement of the IRS appeal discussed above. The timing of the payment of this settlement will be based on the length of the Joint Committee approval process. Also, in connection with the Janssen product line acquisition, the Company is required to provide certain products to Janssen in 1997, at no cost, estimated not to exceed $100,000, should certain contingent events occur.

Net cash utilized for investing activities during the six month period ended December 31, 1996 of approximately $2.0 million, includes $2.0 million of property, plant and equipment additions, primarily for equipment acquired for the Janssen products, and $340,000 for the allocated portion of the product line itself. These additions were partially offset by net sales of investments of $326,000. The remainder of these investing activities were funded through $1.5 million of bank financing. The Company has plans for capital improvements of $1.5 million to $2 million in 1997. These improvements are for both requirements to meet current FDA and DEA regulations as well as upgrades to the Company's management information systems. These improvements will be financed through available term debt financing through the Company's prime banking institution.

The Company used net cash of $36,000 in its financing activities during the six months ended December 31, 1996, as principal repayments on capital leases, and both long-term and short-term debt slightly exceeded the $1.5 million of borrowings for the Janssen product line acquisition.

SELECTED QUARTERLY DATA

In Thousands, Except Per Share Amounts

			Net Income (loss)	
	Net Sales	Gross Profit	Amount	Per Share
Six Months Ended December 31, 1996:				
1st Quarter	$ 8,101	$ 2,969	$ 35	$ -
2nd Quarter	8,418	2,789	9	-
	$ 16,519	$ 5,758	$ 44	$ -
Fiscal Year Ended June 30, 1996:				
1st Quarter	$ 8,739	$ 3,305	$ 499	$ 0.03
2nd Quarter	8,210	3,172	296	0.02
3rd Quarter	8,817	3,066	550	0.03
4th Quarter	8,159	2,410	(557)	(0.03)
	$ 33,925	$11,953	$ 788	$ 0.05
Fiscal Year Ended June 30, 1995:				
1st Quarter	$ 9,929	$ 4,174	$ 1,043	$ 0.06
2nd Quarter	9,707	4,169	364	0.02
3rd Quarter	8,637	3,225	404	0.02
4th Quarter	9,232	3,609	695	0.04
	$ 37,505	$15,177	$ 2,506	$ 0.15

All of the information shown in the table above for the two years ended June 30, 1996 has been restated to reflect the combined operations of Akorn and PRL. For information regarding unusual, infrequently occurring or year end adjustments, see notes B, E and P to the financial statements included in Item 8 of this report.

Item 8. Financial Statements and Supplementary Data.

The following financial statements are included in Part II, Item 7 of this Form 10-K.

Report of Deloitte & Touche LLP

Independent Auditors

To the Board of Directors and Shareholders of

Akorn, Inc.

We have audited the accompanying consolidated balance sheets of Akorn, Inc. and subsidiaries as of December 31, 1996, and June 30, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for the six months ended December 31, 1996 and for each of the three years in the period ended June 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material aspects, the financial position of Akorn, Inc. and subsidiaries at December 31 1996, and June 30, 1996 and 1995, and the results of their operations and their cash flows for the six months ended December 31, 1996 and for each of the three years in the period ended June 30, 1996 in conformity with generally accepted accounting principles.

As discussed in Note O to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1994. Also, as discussed in Note E to the consolidated financial statements, the Company changed its method of accounting for certain investments in debt and equity securities in 1995.

New Orleans, Louisiana

March 7, 1997

AKORN, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	December 31 1996	June 30 1996	June 30 1995
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 1,380	$ 891	$ 775
Certificates of deposit	576	-	-
Short-term investments	-	902	1,569
Trade accounts receivable (less allowances for uncollectibles of $359 at December 31, 1996 and $339 and $291 at June 30, 1996 and 1995, respectively)	4,625	4,916	5,464
Inventory	8,838	8,860	6,476
Deferred income taxes	1,101	1,157	709
Prepaid expenses and other assets	401	525	481
TOTAL CURRENT ASSETS	16,921	17,251	15,474
OTHER ASSETS			
Intangibles, net	1,162	848	728
Other	178	194	229
TOTAL OTHER ASSETS	1,340	1,042	957
PROPERTY, PLANT AND EQUIPMENT, NET	12,833	11,524	11,060

TOTAL ASSETS	$ 31,094	$ 29,817	$27,491
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term borrowings	$ 250	$ 1,294	$ 288
Current installments of long-term debt	19	707	513
Current portion of capital lease obligations	151	151	149
Current portion of pre-funded development costs	685	650	667
Trade accounts payable	1,892	2,680	1,878
Income taxes payable	1	626	782
Accrued compensation	885	1,106	905
Accrued reorganization costs	108	306	727
Accrued chargebacks	3,081	250	-
Deferred royalties	167	667	-
Accrued expenses and other liabilities	1,478	1,164	1,107
TOTAL CURRENT LIABILITIES	8,717	9,601	7,016
LONG-TERM DEBT	4,858	3,117	3,353
CAPITAL LEASE OBLIGATIONS	353	427	580
PRE-FUNDED DEVELOPMENT COSTS	-	174	304
DEFERRED INCOME TAXES	792	197	327
OTHER LONG-TERM LIABILITIES	-	-	326
SHAREHOLDERS' EQUITY			
Common stock, no par value--authorized 20,000,000 shares; issued 16,600,927 shares in 1996 and 16,515,673 shares in 1995; outstanding 16,591,918, 16,573,915 and 16,304,653 shares at December 31, 1996, and June 30, 1996 and 1995, respectively	14,174	14,174	13,959
Treasury stock, at cost -- 9,009, 27,012 and 211,020 shares at December 31, 1996, and June 30, 1996 and 1995, respectively	(31)	(92)	(291)
Retained earnings	2,231	2,219	1,830
Unrealized gain on marketable equity securities	-	-	87
TOTAL SHAREHOLDERS' EQUITY	16,374	16,301	15,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 31,094	$ 29,817	$27,491

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except per Share Data)

	Six Months Ended December 31	Years Ended June 30		
	1996	1996	1995	1994
Net sales	$ 16,519	$ 33,925	$ 37,505	$ 31,266
Cost of goods sold	10,761	21,972	22,328	18,048
GROSS PROFIT	5,758	11,953	15,177	13,218
Selling, general and administrative expenses	4,819	8,974	10,376	9,643
Research and development	809	1,213	891	921
Acquisition and severance costs	-	677	-	-
	5,628	10,864	11,267	10,564
OPERATING INCOME	130	1,089	3,910	2,654
Interest and other income (expense):				
Interest income	33	113	106	84
Interest expense	(243)	(441)	(25)	(181)
Gain (loss) on marketable equity securities	-	80	(308)	-
Other income, net	150	136	55	16

	(60)	(112)	(172)	(81)
INCOME BEFORE INCOME TAXES	70	977	3,738	2,573
Income taxes	26	189	1,232	158
NET INCOME	$ 44	$ 788	$ 2,506	$ 2,415
NET INCOME PER SHARE	$ .00	$ .05	$ .15	$ .14
Weighted average shares outstanding	16,763	16,788	16,799	16,711

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands)

	Common Stock		Retained		Unrealized Gain (loss) on Marketable	
	Shares Outstanding	Amount	Earnings (Deficit)	Treasury Stock	Equity Securities	Total
Balances at July 1, 1993	13,715	$ 10,709	$ (3,152)	$ (641)	$ -	$ 6,916
Net income for 1994			2,415			2,415
Exercise of stock options and warrants	2,010	3,000	(1)	20		3,019
Issuance of common stock	467	250				250
Cancellation of shares due to resolution of manufacturing pre-acquisition contingencies	(52)					-
Unrealized loss on marketable equity securities					(32)	(32)
Treasury stock reissued	58		19	118		137
Balances at June 30, 1994	16,198	13,959	(719)	(503)	(32)	12,705
Net income for 1995			2,506			2,506
Exercise of stock options	35		8	70		78
Unrealized loss on marketable equity securities					(276)	(276)
Reversal of unrealized loss on marketable equity securities, net of tax					308	308
Unrealized gain on marketable equity securities, net of tax					87	87
Treasury stock reissued	72		35	142		177
Balances at June 30, 1995	16,305	13,959	1,830	(291)	87	15,585
Net income for 1996			788			788
Exercise of stock options	249	215	186	198		599
Treasury stock received in lieu of cash	(36)			(123)		(123)
Dividends paid to Subchapter S shareholders			(583)			(583)
Reversal of unrealized gain on marketable equity securities, net of tax					(87)	(87)
Treasury stock reissued	56		(2)	124		122
Balances at June 30, 1996	16,574	14,174	2,219	(92)	-	16,301
Net income for six months ended December 31, 1996			44			44
Treasury stock reissued	18		(32)	61		29
Balances at December 31, 1996	16,592	$ 14,174	$ 2,231	$ (31)	$ -	$16,374

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Six months Ended December 31	Years Ended June 30		
	1996	1996	1995	1994

OPERATING ACTIVITIES				
Net income	$ 44	$ 788	$ 2,506	$ 2,415
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	720	984	980	763
(Gain) loss on marketable equity securities	-	(80)	308	-
Provision for losses on accounts receivable and inventory	303	825	160	68
Deferred income taxes	651	(578)	2	(387)
Other	26	-	(1)	11
Changes in operating assets and liabilities:				
Accounts receivable	267	424	(350)	(2,172)
Inventory, prepaid expenses and other assets	(132)	(3,129)	(1,420)	(1,047)
Refundable income taxes	-	-	-	288
Trade accounts payable and accrued expenses	1,438	1,229	(1,514)	1,600
Income taxes payable	(625)	(155)	70	673
Pre-funded development costs	(139)	(298)	(29)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,553	10	712	2,212
INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(1,986)	(1,360)	(4,818)	(1,671)
Product licensing costs	(28)	(172)	(421)	(432)
Purchases of investments	(576)	(1,173)	(2,023)	(2,625)
Sales of investments	902	1,832	2,319	983
Purchase of Janssen injectable products	(340)	-	-	-
NET CASH USED IN INVESTING ACTIVITIES	(2,028)	(873)	(4,943)	(3,745)
FINANCING ACTIVITIES				
Proceeds from sale of stock	29	599	256	1,805
Repayments of long-term debt	(447)	(442)	(944)	(118)
Proceeds from issuance of long-term debt	1,500	400	3,900	-
Pre-funded development receipts	-	150	-	1,000
Principal payments under capital lease obligations	(74)	(151)	(58)	(464)
Short-term borrowings, net	(1,044)	1,006	128	90
Dividends paid	-	(583)	-	-
Debt acquisition costs	-	-	(170)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(36)	979	3,112	2,313
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	489	116	(1,119)	780
Cash and cash equivalents at beginning of year	891	775	1,894	1,114
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,380	$ 891	$ 775	$ 1,894

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Akorn, Inc.

