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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 001-32360

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

LOUISIANA (State or Other Jurisdiction of Incorporation or Organization)	72-0717400 (I.R.S. Employer Identification No.)
1925 W. Field Court, Suite 300 Lake Forest, Illinois (Address of Principal Executive Offices)	60045 (Zip Code)

(847) 279-6100
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

At November 4, 2010 there were 93,823,102 shares of common stock, no par value, outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

AKORN, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
IN THOUSANDS, EXCEPT SHARE DATA

	SEPTEMBER 30, 2010 (UNAUDITED)	DECEMBER 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 9,498	$ 1,617
Trade accounts receivable, net	11,759	9,225
Other receivable	45	833
Inventories	18,101	13,167
Prepaid expenses and other current assets	420	1,227
TOTAL CURRENT ASSETS	39,823	26,069
PROPERTY, PLANT AND EQUIPMENT, NET	31,471	31,473
OTHER LONG-TERM ASSETS		
Intangibles, net	3,377	4,619
Deferred financing costs	2,980	3,800
Other	3,130	2,798
TOTAL OTHER LONG-TERM ASSETS	9,487	11,217
TOTAL ASSETS	$ 80,781	$ 68,759
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$ 5,539	$ 3,286
Accrued compensation	2,107	1,091
Accrued expenses and other liabilities	2,837	3,724
Revolving line of credit — related party	—	3,000
Warrants liability — related party	—	9,065
Supply agreement termination costs	—	1,500
TOTAL CURRENT LIABILITIES	10,483	21,666
LONG-TERM LIABILITIES		
Lease incentive obligation	1,170	1,304
Product warranty liability	1,299	1,299
Subordinated debt — related party	5,853	5,853
TOTAL LONG-TERM LIABILITIES	8,322	8,456
TOTAL LIABILITIES	18,805	30,122
SHAREHOLDERS' EQUITY		
Common stock, no par value — 150,000,000 shares authorized; 93,823,102 and 90,389,597 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	181,343	174,027
Warrants to acquire common stock	19,767	1,821
Accumulated deficit	(139,134)	(137,211)
TOTAL SHAREHOLDERS' EQUITY	61,976	38,637
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 80,781	$ 68,759

See notes to condensed consolidated financial statements.

AKORN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
IN THOUSANDS, EXCEPT PER SHARE DATA
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2010	2009	2010	2009
Revenues	$ 21,659	$ 19,371	$ 62,364	$ 57,711
Cost of sales	10,244	16,686	32,658	47,997
GROSS PROFIT	11,415	2,685	29,706	9,714
Selling, general and administrative expenses	5,380	5,187	16,130	18,016
Research and development expenses	1,790	1,013	5,103	3,681
Amortization of intangibles	256	320	1,242	1,234
Supply agreement termination expenses	—	—	—	5,929
TOTAL OPERATING EXPENSES	7,426	6,520	22,475	28,860
OPERATING INCOME/(LOSS)	3,989	(3,835)	7,231	(19,146)
Interest expense, net	(227)	(441)	(751)	(1,095)
Write-off and amortization of deferred financing costs	(274)	(187)	(820)	(1,739)
Equity in earnings of unconsolidated joint venture	502	484	1,335	672
Change in fair value of warrants liability	—	(1,122)	(8,881)	(1,432)
INCOME/(LOSS) BEFORE INCOME TAXES	3,990	(5,101)	(1,886)	(22,740)
Income tax provision	—	—	37	2
NET INCOME/(LOSS)	$ 3,990	$ (5,101)	$ (1,923)	$ (22,742)
NET INCOME/(LOSS) PER SHARE:				
BASIC	$ 0.04	$ (0.06)	$ (0.02)	$ (0.25)
DILUTED	$ 0.04	$ (0.06)	$ (0.02)	$ (0.25)
SHARES USED IN COMPUTING NET INCOME/(LOSS) PER SHARE:				
BASIC	93,770	90,303	92,440	90,209
DILUTED	100,765	90,303	92,440	90,209

See notes to condensed consolidated financial statements.

AKORN, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
UNAUDITED
(In Thousands)

	Common Stock		Warrants to acquire Common	Accumulated	
Nine Months Ended September 30, 2010	**Shares**	**Amount**	**Stock**	**Deficit**	**Total**
BALANCES AT DECEMBER 31, 2009	90,390	$ 174,027	$ 1,821	$ (137,211)	$ 38,637
Net loss	—	—	—	(1,923)	(1,923)
Net proceeds from common stock and warrant offering	3,243	4,969	—	—	4,969
Reclassification of warrants from current liability to equity	—	—	17,946	—	17,946
Stock option exercises	113	202	—	—	202
Employee stock purchase plan issuances	47	150	—	—	150
Amortization of deferred compensation related to restricted stock awards	30	51	—	—	51
Stock-based compensation expense	—	1,944	—	—	1,944
BALANCES AT SEPTEMBER 30, 2010	93,823	$ 181,343	$ 19,767	$ (139,134)	$ 61,976

	Common Stock		Warrants to acquire Common	Accumulated	
Nine Months Ended September 30, 2009	**Shares**	**Amount**	**Stock**	**Deficit**	**Total**
BALANCES AT DECEMBER 31, 2008	90,073	$ 170,617	$ 2,731	$ (111,905)	$ 61,443
Net loss	—	—	—	(22,742)	(22,742)
Employee stock purchase plan issuances	122	149	—	—	149
Amortization of deferred compensation related to restricted stock awards	146	286	—	—	286
Restricted stock awards vested net of amounts withheld for payment of employee tax liability	—	(47)	—	—	(47)
Stock-based compensation expense	—	1,389	—	—	1,389
Expiration of stock warrants	—	910	(910)	—	—
BALANCES AT SEPTEMBER 30, 2009	90,341	$ 173,304	$ 1,821	$ (134,647)	$ 40,478

AKORN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
IN THOUSANDS (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2010	2009
OPERATING ACTIVITIES:		
Net loss	$ (1,923)	$ (22,742)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,885	4,118
Write-off and amortization of deferred financing fees	820	1,739
Non-cash stock compensation expense	1,995	1,675
Non-cash supply agreement termination expense	—	1,051
Non-cash change in fair value of warrants liability	8,881	1,432
Equity in earnings of unconsolidated joint venture	(1,335)	(672)
Changes in operating assets and liabilities:		
Trade accounts receivable	(2,534)	(4,831)
Inventories	(4,934)	12,754
Prepaid expenses and other current assets	1,494	1,228
Supply agreement termination liabilities	(1,500)	1,500
Trade accounts payable	2,253	(4,337)
Accrued expenses and other liabilities	(5)	1,736
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	7,097	(5,349)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(2,644)	(922)
Purchase of product licensing rights	—	(250)
Distribution from unconsolidated joint venture	1,107	—
NET CASH USED IN INVESTING ACTIVITIES	(1,537)	(1,172)
FINANCING ACTIVITIES:		
Loan origination fees	—	(1,356)
(Repayments of) proceeds from line of credit	(3,000)