Note A - Summary of Significant Accounting Policies

Consolidation: The accompanying consolidated financial statements include the accounts of Akorn, Inc. (the Company) and its wholly owned subsidiaries, Spectrum Scientific Pharmaceuticals, Inc. (Spectrum), Walnut Pharmaceuticals, Inc. (Walnut) and Akorn Manufacturing, Inc.,

doing business as Taylor Pharmaceuticals (Taylor). Intercompany transactions and balances have been eliminated in consolidation.

The Company acquired Pasadena Research Laboratories, Inc. (PRL) effective May 31, 1996 in a business combination accounted for as a pooling of interests. The acquired operations of PRL were merged into Taylor's operations subsequent to the acquisition (see Note B). Accordingly, all financial information presented has been restated to include the operations of PRL.

Change in Fiscal Year End: Effective July 1, 1996, the Company changed its fiscal year end from June 30 to December 31. The following table sets forth the results of operations for the transition period ended December 31, 1996 and the unaudited results of operations for the six months ended December 31, 1995, the prior period comparable to the transition period:

	Six Months Ended December 31 1996	(Unaudited) Six Months Ended December 31 1995
	(in thousands, except per share amounts)	
Net sales	$ 16,519	$ 16,949
Gross profit	5,758	6,477
Income before income taxes	70	1,289
Provision for income taxes	26	493
Net income	44	796
Net income per share	$ -	$ .05

Revenue Recognition: The Company recognizes sales upon the shipment of goods.

Cash Equivalents: The Company considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

Investments: Effective July 1, 1994, the Company adopted Statement of Financial Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." The Company records short-term and long-term investments under the provisions of this Statement (see Note E).

Inventory: Inventory is stated at the lower of cost (average cost method) or market (see Note G). Provision is made for slow-moving, unsalable and obsolete items.

Intangibles: Intangibles consist primarily of product licensing costs which are capitalized at cost and amortized on the straight-line method over the lives of the related license periods, which range from 5 years to 15 years. For the six month period ended December 31, 1996, amortization expense was $54,001. Amortization expense for the years ended June 30, 1996, 1995 and 1994 was $53,328, $144,820 and $82,143, respectively. Accumulated amortization at December 31, 1996 and June 30, 1996 and 1995 was $323,829, $269,828 and $216,500, respectively.

Property, Plant and Equipment: Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method in amounts considered sufficient to amortize the cost of the assets to operations over their estimated service lives. The average estimated service lives of buildings and leasehold improvements, furniture and equipment, and automobiles are approximately 30, 8, and 5 years, respectively. Depreciation expense for the six months ended December 31, 1996 and for the years ended June 30, 1996, 1995 and 1994 was $650,629, $896,537, $800,330 and $559,321, respectively.

Under an agreement with Pfizer, Inc. (see Note I) the Company received reimbursement for the purchase of certain equipment. The total amount reimbursed was approximately $593,000, which was received by June 30, 1995. The Company accounted for these reimbursements by reducing its carrying value of the associated equipment.

Accrual for Chargebacks: The Company records an estimate for the difference between gross sales of certain products to wholesalers and expected resales of such products under contractual arrangements with third parties such as hospitals and group purchasing organizations as a reduction of sales. As part of the Company's sale terms with wholesalers, it agrees to reimburse wholesalers for such differentials between wholesale prices and contract prices. The portion of this accrual which relates to wholesaler sales that have not yet been collected is reported as a reduction to accounts receivable. The portion of this accrual which relates to wholesaler sales which have been collected is reported as a liability in the balance sheet. For the products acquired from Janssen (Note D), the wholesale price is significantly greater than the contract prices. Accordingly, the liability for accrued chargebacks increased significantly at December 31, 1996.

Interest Capitalization: The Company capitalizes interest during periods of construction of qualifying assets. For the six months ended December 31, 1996 and for the year ended June 30, 1995, the Company capitalized interest costs of $39,880 and $282,007, respectively relating to construction. No interest was capitalized during years ended June 30, 1996 or 1994.

Stock-Based Compensation: Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compansation," (SFAS 123) encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations and has adopted the disclosure-only provisions of SFAS 123. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. See Note L.

Income Taxes: Deferred income taxes are provided in the financial statements, where necessary, to account for the tax effects of temporary differences resulting from reporting revenues and expenses for income tax purposes in periods different from those used for financial reporting purposes. The temporary differences result primarily from the use of different methods of accounting for depreciation and amortization, provisions for bad debts, inventory reserves and accrued reorganization and severance costs, and pre-funded development costs.

Fair Value of Financial Instruments: The carrying value of the Company's financial instruments, including cash, short-term investments, receivables, payables, and certain accrued liabilities approximate fair market value due to their short-term nature. The fair value of the Company's long-term debt at December 31, 1996 and June 30, 1996 and 1995, based upon available market information, approximated its carrying value.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B - Acquisition of Pasadena Research Laboratories, Inc.

On May 31, 1996, the Company acquired Pasadena Research Laboratories, Inc. in a business combination accounted for as a pooling of interests. PRL is a specialized distributor of injectable pharmaceuticals. Pursuant to the merger agreement, the Company issued 1.4 million shares of its common stock in exchange for all of the outstanding shares of PRL. As part of the acquisition, PRL was merged into the operations of Taylor and the Company was realigned into two separate reporting divisions, an ophthalmic division and an injectable division.

The Company's financial statements for each of the three years in the period ended June 30, 1996, as contained herein, have been restated to include the results of PRL for all periods presented. Combined and separate results of operations of the Company and PRL during the periods preceding the merger are presented below.

	Akorn	PRL	Combined
	(in thousands)		
Eleven months ended May 31, 1996 (unaudited):			
Net sales	$ 27,361	$ 3,684	$ 31,045
Net income	675	409	1,084
Fiscal year ended June 30, 1995:			
Net sales	32,863	4,642	37,505
Net income	2,280	226	2,506
Fiscal year ended June 30, 1994:			
Sales	28,404	2,862	31,266
Net income (loss)	2,721	(306)	2,415

The combined financial results presented above include no significant adjustments to conform the accounting policies of the two companies.

In connection with the merger, the Company recorded certain charges in the fourth quarter of the fiscal year ended June 30, 1996 for transaction costs ($109,534) and transitional costs ($567,772) associated with the realignment of the Company into two separate reporting divisions. The transaction costs include legal, accounting and other directly related acquisition costs. Transitional costs consist primarily of provisions for severance related costs.

Note C - Reorganization of Manufacturing Operations

On January 15, 1992, the Company acquired Akorn Manufacturing, Inc., which does business as Taylor Pharmaceuticals (Taylor), in a business combination accounted for as a pooling of interests. Taylor is a contract manufacturer of sterile pharmaceuticals, which it produces and delivers pursuant to contracts with third parties.

As part of the acquisition, the Company paid a finder's fee to an affiliate of Dr. John N. Kapoor, Chairman of the Board (the affiliate). This finder's fee was in the form of 250,000 shares of Company Common Stock valued at $3.50 per share. Of the total shares issued, 125,000 were subject to forfeiture if the market price of the Company's Common Stock did not reach at least $5.00 per share by January 15, 1996. In August 1995, the Company, the affiliate and Dr. Kapoor entered into an agreement under which (i) the forfeiture period was extended to January 15, 1998, (ii) forfeiture would not occur in the event that persons unaffiliated with Dr. Kapoor acquire beneficial ownership of more than 50% of the outstanding common stock of the Company and (iii) Dr. Kapoor waived his right to receive $40,000 otherwise payable to him by the Company for serving as Chairman of the Board in fiscal 1996.

Following the Taylor acquisition, the Company began the process of transferring the manufacture of its product line from previously-owned manufacturing facilities to the Taylor facility. At that time, the Company estimated the cost of completing the FDA approval process at

Taylor for products previously manufactured elsewhere and recorded a provision for reorganization costs.

As of December 31, 1996 and June 30, 1996 and 1995, the balances remaining in accrued reorganization costs associated with the transfer process were $108,000, $306,000 and $727,000, respectively. It is anticipated that the filing of all such product approvals will be completed by the end of 1997.

Note D - Acquisition of Injectable Product Line

Effective July 1, 1996, the Company entered into an agreement with Janssen Pharmaceutica, Inc. (Janssen) to acquire the rights to distribute an injectable product line in the anesthesia/analgesia area. As part of this agreement, the Company also acquired certain high-speed inspection equipment. Pursuant to the agreement, the acquisition transfers ownership of the NDAs for the three products, as well as the trade names and trademarks in the United States. In exchange for these product licenses and equipment, the Company paid Janssen $1.6 million on the effective date of the agreement which was financed primarily through a $1.5 million credit facility with the Company's commercial bank. In accordance with the agreement, Akorn will be required to provide certain other products to Janssen, at no cost, having a value expected not to exceed $100,000. The portion of the acquisition costs allocated to the acquired products ($340,000) will be amortized over 15 years.

Note E - Investments

Effective July 1, 1994, the Company adopted Statement of Financial Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities". This Statement requires certain securities to be classified into one of three reporting categories (held-to-maturity, available-for-sale or trading). The Company completed a review of its securities relative to SFAS 115 and classified its investments in debt securities as held-to-maturity. As of June 30, 1996 and 1995, investments of $902,000 and $1,439,000, respectively include U.S. government securities and municipal bonds which have contractual maturities within one year and are being reported at amortized cost, which approximates fair market value.

The Company classified its investment in equity securities as available-for-sale, requiring that they be carried at fair value with any unrealized gain or loss reflected as a component of shareholders' equity. Such investments had a fair market value of approximately $130,000 at June 30, 1995. The Company held no equity investments at December 31, 1996 or June 30, 1996.

At June 30, 1994, the cost of the Company's marketable equity securities exceeded the market value by $32,044. Therefore, a valuation allowance was established by a charge to shareholders' equity representing the net unrealized loss. During fiscal 1995, this allowance was increased by $275,661 due to the continuous decline in market value. At March 31, 1995, management determined the loss to be permanent given the significant decline in market value since June 30, 1994 and the unlikelihood of a recovery in value. Therefore, the $307,705 unrealized loss previously charged to shareholders' equity was accounted for as a realized loss in the 1995 statement of operations. At June 30, 1995, the market value of the marketable equity securities exceeded the adjusted cost, subsequent to the write-down noted above, by $87,397; therefore, an unrealized gain was recorded as a component of shareholders' equity to reflect this increase in value. During fiscal 1996, the Company sold its investment in marketable equity securities for an amount in excess of adjusted cost. Accordingly, the unrealized gain previously charged to shareholders' equity was reversed and a realized gain of $79,859 was recorded in the 1996 statement of operations.

Note F - Allowance for Uncollectibles

The activity in the allowance for uncollectibles is as follows for

the periods indicated:

	Six months ended December 31 1996	Years ended June 30 1996	1995	1994
	(in thousands)			
Balance at beginning of year	$ 339	$ 291	$ 272	$ 240
Provision for bad debts	24	124	60	61
Accounts written off	(4)	(76)	(41)	(29)
Balance at end of year	$ 359	$ 339	$ 291	$ 272

Note G - Inventory

The components of inventory are as follows:

	December 31 1996	June 30 1996	1995
	(in thousands)		
Finished goods	$ 5,181	$ 5,376	$ 4,239
Work in process	1,375	1,311	1,043
Raw materials and supplies	2,282	2,173	1,194
	$ 8,838	$ 8,860	$ 6,476

Inventory at December 31, 1996 and June 30, 1996 and 1995 is reported net of reserves of $589,007, $681,920 and $352,143, respectively, for slow-moving, unsalable and obsolete items.

The activity in the inventory reserve is as follows for the periods indicated:

	Six months ended December 31 1996	Years ended June 30 1996	1995	1994
	(in thousands)			
Balance at beginning of year	$ 682	$ 352	$ 290	$ 427
Provision for slow-moving, unsalable and obsolete items	279	701	100	7
Inventory written off	(372)	(371)	(38)	(144)
Balance at end of year	$ 589	$ 682	$ 352	$ 290

Note H - Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31 1996	June 30 1996	1995
	(in thousands)		
Land	$ 479	$ 479	$ 479
Buildings and leasehold improvements	8,217	7,738	5,516
Furniture and equipment	11,238	10,139	7,880
Automobiles	135	166	133

	20,069	18,522	14,008
Accumulated depreciation	(8,415)	(7,771)	(6,875)
	11,654	10,751	7,133
Construction in progress	1,179	773	3,927
	$ 12,833	$ 11,524	$11,060

Note I - Pre-Funded Development Costs

In April 1994, the Company entered into a series of agreements with Pfizer Inc. (Pfizer) regarding the cross-licensing of several ophthalmic pharmaceutical products. Under this arrangement Akorn granted a license to Pfizer on an Akorn product then under development (the licensed product), and agreed to provide manufacturing services and marketing assistance for the licensed product. In exchange, Akorn received (1) a royalty stream on sales of the licensed product, (2) an exclusive, royalty-free license to manufacture and market a Pfizer prescription ophthalmic non-steroidal anti-inflammatory drug (NSAID), and (3) non-exclusive rights to market an existing Pfizer ophthalmic antibiotic.

As part of this agreement, in fiscal 1994 Pfizer paid the Company an advance of $1 million to be used to fund the costs of developing the NSAID, which are estimated at $1.8 million. The Company intends to recognize the pre-funded balance as an offset to development costs as these expenses are incurred. During the six months ended December 31, 1996 and during fiscal 1996 and 1995, the Company incurred $138,829, $297,463 and $29,012, respectively, of development costs which were charged against the pre-funded balance. The Company's current projections indicate that the remaining costs of development will be paid over the next 15 - 18 months.

In addition, the agreement stipulated that Pfizer would reimburse Akorn for one-half of the costs to obtain FDA approval on the licensed product, including the cost of certain agreed upon equipment acquisitions required for the manufacturing of the licensed product. A New Drug Application (NDA) was filed for the licensed product on June 8, 1994. During the year ended June 30, 1996, the Company obtained FDA approval of the NDA for the licensed product. Therefore, in accordance with the agreement, Pfizer paid the Company an advance royalty of $1 million for the initial year sales of the licensed product. The Company is recognizing this deferred revenue balance over a one year period beginning in March 1996.

Note J - Financing Arrangements

The Company's short-term borrowings are summarized as follows:

	December 31 1996	June 30 1996	June 30 1995
		(in thousands)	
Line of Credit with First National Bank of Commerce; permitting borrowings up to $2.5 million, interest at the Chase Manhattan prime rate (8.25% at June 30, 1996)	$ -	$ 227	$ -
Line of credit with Bank of America; permitting borrowings up to $600,000, interest at the bank's prime rate plus .75% (9.00% and 9.75% at June 30, 1996 and 1995); secured by the receivables, inventory and equipment of PRL	-	517	288
Short-term note payable to First National Bank of Commerce; due 1997, interest at the bank's prime rate (8.25% and 8.75% respectively, at December 31, 1996 and June 30, 1996), payable in monthly principal installments of $50,000 commencing July 1996	250	550	-
	$ 250	$ 1,294	$ 288

The $2.5 million Line of Credit and the short-term note payable are pursuant to the credit facility amended during fiscal 1996 as further described below.

Long-term debt consists of:

	December 31 1996	June 30 1996	June 30 1995
	(in thousands)		
Note payable to First National Bank of Commerce; due 2000; interest at the Chase Manhattan prime rate (8.25% at December 31, 1996), payable in monthly principal installments of $83,333 commencing January 1998	$4,855	$ -	$ -
Note payable to First National Bank of Commerce; due 1999; interest at 8.03%, payable in monthly principal installments of $33,521 commencing December 1995	-	2,308	2,600
Note payable to First National Bank of Commerce; due 1999; interest at 10.25%, payable in monthly principal installments of $10,834 with a final installment of $660,794 due in 1999	-	1,083	1,213

	December 31 1996	June 30 1996	June 30 1995
	(in thousands)		
Note payable to First National Bank of Commerce; due 1999; interest at .75% over the Chase Manhattan prime rate (9% at June 30, 1996), payable in monthly principal installments of $12,857 commencing July 1996	$ -	$ 400	$ -
Other obligations	22	33	53
	4,877	3,824	3,866
Deduct: Current installments payable within one year	(19)	(707)	(513)
Portion payable after one year	$ 4,858	$ 3,117	$3,353

Maturities of long-term debt are as follows (in thousands):

Years ending December 31:	
1997	$ 19
1998	1,002
1999	1,000
2000	2,856
Total	$4,877

In September 1992, the Company entered into an agreement to obtain up to $2.5 million of credit financing from the John N. Kapoor Trust (the Trust), an affiliate of John N. Kapoor, Chairman of the Board. Under the terms of the agreement, the Trust, which held warrants to purchase 2 million shares of stock at prices ranging from $1.50 to $2.00 through November 15, 1995, was required to exercise 1,666,667 of those warrants at $1.50 per share on or prior to November 15, 1993. On that date, the Trust exercised the entire two million warrants for a total of $3 million, of which $1.6 million was used to repay debt to the Trust and the remaining $1.4 million was received in cash. Interest expense related to this indebtedness was $61,334 in 1994.

As part of the September 1992 arrangement, the Company granted a new warrant to the Trust to purchase an additional 1 million shares at $2.00 per share, exercisable for five years. Upon the issuance of this warrant, Dr. Kapoor became entitled to designate an additional individual as a director of the Company.

In 1995 the Company entered into a $6.3 million loan agreement with First National Bank of Commerce to obtain financing for the expansion of its manufacturing facilities in Decatur, Illinois and to refinance

existing debt. During fiscal 1996, the loan agreement was amended to provide additional financing and to adjust the interest rate and principal payment requirements for certain facilities. The amendments increased the total loan commitment to $10.1 million including: (1) $2.6 million Term loan, (2) $1.3 million Term loan, (3) $2.5 million Line of Credit, (4) $1.5 million Term loan for financing of Janssen acquisition, (see Note D), (5) $1.6 million Revolver/Term loan, and (6) $600,000 short-term financing for IRS settlements (see Note O).

In March 1997, the loan agreement was further amended with an effective date of December 31, 1996. This amendment provided for (1) the consolidation of the term facilities into one revolver/term loan of $7 million, (2) the deferral of principal payments on the revolver/term loan until January 1998, (3) an increase in the line of credit to $3.0 million, and (4) the reduction in the interest rate on all facilities to prime rate. As of December 31, 1996, $2 million remained available to be drawn under the revolver/term loan.

Borrowings under the loan agreements are collateralized by substantially all of the Company's receivables, inventory and property, plant and equipment. In addition, the Company is required to comply with positive and negative loan covenants, including restrictions on the payment of dividends and maintenance of specified financial covenants, including minimum net worth and working capital. Accordingly, as of December 31, 1996, the Company is prohibited from paying dividends without the prior approval by the bank.

Note K- Leasing Arrangements

The Company leases certain equipment under capital leasing arrangements which expire through the year 2000.

Property, plant and equipment includes the following amounts relating to such capital leases:

	December 31 1996	June 30 1996	1995
	(in thousands)		
Furniture and equipment	$ 806	$ 806	$ 100
Less accumulated depreciation	(226)	(147)	(53)
	580	659	47
Construction in progress	-	-	706
	$ 580	$ 659	$ 753

Depreciation expense provided on these assets was $78,517, $94,254, $25,822 and $18,833 for the six months ended December 31, 1996 and for the years ended June 30, 1996, 1995 and 1994, respectively.

The following is a schedule by years of future minimum lease payments under these capital leases together with the present value of the net minimum lease payments (in thousands).

Years ending December 31:	
1997	$ 186
1998	173
1999	173
2000	43
Total Minimum Lease Payments	575
Less: Amount Representing Interest	(71)

Present Value of Net Minimum Lease Payments	$ 504

The Company leases real and personal property in the normal course of business under various operating leases, including non-cancelable and month-to-month agreements. Payments under these leases were $38,051, $73,196, $169,825 and $198,072 for the six month period ended December 31, 1996 and for the years ended June 30, 1996, 1995 and 1994, respectively. During fiscal 1993, the Company entered into a sublease agreement for one of its leased facilities. Sublease rentals were $113,326 and $111,164, respectively, for fiscal years ended June 30, 1995 and 1994. This agreement expired effective May 1995, in conjunction with the expiration of the primary lease.

The following is a schedule by years of future minimum rental payments required under these non-cancelable operating leases (in thousands).

Years ended December 31:	
1997	$ 49
1998	19
1999	8
Total Minimum Payments Required	$ 76

Note L - Stock Options and Warrants

The Company has two stock option plans and one stock purchase plan. The first stock option plan is the 1988 Incentive Compensation Program (the Incentive Program). Under the Incentive Program any officer or key employee of the Company is eligible to receive options when designated by the Company's Board of Directors. As of December 31, 1996, the number of shares of the Company's Common Stock which may be issued under the Incentive Program upon the exercise of options may not exceed 2,000,000 shares. This maximum allowable shares was increased to 3,000,000 shares by way of vote of shareholders effective February 28, 1997. The exercise price of the options granted under the Incentive Program will be determined by the Board of Directors but may not be less than 50% of the fair market value of the shares subject to the option on the date of grant. All options granted under the Incentive Program during the six months ended December 31, 1996 and the years ended June 30, 1996, 1995 and 1994 have exercise prices equivalent to the market value of the Company's Common Stock on the date of grant. Options granted under the Incentive Program, generally vest over a period of three years and expire within a period of five years.

The second stock option plan is the Akorn, Inc. Stock Option Plan for Directors (the Directors' Plan). The Directors' Plan provides for the grant of nonqualified options to persons elected as directors of the Company at the fair market value of the shares subject to option on the date of grant. The total number of shares of the Company's Common Stock for which stock options may be granted under the Directors' Plan may not exceed 500,000 shares. Options granted under the Directors' Plan vest immediately and expire five years from the date of grant.

A summary of the status of the Company's stock options as of December 31, 1996 and June 30, 1996, 1995 and 1994 and changes during the six months ended December 31, 1996 and the years ended June 30, 1996, 1995 and 1994 is presented below (shares in thousands):

	December 31	June 30		
	1996	1996	1995	1994

	Shares	Wgtd Avg Exer Price	Shares	Wgtd Avg Exer Price	Shares	Wgtd Avg Exer Price	Shares	Wgtd Avg Exer Price
Outstanding at beginning of period	1,243	$2.47	1,624	$2.56	1,459	$2.51	1,241	$2.47
Granted	401	$2.19	215	$2.75	238	$2.93	228	$2.66
Exercised	-	-	(250)	$2.40	(73)	$2.34	(10)	$1.94
Expired/Canceled	(363)	$3.00	(346)	$3.00	-	-	-	-
Outstanding at end of period	1,281	$2.35	1,243	$2.57	1,624	$2.56	1,459	$2.51
Options exercisable at end of period	870	$2.33	1,134	$2.56	1,348	$2.67	1,237	$2.54
Options available for future grant	886		924		793		1,031	
Weighted average fair value of options granted during the period		$ .83		$1.04				

The fair value of each option granted during the six months ended December 31, 1996 and the fiscal year ended June 30, 1996 is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: (I) dividend yield of 0%, (ii) expected volatility of 28%, (iii) risk-free interest rate of 6.5%, and (iv) expected life of 5 years.

The following table summarizes information about stock options outstanding at December 31, 1996 (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/96	Weighted Avg Remaining Contractual Life	Weighted Avg Exercise Price	Number Exercisable at 12/31/96	Weighted Avg Exercise Price
$1.50	87	3.4 yrs	$1.50	87	$1.50
$1.75-$2.12	321	1.6 yrs	$1.92	308	$1.91
$2.13	356	4.8 yrs	$2.13	89	$2.13
$2.25	135	.6 yrs	$2.25	135	$2.25
$2.63-$2.81	177	3.8 yrs	$2.74	82	$2.75
$2.88-$3.50	205	2.4 yrs	$3.49	169	$3.49
	1,281			870	

In accordance with APB 25 no stock-based expense was recorded during any of the periods presented herein. Had compensation cost for the Company's grants for stock-based compensation plans for the six months ended December 31, 1996 and the fiscal year ended June 30, 1996 been determined consistent with SFAS 123, the Company's net income and net income per share for these respective periods would approximate the following proforma amounts (in thousands, except per share data):

	Six months ended December 31, 1996		Years ended June 30, 1996	
	As Reported	Proforma	As Reported	Proforma
Net income, (loss)	$ 44	$ (40)	$ 788	$ 769
Net income per share	$ -	$ -	$ .05	$ .05

In addition to these plans, the Company has issued a total of 3 million warrants ranging from $1.50 to $2.00 per share, in connection with several transactions (See Note J). As of December 31, 1996, 1 million of these warrants remain outstanding and exercisable at $2.00 per share.

Note M - Employee Stock Purchase Plan

All employees who have been employed by the Company for twelve continuous months are eligible to participate in the Akorn, Inc. Employee Stock Purchase Plan (the Purchase Plan). Participating employees may elect to contribute up to 15% of their gross compensation towards the purchase of the Company's Common Stock. At the end of each quarter, the amount contributed is applied to acquire, on behalf of the participating employees, the Company's Common Stock at a purchase price equal to 85% of the current market price. A maximum of 1,000,000 shares of the Company's Common Stock may be acquired under the terms of the Purchase Plan. Purchases of shares were issued from treasury stock under the Purchase Plan and amounted to 18,000, 56,000, 72,000, and 58,000 shares, respectively, during the six months ended December 31, 1996 and the years ended June 30, 1996, 1995 and 1994.

Note N - Earnings Per Share

Earnings per share is based upon the weighted average number of common shares outstanding. The computation of the weighted average number of shares outstanding includes the effect of dilutive stock options and warrants using the treasury stock method. The weighted average number of shares outstanding used in the per share computations was 16,763,740, 16,787,635, 16,799,350 and 16,710,885 shares for the six month period ended December 31, 1996 and for the years ended June 30, 1996, 1995 and 1994, respectively.

Note O - Income Taxes

Effective July 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." This standard requires recognition of future tax benefits, attributable to deductible temporary differences between the financial statement and income tax bases of assets and liabilities, to the extent that realization of such benefits is more likely than not. Financial statements of prior years were not restated and the cumulative effect of the accounting change was not material due to the uncertainties that existed at July 1, 1993 concerning the ultimate realization of future tax benefits. As indicated at Note P, uncertainties regarding the ultimate realization of future tax benefits were reduced to a relatively low level by the fourth quarter of fiscal 1994, thereby justifying removal of the valuation allowance applicable to the deferred tax asset.

The components of income tax expense (benefit) are as follows:

	Six months ended December 31	Years ended June 30		
	1996	1996	1995	1994
	(in thousands)			
Current:				
Federal	$(557)	$ 756	$ 1,177	$ 481
State	(68)	11	53	61
	(625)	767	1,230	542
Deferred:				
Federal	581	(516)	2	(343)
State	70	(62)	-	(41)

651	(578)	2	(384)
$ 26	$ 189	$ 1,232	$ 158

A reconciliation of income tax expense at the federal statutory rate to income tax expense at the Company's effective rate is as follows:

	Six months ended December 31 1996	Years ended June 30 1996	1995	1994
	(in thousands)			
Computed tax expense at expected statutory rate	$ 24	$ 332	$ 1,271	$ 875
State income tax expense, net of federal tax benefits	2	4	32	41
Pre-merger (earnings) loss of PRL	-	(139)	(84)	98
Change in valuation allowance applicable to deferred tax assets	-	-	-	(896)
Other	-	(8)	13	40
Income tax expense	$ 26	$ 189	$ 1,232	$ 158
Effective tax rate	37.1%	19.3%	33.0%	6.1%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31 1996	June 30 1996	1995
Deferred Tax Assets:	(in thousands)		
Reserves for reorganization costs not currently deductible	$ 40	$ 118	$ 376
Other reserves not currently deductible	711	658	380
Difference between book and tax bases of intangible assets	-	436	43
Pre-funded development costs	253	305	-
Other	132	133	103
Total	1,136	1,650	902
Deferred Tax Liabilities:			
Difference between book and tax bases of property, plant and equipment	$ (537)	$ (478)	$ (367)
Difference between book and tax bases of intangible assets	(99)		
Other	(191)	(212)	(153)
Total	(827)	(690)	(520)
Net deferred tax asset	$ 309	$ 960	$ 382

The net deferred tax asset is classified in the accompanying balance sheets as follows:

	December 31	June 30

	1996	1996	1995
	(in thousands)		
Deferred income tax asset-current	$ 1,101	$ 1,157	$ 709
Deferred income tax liability non-current	(792)	(197)	(327)
	$ 309	$ 960	$ 382

Income taxes refunded during the years ended June 30, 1996 and 1994 were $178,690 and $282,641, respectively.

The Company has reached a preliminary settlement with the Internal Revenue Service (IRS) regarding proposed adjustments made during the examination of tax returns for the periods of 1988 through 1993 which the Company has been appealing. These proposed adjustments primarily related to the timing of deductions taken for tax purposes in connection with the reorganization of the Company's manufacturing operations in 1991. The preliminary settlement which has been obtained through the appeals process must be approved by the Joint Committee of the IRS. Adjustments to reflect the proposed settlement have been made in previous financial statements.

Note P - Changes in Accounting Estimates

During the fourth quarter of the year ended June 30, 1996, the Company revised its estimate for recording chargeback accruals. As a result, a reduction in net sales of $250,000 ($.01 per share, net of tax) was recorded during the quarter ended June 30, 1996.

In addition, during the quarters ended March 31, June 30 and December 31, 1996, the Company increased its estimate for unsaleable inventory by approximately $300,000 ($.01 per share, net of tax), $200,000 ($.01 per share net of tax), and $260,000 ($.01 per share net of tax), respectively. These changes in estimate are reported as an increase in cost of goods sold.

In the quarter ended March 31, 1996, the Company decided to no longer pursue Abbreviated New Drug Applications (ANDAs) for certain products which had been produced in previously-owned facilities (transferred products), 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 decision to enter into the injectable distribution marketplace and the need to redeploy R&D resources for the pursuit of injectable ANDAs. The total amount of the accrual reversed was approximately $316,000 ($.01 per share, net of tax). In addition, in the quarter ended December 31, 1996, the Company decided not to pursue exclusive raw material source arrangements on one transferred product. This resulted in a reduction of the estimated cost of transferring this product by approximately $200,000 ($.01 per share, net of tax).

During the quarter ended March 31, 1995, 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 S,G&A expenses of approximately $330,000 ($.01 per share, net of tax) for the quarter ended March 31, 1995.

As a consequence of sustained growth in sales and profitability, in particular during the latter part of the year, the Company recorded a reduction of $384,298 ($.03 per share, net of tax) to its valuation allowance for deferred tax assets in the fourth quarter of fiscal 1994.

Note Q - Supplemental Disclosures of Cash Flow Information

The following is a summary of supplemental cash flow and non-cash investing and financing information for the periods indicated:

	Six months ended December 31 1996	Years ended June 30 1996	1995	1994
	(in thousands)			
Cash paid for:				
Interest, net of amount capitalized	$ 189	$ 442	$ 25	$ 176
Income taxes	-	867	1,150	91
Non-cash investing and financing activities:				
Treasury stock received for exercise of stock options	-	123	-	-
Conversion of debt to common stock	-	-	-	1,600
Issuance of capital lease obligation	-	-	706	49

Note R - Industry Segment Information

The Company classifies its operations into three core business segments: (1) ophthalmic distribution, (2) injectable distribution, and (3) contract manufacturing. The ophthalmic distribution segment includes the marketing and distribution of an extensive line of ophthalmic products, including diagnostic and therapeutic pharmaceuticals, over-the-counter products and surgical instruments and supplies. The injectable distribution segment includes the marketing and distribution of specialized injectable products. The contract manufacturing segment consists of the manufacture of sterile pharmaceuticals, including human injectable products and ophthalmic solutions pursuant to contracts with others.

Selected financial information by industry segment is presented as follows:

	Six months ended December 31 1996	Years ended June 30 1996	1995	1994
	(in thousands)			
NET SALES				
Ophthalmic distribution	$10,271	$20,833	$ 23,791	$ 20,694
Injectable distribution	3,119	4,160	4,642	2,862
Contract manufacturing:				
Sales to unaffiliated customers	3,129	8,932	9,072	7,710
Sales to affiliated customer	1,082	2,395	2,521	1,666
	17,601	36,320	40,026	32,932
Eliminations	(1,082)	(2,395)	(2,521)	(1,666)
Total net sales	$ 16,519	$33,925	$37,505	$ 31,266
OPERATING INCOME				
Ophthalmic distribution	$ 691	$ 1,037	$ 3,515	$ 2,821
Injectable distribution	1,370	670	238	(280)
Contract manufacturing	(1,562)	324	1,228	1,155

General corporate	(369)	(942)	(1,071)	(1,042)
Total operating income	130	1,089	3,910	2,654
Interest and other income (expense), net	(60)	(112)	(172)	(81)
Income before income taxes	$ 70	$ 977	$ 3,738	$ 2,573
IDENTIFIABLE ASSETS				
Ophthalmic distribution	$12,365	$13,287	$13,044	$12,817
Injectable distribution	2,027	1,525	1,235	968
Contract manufacturing	16,551	14,863	13,085	8,296
General corporate	151	142	127	108
Total identifiable assets	$31,094	$29,817	$ 27,491	$22,189
DEPRECIATION AND AMORTIZATION				
Ophthalmic distribution	$ 209	$ 323	$ 339	$ 286
Injectable distribution	11	14	33	37
Contract manufacturing	495	639	552	433
General corporate	5	8	56	7
Total depreciation and amortization	$ 720	$ 984	$ 980	$ 763
CAPITAL ADDITIONS				
Ophthalmic distribution	$ 176	$ 340	$ 354	$ 465
Injectable distribution	18	5	-	35
Contract manufacturing	1,783	1,001	5,162	1,216
General corporate	9	14	8	4
Total capital additions	$ 1,986	$1,360	$ 5,524	$ 1,720

For the year ended June 30, 1996, operating income for the ophthalmic distribution segment was affected by the changes in accounting estimates related to accrued costs of transferring ANDAs, chargeback accruals and inventory reserves (see Note P). In addition, for the same period, operating income for the ophthalmic distribution and contract manufacturing segments includes the effects of transaction and transitional costs associated with the realignment of the Company into two separate divisions (see Note B) totaling $110,000 and $568,000, respectively.

For the year ended June 30, 1995 operating income for the ophthalmic distribution segment includes a reduction in selling, general and administrative expense of approximately $330,000 related to a change in accounting estimate for aged customer credits.

During the years ended June 30, 1996 and 1995, the Company reported sales to one customer, Janssen Pharmaceutica, Inc., (Janssen) which accounted for approximately 12% and 13%, respectively, of consolidated net sales. The net sales attributable to Janssen were accounted for in the contract manufacturing segment. In 1995 this customer notified the Company that it will be transferring the production of certain products to its own facilities in Puerto Rico during 1997. Such products accounted for $1.3 and $1.4 million, respectively, in contract manufacturing sales for the years ended June 30, 1996 and 1995. In addition, this customer notified the Company that it will be discontinuing the sale of two other products previously produced by the contract manufacturing segment. These products accounted for approximately $2.6 and $2.9 million in sales during the years ended June 30, 1996 and 1995, respectively. Following this notification, the

Company entered into discussions with this customer to assume the licenses to distribute these two injectable products and another injectable product. Effective July 1, 1996, an agreement was reached whereby Akorn acquired ownership of these NDA's, as well as the trade names and trademarks in the United States (see Note D). During the six month period ended December 31, 1996 and the year ended June 30, 1994, the Company did not derive ten percent or more of its revenues from any single customer.

The Company records sales between the segments at fully absorbed cost.

Note S - Concentration of Credit Risk

The Company specializes in the manufacturing, marketing and distribution of ophthalmic and injectable products to companies and doctors in the healthcare industry. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Receivables are generally due within 60 days. Credit losses have consistently been within management's expectations.

Note T - Defined Contribution Plan

The Company sponsors a qualified defined contribution plan which was established under the provisions of Internal Revenue Code Section 401(k). The plan covers all employees with six months of employment and who are 21 years of age or older. The employees can defer a portion of their compensation up to the maximum allowed by the Internal Revenue Code regulations. The plan provides for discretionary contributions by the Company on behalf of the employees. Since January 1994, the Company has made a discretionary matching contribution on a quarterly basis. During the six month period ended December 31, 1996 and the years ended June 30, 1996, 1995 and 1994, the Company recorded expenses related to the plan of $34,805, $100,615, $86,296 and $12,274, respectively.

Note U - Subsequent Events

Subsequent to the year ended December 31, 1996, the Company's board of directors decided to relocate the Ophthalmic Division operations to the Chicago area from Abita Springs, Louisiana. The Company expects to incur severance and related expenses associated with the relocation, as well as a write-down to the estimated net realizable value of the Louisiana facility. This charge, estimated to approximate $850,000 to $950,000 after taxes, will be recorded in the first quarter of calendar 1997.

The Company will also change the timing of overhead absorption in its manufacturing operations, resulting in a one-time charge in the first quarter of calendar 1997 of approximately $250,000 to $350,000 after taxes. Management does not expect these charges to affect compliance with the Company's loan covenants.

On February 28 , 1997, shareholders of the Company approved two amendments to the Company's articles of incorporation which allowed for (1) an increase in the number of authorized common shares from 20 million to 40 million and (2) the issuance of up to 5 million shares of preferred stock at the discretion of the Company's Board of Directors.

Note V - Litigation

The Company is a party in legal proceedings and potential claims arising in the ordinary course of its business. Management does not believe these matters will materially effect the Company's consolidated financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There was no change in the principal independent accountant of the Company or any significant subsidiary of the Company during the six month transition period ended December 31, 1996 or the fiscal years ended June 30, 1996, 1995 or 1994.

PART III

Item 10. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Information concerning directors is incorporated by reference to the Company's Definitive Proxy Statement for its 1997 Annual Meeting of Shareholders. Information concerning the Company's executive officers is included in Item 1A (Executive Officers of the Registrant) of Part I hereof.

Item 11. Executive Compensation.

The information called for by Item 11 is incorporated by reference to the Company's definitive Proxy Statement for its 1997 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information called for by Item 12 is incorporated by reference to the Company's definitive Proxy Statement for its 1997 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions.

The information called for by Item 13 is incorporated by reference to the Company's definitive Proxy Statement for its 1997 Annual Meeting of Shareholders.

PART IV

Item 14. Exhibits and Reports on Form 8-K.

(a) Exhibits.

Those exhibits marked with an asterisk (*) refer to exhibits filed herewith and listed in the Exhibit Index which appears immediately before the first such exhibit; the other exhibits are incorporated herein by reference, as indicated in the following list.

(2.0) Agreement and Plan of Merger dated December 17, 1991, by and among the Company, Aksub, Inc., Taylor Pharmacal Company (currently doing business as Taylor Pharmaceuticals and referred to hereinafter as "Taylor") and certain former shareholders of Taylor, incorporated by reference to the Company's report on Form 8-K dated January 15, 1992.

(2.1) Agreement and Plan of Merger among Akorn, Inc., Taylor, and Pasadena Research Laboratories, Inc. dated May 7, 1996, incorporated by reference to the Company's report on Form 10-K for the fiscal year ended June 30, 1996.

(3.1) *Composite Articles of Incorporation of the Company as amended through February 28, 1997.

(3.2) *Composite of By-laws of the Company, including amendments approved through October 26, 1996.

(4.1) Specimen Common Stock Certificate, incorporated by

reference to Exhibit 4.1 to the Company's report on Form 10-K for the fiscal year ended June 30, 1988.

(10.1) Akorn, Inc. Savings and Retirement Plan effective July 1, 1984, incorporated by reference to Form 10-K for the fiscal year ended June 30, 1987.

(10.2) Stock Purchase Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989, and the Company, incorporated by reference to Exhibit 10.21 to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.

(10.3) Common Stock Purchase Warrant dated November 15, 1990 between the John N. Kapoor Trust dated September 20, 1989 and the Company, incorporated by reference to Exhibit 10.22 to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.

(10.4) Consulting Agreement dated November 15, 1990 by and between E. J. Financial Enterprises, Inc., a Delaware corporation, and the Company, incorporated by reference to Exhibit 10.23 to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.

(10.5) Stock Registration Rights Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989 and the Company, incorporated by reference to Exhibit 10.24 to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.

(10.6) Agreement dated February 15, 1991 amending Stock Purchase Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989, and the Company, incorporated by reference to Exhibit 10.25 to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.

(10.7) Akorn, Inc. Stock Option Plan for Directors, incorporated by reference to Exhibit 4.4 to the Company's registration statement on Form S-8, registration number 33-24970.

(10.8) Form of Akorn, Inc. Letter Agreement between the Company and its directors under the Stock Option Plan for Directors, incorporated by reference to Exhibit 4.5 to the Company's registration statement on Form S-8, registration number 33-24970.

(10.9) Akorn, Inc. 1988 Incentive Compensation Program, incorporated by reference to Exhibit 4.6 to the Company's registration statement on Form S-8, registration number 33-24970.

(10.10) Form of Akorn, Inc., Letter Agreement between the Company and its key employees and executives under the 1988 Incentive Compensation Program, incorporated by reference to Exhibit 4.7 to the Company's registration statement on Form S-8, registration number 33-24970.

(10.11) Amended and Restated Akorn, Inc. 1988 Incentive Compensation Program dated December 7, 1991, incorporated by reference to Exhibit 10.32 to the Company's report on Form 10-K for the fiscal year ended June 30, 1992.

(10.12) Amendment No. 1 to the Amended and Restated Akorn, Inc. 1988 Incentive Compensation Program, incorporated by reference to Exhibit 10.33 to the Company's report on Form 10-K for the fiscal year ended June 30, 1992.

(10.13) Form of Stock Option Agreement under Amendment No. 1 to Amended and Restated Incentive Compensation Program, incorporated herein by reference to the Company's registration statement on Form S-8, registration number 33-70686.

(10.14) Amended and Restated Akorn, Inc. 1988 Incentive Compensation Program dated October 26, 1996, incorporated by reference to Exhibit B to the Company's definitive Proxy Statement dated January 10, 1997.

(10.15) 1991 Akorn, Inc. Stock Option Plan for Directors, incorporated by reference to Exhibit 4.3 to the Company's registration statement on Form S-8, registration number 33-44785.

(10.16) Form of Pledge Agreement between the Company and each shareholder of Taylor, incorporated by reference to Exhibit 10.1 of the Company's report on Form 8-K dated January 15, 1992.

(10.17) Agreement dated January 15, 1992 among the Company, the John N. Kapoor Trust dated September 20, 1989, John N. Kapoor and EJ Financial Enterprises, Inc., incorporated by reference to Exhibit 10.37 of the Company's report on Form 10-K for the fiscal year ended June 30, 1992.

(10.18) Loan Agreement dated September 3, 1992, between the Company and the John N. Kapoor Trust dated September 20, 1989, incorporated by reference to Exhibit No. 6 to Amendment No. 3 to Schedule 13D filed by John N. Kapoor and the John N. Kapoor Trust dated September 20, 1989, dated September 10, 1992.

(10.19) Common Stock Purchase Warrant dated September 3, 1992, issued by the Company to the John N. Kapoor Trust dated September 20, 1989, incorporated by reference to Exhibit No. 7 to Amendment No. 3 to Schedule 13D, dated September 10, 1992, filed by John N. Kapoor and the John N. Kapoor Trust dated September 20, 1989.

(10.20) Agreement, Waiver and Release, dated September 3, 1992, between the Company and the John N. Kapoor Trust dated September 20, 1989, incorporated by reference to Exhibit 10.44 of the Company's report on Form 10-K for the fiscal year ended June 30, 1992.

(10.21) Amendment No. 1 to Agreement dated January 15, 1992 among the Company, the John N. Kapoor Trust dated September 20, 1989, John N. Kapoor and EJ Financial Enterprises, Inc., incorporated by reference to Exhibit 10.23 of the Company's report on Form 10-K for the fiscal year ended June 30, 1995.

(10.22) Employment Agreement among Akorn, Inc., Taylor and Floyd Benjamin dated May 31, 1996, incorporated by reference to Exhibit 10.24 of the Company's report on Form 10-K for the fiscal year ended June 30, 1996.

(10.23) Employment Agreement between Akorn, Inc. and Barry D. LeBlanc dated as of January 1, 1996, incorporated by reference to Exhibit 10.25 of the Company's report on Form 10-K for the fiscal year ended June 30, 1996.

(10.24) Separation Agreement between Akorn, Inc. and Barry D. LeBlanc dated July 3, 1996, incorporated by reference to

Exhibit 10.26 of the Company's report on Form 10-K for the fiscal year ended June 30, 1996.

(10.25) Employment Agreement between Akorn, Inc. and Eric M. Wingerter dated as of January 1, 1996, incorporated by reference to Exhibit 10.27 of the Company's report on Form 10-K for the fiscal year ended June 30, 1996.

(10.26) Employment Agreement between Akorn, Inc. and Harold O. Koch dated January 1, 1996, incorporated by reference to Exhibit 10.28 of the Company's report on Form 10-K for the fiscal year ended June 30, 1996.

(10.27) Employment Agreement between Taylor and Tim J. Toney dated as of January 1, 1996, incorporated by reference to Exhibit 10.29 of the Company's report on Form 10-K for the fiscal year ended June 30, 1996.

(11.1) *Computation of Earnings Per Share.

(21.1) *Subsidiaries of the Company.

(23.1) *Consent of Deloitte & Touche LLP

(24.1) *Power of Attorney of Floyd Benjamin.

(24.2) *Power of Attorney of Daniel E. Bruhl, M.D.

(24.3) *Power of Attorney of Doyle S. Gaw.

(27) *Financial Data Schedule

(b) Reports on Form 8-K.

None.

SIGNATURES

In accordance with Section 13 or 15(d) 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.

By: /s/ John N. Kapoor, Ph.D.
_____
John N. Kapoor, Ph.D.
Chief Executive Officer

Date: March 19, 1997

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John N. Kapoor, Ph.D. John N. Kapoor, Ph.D.	Chief Executive Officer and Director (Principal Executive Officer)	March 19, 1997
/s/ Rita J. McConville	Chief Financial Officer	March 19, 1997

Rita J. McConville	(Principal Financial Officer and Principal Accounting Officer)	
* /s/ Floyd Benjamin Floyd Benjamin	Director	March 19, 1997
* /s/ Daniel E. Bruhl, M.D. Daniel E. Bruhl, M.D.	Director	March 19, 1997
* /s/ Doyle S. Gaw Doyle S. Gaw	Director	March 19, 1997

*By: /s/ Rita J. McConville
Rita J. McConville
Attorney-in-fact

COMPOSITE
ARTICLES OF INCORPORATION
OF
AKORN, INC.

ARTICLE I

NAME

The name of this corporation shall be:

AKORN, INC.

under which corporate name it shall have authority to have a corporate seal and to alter the same at pleasure, but a failure to affix said seal shall not affect the validity of any instrument; to contract, sue and be sued in its corporate name; to acquire, in any legal manner, and to hold, sell, dispose of, lease, pledge, mortgage, or otherwise alienate or encumber, any property, movable or immovable, corporeal or incorporeal, subject to any limitations prescribed by law, or by these Articles; to acquire, in any legal manner, to hold, sell, dispose of, pledge, mortgage, or otherwise alienate or encumber the shares, bonds, debentures and other securities or evidence of debt, or franchises and rights of any other corporation, domestic or foreign, subject to the limitation contained in these Articles, and in relation thereto to exercise all the rights, powers and privileges of ownership, including the right to vote on any shares of stock of any other corporation, to conduct business in this state and elsewhere, as may be permitted by law; to appoint such officers and agents as the business of the corporation may require; to borrow money and to issue, sell, pledge or otherwise dispose of its bonds, debentures, promissory notes, bills of exchange and other obligations and evidences of debt, and to secure the same by mortgage, pledge or other hypothecation of any kind of property; to make by-laws, not inconsistent herewith or contrary to law, for the management and operation of its business, the regulation of its affairs, and the certification and transfer of its shares of stock; to accomplish its purposes as stated hereinafter, it shall be authorized to guarantee shares, bonds, contracts, securities and/or evidences of debt of any other domestic or foreign corporation, including interest and/or dividends thereon and subject to the provisions of Louisiana law, and to acquire by purchase, or otherwise, its own shares of stock.

The said corporation generally shall possess all powers, rights, privileges and immunities which corporations are, or may be hereafter, authorized to have and possess, under the Constitution and laws of this State; and its Board of Directors shall have all corporate powers, allowed by the laws of the State of Louisiana.

ARTICLE II

OBJECTS AND PURPOSES

The objects and purposes for which this corporation is organized and the nature of the business or businesses to be conducted by it are stated and declared to be as follows:

To enter any business lawful under the laws of the State of Louisiana, either for its own account, or for the account of others, as agent, and either as agent or

principal, to enter upon or engage in any kind of business of any nature whatsoever, in which corporations organized under the Louisiana Business Corporation Law may engage; and to the extent not prohibited thereby to enter upon and engage in any kind of business of any nature whatsoever in any other state of the United States of America, any foreign nation, any territory of any country to the extent permitted by the laws of such other state, nation or territory.

ARTICLE III

DURATION

The duration of this corporation shall be in perpetuity, or such maximum period as may be authorized by the Laws of Louisiana.

ARTICLE IV

REGISTERED OFFICE AND REGISTERED AGENTS

The registered office of this corporation is located at 2854 St. Charles Avenue, New Orleans, Louisiana 70115, which shall continue as the registered office of this corporation until changed by the Board of Directors in the manner required by law. [Registered office has been changed.]

The name and address of the registered agents for the service of process of this corporation are: Joseph M. Singerman, 2854 St. Charles Avenue, New Orleans, Louisiana 70115; Robert F. Azar, M.D., 4634 Bancroft Drive, New Orleans, Louisiana 70122; Joseph A. Yazbeck, 1425 Melody Drive, Metairie, Louisiana. [Registered agents have been changed.]

ARTICLE V

AUTHORIZED CAPITAL

A. The Corporation shall have authority to issue an aggregate of 40 million shares of common stock, no par value per share.

B. The Corporation shall have authority to issue 5 million shares of Preferred Stock, $1.00 par value per share. Shares of Preferred Stock may be issued from time to time on one or more series. Authority is hereby vested in the Board of Directors of the Corporation to amend these Articles of Incorporation from time to time to fix the preferences, limitations and relative rights as between the Preferred Stock and the Common Stock, and to fix the variations in the preferences, limitations, and relative rights as between different classes and series of Preferred Stock.

ARTICLE VI

DIRECTORS

A. Unless and until otherwise provided in the By-laws, all of the corporate powers of this corporation shall be vested in and all the business and affairs of this corporation shall be managed by a Board of not more than thirty (30) directors, who need not be stockholders, of whom any majority shall constitute a quorum.

B. The Board of Directors shall have authority to make and alter the by-laws, fix their own qualifications,

classification, or terms of office and fix or increase their compensation, subject to the power of the stockholders to change or repeal the by-laws so made.

C. Unless or until otherwise provided in the by-laws, the Directors shall hold office until their successors have been duly elected and qualified, and the number, qualification, classification, terms of office, manner of election, time and places of meetings and powers and duties of the Directors shall be as from time to time fixed by the by-laws.

D. Any vacancy occurring on the Board of Directors shall be filled by the remaining members of the said Board for the unexpired term at any meeting of the Board of Directors.

E. The first Board of Directors of this Corporation shall be composed of:

Joseph M. Singerman
Robert F. Azar, M.D.

These Directors shall hold their offices until their successors are elected at the General Annual Stockholders' Meeting, to be held on the first Monday of February of each year, beginning with the year 1971, or the first day thereafter when said date falls on a legal holiday, unless otherwise provided by the by-laws of the Corporation.

ARTICLE VII

OFFICERS

The Officers of this Corporation shall be a President, one or more Vice Presidents, a Secretary and a Treasurer. Any two Offices may be combined under one Officer.

The failure, from any cause whatsoever, to hold the annual meeting of the stockholders or the failure to elect Directors or the failure of the Directors to elect Officers, shall not dissolve this Corporation, but the Directors and Officers then in office shall remain in office until their successors have been duly elected and installed.

ARTICLE VIII

STOCKHOLDERS' MEETINGS

All stockholders' meetings, general or special, shall be held in accordance with the laws of the State of Louisiana unless changed by the by-laws of this corporation, and at all stockholders' meetings a majority of the stock, whether present or represented by proxy, shall constitute a quorum. All stockholders may vote at all stockholders' meetings, either in person or by his agent duly authorized in writing to appear and act for him. However, whenever the vote of shareholders is necessary to authorize or constitute corporate action, it may be so authorized and evidenced by the written consent of a majority of all shareholders without the necessity of a formal meeting.

ARTICLE IX

This charter may be amended and the capital of this corporation may be increased or decreased, or this corporation may be dissolved, in the method and manner provided by law.

ARTICLE X

The corporation claims and shall have the benefit of the provisions of R.S. 12:61 and its stock and shareholders shall have the benefit of Internal Revenue Code, Section 1244.

ARTICLE XI

No stockholder of this corporation shall ever be held liable or responsible for the contracts or faults of this corporation in any further sum than the unpaid balance of the stock for which he has subscribed, nor shall any mere informality in organization have the effect of rendering this charter null or of exposing stockholders to any liability other than as above provided.

ARTICLE XII

LIMITATION OF LIABILITY OF DIRECTORS AND OFFICERS

No director or officer of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director or officer for any act or omission occurring after the effective date of this Article XII, except for liability (i) for any breach of the director's or officer's duty of loyalty to the Corporation or its shareholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law; (iii) for liability under Section 92D of the Louisiana Business Corporation Law; or (iv) for any transaction from which the director or officer derives an improper personal benefit. No amendment to these Articles of Incorporation shall adversely affect any right or protection of a director or officer of the Corporation under this Article XII with respect to any act or omission occurring prior to the effective date of such amendment.

BY-LAWS
of
AKORN, INC.

(COMPOSITE, AS AMENDED THROUGH OCTOBER 26, 1996)

ARTICLE I

SHAREHOLDERS

Section 1 - Place of Holding Meeting. All meetings of the shareholders shall be held at the principal business office of the corporation in Metairie, Louisiana, or at such other place as may be specified in the notice of the meeting.

Section 2 - Annual Meeting of Shareholders. The annual meeting of shareholders for the election of directors, and the transaction of other business, shall be held at least once in each calendar year, on a date fixed by the Board of Directors.

Section 3 - Voting.

(a) On demand of any shareholder, the vote for directors, or on any question before a meeting, shall be by ballot. All elections of directors shall be had by plurality, and all other questions decided by majority, of the votes cast, except as otherwise provided by the articles or by-laws.

(b) At each meeting of shareholders, a list of the shareholders entitled to vote, arranged alphabetically and certified by the secretary (or the transfer agent, if one has been appointed) showing the number and class of shares held by each such shareholder on the record date for the meeting, shall be produced on the request of any shareholder.

Section 4 - Quorum. Except as provided in the next section hereof, any number of shareholders, together holding at least a majority of the outstanding shares entitled to vote thereat, who are present in person or represented by proxy at any meeting, constitute a quorum for the transaction of business despite the subsequent withdrawal or refusal to vote of any shareholder.

Section 5 - Adjournment of Meeting. If less than a quorum is in attendance at any time for which a meeting is called, the meeting may, after the lapse of at least half an hour, be adjourned by a majority in interest of the shareholders present or represented and entitled to vote thereat. If notice of such adjourned meeting is sent to the shareholders entitled to vote at the meeting, stating the purpose or purposes of the meeting and that the previous meeting failed for lack of a quorum, then any number of shareholders, present in person or represented by proxy, and together holding at least one-fourth of the outstanding shares entitled to vote thereat, constitute a quorum at the adjourned meeting.

Section 6 - Special Meetings: How Called. Special meetings of the shareholders for any purpose or purposes may be called by the president or secretary upon a written request therefor, stating the purpose or purposes thereof, delivered to the president or secretary and signed either by a majority of the directors or by one-fifth in interest of

the shareholders entitled to vote.

Section 7 - Notice of Shareholders' Meetings. Written or printed notice, stating the place and time of any meeting, and, if a special meeting, the general nature of the business to be considered, shall be given to each shareholder entitled to vote thereat, at his last known address, at least ten days before the meeting in the case of an annual meeting, and fifteen days before the meeting in the case of a special meeting. Any irregularity in the notice of an annual meeting held at the corporation's principal business office at the time prescribed in Section 2 of this Article I, shall not affect the validity of the meeting or any action taken thereat.

Section 8 - Waiver. Any requirements of this Article as to meetings of shareholders and notices thereof may be waived, and shall be deemed to have been waived when all shareholders shall have signed a consent to the action taken, or to be taken, at the meeting. (See Article VII, Section 5.)

ARTICLE II

DIRECTORS

Section 1 - Number of Directors. The number of directors shall be four.

The remaining directors, even though not constituting a quorum, may, by a majority vote, fill any vacancy on the Board (including any vacancy resulting from an increase in the authorized number of directors, or from failure of the shareholders to elect a full number of authorized directors) for an unexpired term, provided that the shareholders shall have the right, at any special meeting called for the purpose prior to such action by the Board, to fill the vacancy.

Section 2 - Place of Holding Meetings. Meetings of the directors, regular or special, may be held at any place, within or outside Louisiana, or pursuant to a telephone conference as permitted in Section 81(10) of the Louisiana Business Corporation Law (LSA-R.S. 12:81(10)), as the board may determine.

Section 3 - First Meeting. The first meeting of each newly-elected board of directors shall be held immediately following the annual meeting of shareholders, and no notice of such meeting shall be necessary to the newly-elected directors in order legally to constitute the meeting, provided a quorum is present; or they may meet at such time and place as fixed by the consent in writing of all of the directors. At the first meeting, or at any subsequent meeting called for the purpose, the directors shall elect the officers of the corporation.

Section 4 - Regular Directors' Meetings. Regular meetings of the directors may be held without notice, at such time and place as may be designated by the directors.

Section 5 - Special Directors' Meetings: How Called. Special meetings of the directors may be called by the Chairman of the Board or by the President on notice as provided in Section 6. Special meetings shall be called on like notice by the Chairman of the Board, the President, or the Secretary on the request of a majority of the directors

or a majority of the members of the Executive Committee and, if any such officer fails, refuses or is unable to call a special meeting within 24 hours of such request, any director or Executive Committee member requesting such a meeting may call the meeting on notice as provided in Section 6.

Section 6 - Notice of Special Directors' Meetings. Special meetings of the directors (and of the first meeting of the newly elected board, if held on notice) may be given on notice of no less than two days or, in the case of meetings called at the request of a majority of the members of the Executive Committee, no less than eight hours, given to each director. Notice of two days or more may be given either personally or by telephone, mail, or facsimile transmission. Notice of less than two days may be given either personally or by telephone or facsimile transmission. Notice given by telephone shall be effective when given either directly to the director or to a person believed by the person calling the meeting to be an employee or relative of the director or a person able to deliver a message to the director promptly. Notice given by facsimile transmission shall be effective when transmitted to a facsimile receiver at an office or a residence of the director. Except as otherwise required by law or by these by-laws, the notice need not state the purpose or purposes of the meeting.

Section 7 - Quorum. At all meetings of the board, a majority of the directors in office and qualified to act in person or by proxy constitute a quorum for the transaction of business, and the action of a majority of the directors present in person or by proxy at any meeting at which a quorum is present is the action of the board of directors, unless the concurrence of a greater proportion is required for such action by law, the articles or these by-laws. If a quorum is not present at any meeting of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. If a quorum be present, the directors present in person or by proxy may continue to act by vote of a majority of a quorum until adjournment, notwithstanding the subsequent withdrawal of enough directors to leave less than a quorum or the refusal of any directors present to vote.

Section 8 - Waiver. Any requirements of this Article as to meetings of directors and notices thereof may be waived, and shall be deemed to have been waived when all directors shall be present in person or by proxy at the meeting, or when the directors shall have signed a consent to the action taken, or to be taken, at the meeting. (See Article VII, Section 5.)

Section 9 - Compensation of Directors. The Board of Directors may by resolution determine the compensation of directors for their services as such and the reimbursement of directors for their actual expenses of attending meetings of the Board and committees thereof. Directors may serve the corporation in any other capacity and receive compensation therefor. Directors, as such, may receive such salary for their services and such reimbursement of their expenses of attendance at meetings of directors as may be fixed by resolution of the board. This Section does not preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

Section 10 - Powers of Directors. The board of directors is charged with the management of the business of

the corporation, and subject to any restrictions imposed by law, the articles or these by-laws, may exercise all the powers of the corporation. Without prejudice to such general powers, the directors have the following specific powers:

a - From time to time, to devolve the powers and duties of any officer upon any other person for the time being.

b - To confer upon any officer the power to appoint, remove and suspend, and fix and change the compensation of, subordinate officers, agents and factors.

c - To determine who shall be entitled to vote, or to assign and transfer any shares of stock, bonds, debentures or other securities of other corporations held by this corporation.

d - To delegate any of the powers of the board to any standing or special committee or to any officer or agent (with power to subdelegate) upon such terms as they deem fit.

Section 11 - Resignations and Removal. The resignation of a director shall take effect on receipt thereof by the president or secretary, or on any later date, not more than thirty days after such receipt, specified therein. The shareholders, by vote of a majority of the total voting power at any special meeting called for the purpose, may remove from office any one or more of the directors with or without cause.

ARTICLE III

COMMITTEES

Section 1 - Executive Committee. If an executive committee is appointed, the president shall be a member, and the committee shall have all of the powers of the board when the board is not in session, except the power to declare dividends, make or alter by-laws, fill vacancies on the board or the executive committee, or change the membership of the executive committee.

Section 2 - Minutes of Meetings of Committees. Any committees designated by the board shall keep regular minutes of their proceedings, and shall report the same to the board when required, but no approval by the board of any action properly taken by a committee shall be required.

Section 3 - Procedure. If the board fails to designate the chairman of a committee, the president, if a member, shall be chairman. Each committee shall meet at such times as it shall determine, and at any time on call of the chairman. A majority of a committee constitutes a quorum, and the committee may take action either by vote of a majority of the members present at any meeting at which there is a quorum or by written concurrence of a majority of the members. In case of absence of disqualification of a member of a committee at any meeting thereof, the qualified members present, whether or not they constitute a quorum, may unanimously appoint a director to act in place of the absent or disqualified member. The board has power to change the members of any committee at any time, to fill vacancies, and to discharge any committee at any time.

ARTICLE IV

OFFICERS

Section 1 - Titles. The officers of the corporation shall be a president, one or more vice-presidents, a treasurer, a secretary, and such other officers as may, from time to time, be elected or appointed by the board. Any two officers may be combined in the same person, and none need be a director.

Section 2 - Chairman of the Board. The board of directors may designate one of its members as chairman of the board. The chairman of the board or another director designated by the chairman shall preside at meetings of directors and shareholders.

Section 3 - President. The President, unless otherwise provided by the Board, shall have general and active responsibility for the management of the business of the Corporation, shall be the chief executive and chief operating officer of the Corporation, shall supervise the daily operations of the business of the Corporation and shall ensure that all orders, policies and resolutions of the Board are carried out. He shall have power to execute all instruments on behalf of the Corporation and, in the absence of the chairman of the board or in the event that the chairman has not designated another director to do so, shall preside at meetings of the directors and shareholders.

Section 4 - Vice-Presidents. Each vice-president shall have such powers, and shall perform such duties, as shall be assigned to him by the directors or by the president, and, in the order determined by the board, shall, in the absence or disability of the president, perform his duties and exercise his powers.

Section 5 - Treasurer. The treasurer has custody of all funds, securities, evidences of indebtedness and other valuable documents of the corporation. He shall receive and give, or cause to be given, receipts and acquittances for moneys paid in on account of the corporation, and shall pay out of the funds on hand all just debts of the corporation of whatever nature, when due. He shall enter, or cause to be entered, in books of the corporation to be kept for that purpose, full and accurate accounts of all moneys received and paid out on account of the corporation, and, whenever required by the president or directors, he shall render a statement of his account. He shall keep or cause to be kept such books as will show a true record of the expenses, gains, losses, assets and liabilities of the corporation; and he shall perform all of the other duties incident to the office of treasurer. If required by the board, he shall give the corporation a bond for the faithful discharge of his duties and for restoration to the corporation, upon termination of his tenure, of all property of the corporation under his control.

Section 6 - Secretary. The secretary shall give, or cause to be given, notice of all meetings of shareholders, directors and committees, and all other notices required by law or by these by-laws, and in case of his absence or refusal or neglect so to do, any such notice may be given by the shareholders or directors upon whose request the meeting is called as provided in these by-laws. He shall record all the proceedings of the meetings of the shareholders, of the directors, and of committees in a book to be kept for that purpose. Except as otherwise determined by the directors,

he shall have charge of the original stock book, transfer books and stock ledgers, and shall act as transfer agent in respect of the stock and other securities issued by the corporation. He shall have custody of the seal of the corporation, and shall affix it to all instruments requiring it; and he shall perform such other duties as may be assigned to him by the directors of the president.

Section 7 - Assistants. Assistant secretaries or treasurers shall have such duties as may be delegated to them by the secretary and treasurer respectively.

ARTICLE V

INDEMNIFICATION

Section 1 - General. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (including any action by or in right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another business, foreign or non-profit corporation, partnership, joint venture or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the corporation, and, with respect to any criminal action or proceeding, has no reasonable cause to believe his conduct was unlawful; provided that, in case of actions by or in the right of the corporation, the indemnity shall be limited to expenses (including attorneys' fees and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the action to conclusion) actually and reasonably incurred in connection with the defense or settlement of such action, and no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, he is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, and reasonable cause to believe that his conduct was unlawful.

Section 2 - Expenses of Litigation. To the extent that a director, officer, employee or agent of the corporation has been successful on the merits or otherwise in defense of any such action, suit or proceeding, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 3 - Determination by Directors. The

indemnification hereunder (unless ordered by the court) shall be made by the corporation only as authorized in a specific case upon a determination that the applicable standard of conduct has been met. Such determination shall be made (a) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (b) if such quorum is not obtainable or a quorum of disinterested directors so directs, by independent legal counsel, or (c) by the shareholders.

Section 4 - Advance of Expenses. The expenses incurred in defending such an action, suit or proceeding shall be paid by the corporation in advance of the final disposition thereof, upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as authorized hereunder. The board of directors may determine, by special resolution, not to have the corporation pay in advance the expenses incurred by any persons or person in the defense of any such action, suit or proceeding.

Section 5 - Other Rights. The indemnification provided hereunder shall not be deemed exclusive of any other rights to which one indemnified may be entitled, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his heirs and legal representatives.

Section 6 - Insurance. The corporation may procure insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another business, non-profit or foreign corporation, partnership, joint venture or other enterprise, against any liability asserted against or incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the Business Corporation Law of Louisiana.

ARTICLE VI

CAPITAL STOCK

Section 1 - Certificates of Stock. Certificates of stock, numbered, and with the seal of the corporation affixed, signed by the president or a vice-president, and the treasurer or secretary, or assistant secretary, shall be issued to each shareholder, certifying the number of shares of the corporation owned by him. If the stock certificates are countersigned by a transfer agent and a registrar, the signatures of the corporate officers may be a facsimile.

Section 2 - Lost Certificates. A new certificate of stock may be issued in place of any certificate theretofore issued by the corporation, alleged to have been lost, stolen, mutilated or destroyed, or mailed and not received, upon receipt of an affidavit or affirmation of that fact from the person claiming the loss. The directors may in their discretion require the owner of the replaced certificate to give the corporation a bond, unlimited as to stated amount or in any amount set by the directors, to indemnify the company against any claim which may be made

against it on account of the replacement of the certificate or any payment made or other action taken in respect thereof.

Section 3 - Transfer of Shares. Shares of stock of the corporation are transferable only on its books, by the holders thereof in person or by their duly authorized attorneys or legal representatives, and upon such transfer, the old certificates shall be surrendered to the person in charge of the stock transfer records, by whom they shall be cancelled, and new certificates shall thereupon be issued. A record shall be made of each transfer, and whenever a transfer is made for collateral security and not absolutely, it shall be so expressed in the entry of the transfer. The directors may make regulations concerning the transfer of shares, and may in their discretion authorize the transfer of shares from the names of deceased persons whose estates are not administered, upon receipt of such indemnity as they may require.

Section 4 - Record Dates. The board may fix a record date for determining shareholders of record for any purpose, such date to be not more than sixty days and, if fixed for the purpose of determining shareholders entitled to notice of and to vote at a meeting, not less than ten days, prior to the date of the action for which the date is fixed.

Section 5 - Registered Shareholders. Except as otherwise provided by law, the corporation, and its directors, officers and agents, may recognize and treat a person registered on its records as the owner of shares, as the owner in fact thereof for all purposes, and as the person exclusively entitled to have and to exercise all rights and privileges incident to the ownership of such shares, and rights under this Section shall not be affected by an actual or constructive notice which the corporation, or any of its directors, officers or agents, may have to the contrary.

Section 6 - Dividends. Except as otherwise provided by law or the articles of incorporation, dividends upon the stock of the corporation may be declared by the board of directors at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of stock.

Section 7 - Reserves. The board of directors may create and abolish reserves out of earned surplus for any proper purposes. Earned surplus so reserved shall not be available for payment of dividends, purchase or redemption of shares, or transfer to capital surplus or stated capital.

Section 8 - Transfer Agent, Registrar. The board may appoint and remove transfer agents and registrars for any class of stock. If this action is taken, the transfer agents shall effect original issuances of stock certificates and transfers of shares, record and advise the corporation and one another of such issuances and transfers, countersign and deliver stock certificates, and keep the stock, transfer and other pertinent records; and the registrars shall prevent over-issues by registering and counter-signing any stock certificates issued. A transfer agent and registrar may be identical. The transfer agents and registrars, when covered with the company as obligees by an indemnity bond substantially in a form, and issued by a surety company, approved by the corporation's general counsel and providing indemnity unlimited to stated amount, or in form and amount and signed by a surety approved by the board, and upon receipt of an appropriate affidavit and indemnity agreement,

may (a) countersign, register and deliver, in place of any stock certificate alleged to have been lost, stolen, destroyed or mutilated, or to have been mailed and not received, a replacement certificate for the same number of shares, and make any payment, credit, transfer, issuance, conversion or exchange to which the holder may be entitled in respect to such replaced certificate, without surrender thereof for cancellation, and (b) effect transfers of shares from the names of deceased persons whose estates (not exceeding $20,000 gross asset value and not containing any immovable property) are not administered.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 1 - Corporate Seal. The corporate seal is circular in form, and contains the name of the corporation and the words, "SEAL, LOUISIANA." The seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or otherwise reproduced.

Section 2 - Checks, Drafts, Notes. All checks, drafts, other orders for the payment of money, and notes or other evidences of indebtedness, issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall, from time to time, be determined by the board.

Section 3 - Fiscal Year. The fiscal year of the corporation begins on July 1.

Section 4 - Notice. Whenever any notice is required by these by-laws to be given, personal notice is not meant unless expressly so stated. Any notice is sufficient if given by depositing it in the United States mail or by delivering it to a commercial courier service for next day delivery, with postage or delivery service charges prepaid and addressed to the person entitled thereto at his last known address as it appears in the records of the corporation; and such notice is deemed to have been given on the day of such deposit in the mail or delivery to the courier service.

Section 5 - Waiver of Notice. Whenever any notice of the time, place or purpose of any meeting of shareholders, directors or committee is required by law, the articles or these by-laws, a waiver thereof in writing, signed by the person or persons entitled to such notice and filed with the records of the meeting before or after the holder thereof, or actual attendance at the meeting of shareholders, directors or committee in person or by proxy, is equivalent to the giving of such notice except as otherwise provided by law. (See Article I, Section 8, and Article II, Section 8.)

Section 6 - Except as otherwise provided herein, all meetings of shareholders or directors shall be governed by the last published revised edition of Robert's Rules of Order.

Section 7 - Louisiana Control Share Law Inapplicable. The provisions of Sections 135 through 140.2 of the Louisiana Business Corporation Law ("LBCL") shall not apply to control share acquisitions, as defined in the LBCL, of shares of stock of the Corporation.

ARTICLE VIII

AMENDMENTS

The shareholders or the directors, by affirmative vote of a majority of those present or represented, may, at any meeting, amend or alter any of the by-laws; subject, however, to the right of the shareholders to change or repeal any by-laws made or amended by the directors.

Exhibit 11.1

COMPUTATION OF NET INCOME PER SHARE

(In Thousands, Except Per Share Data)

	Six months ended December 31 1996	Years ended June 30 1996	1995	1994
Earnings				
Income applicable to common stock	$ 44	$ 788	$ 2,506	$ 2,415
Shares				
Weighted average number of shares outstanding	16,580	16,383	16,236	16,185
Additional shares assuming conversion of options and warrants up to 20% of shares outstanding	183	405	563	526
Pro forma shares	16,763	16,788	16,799	16,711
Net income per share	$ -	$ .05	$ .15	$ .14

Exhibit 21.1

SUBSIDIARIES OF AKORN, INC.

Name	State of Incorporation
1. Taylor Pharmaceuticals, Inc.	Illinois
2. Spectrum Scientific Pharmaceuticals, Inc.	Louisiana
3. Walnut Pharmaceuticals, Inc.	Louisiana
4. Compass Vision, Inc.	Louisiana

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-44785, 33-24970 and 33-70686 of Akorn, Inc. on Form S-8 of our report dated March 7, 1997 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's change in its method of accounting for income taxes in 1994 and the Company's change in its method of accounting for certain investments in debt and equity securities in 1995), appearing in this Annual Report on Form 10-K of Akorn, Inc. for the six months ended December 31, 1996.

New Orleans, Louisiana
March 7, 1997

EXHIBIT 24.1

POWER OF ATTORNEY

(Form 10-K, Six Month Transition Period
Ended December 31, 1996)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Rita J. McConville, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the six month transition period ended December 31, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

This instrument is executed by the undersigned on the date indicated below.

/s/ Floyd Benjamin
- --------------------
Floyd Benjamin
March 19, 1997

EXHIBIT 24.2

POWER OF ATTORNEY

(Form 10-K, Six Month Transition Period
Ended December 31, 1996)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Rita J. McConville, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the six month transition period ended December 31, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

This instrument is executed by the undersigned on the date indicated below.

/s/ Daniel E. Bruhl, M.D.
Daniel E. Bruhl, M.D.
March 20, 1997

EXHIBIT 24.3

POWER OF ATTORNEY

(Form 10-K, Six Month Transition Period
Ended December 31, 1996)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Rita J. McConville, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the six month transition period ended December 31, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

This instrument is executed by the undersigned on the date indicated below.

/s/ Doyle S. Gaw
Doyle S. Gaw
March 19, 1997

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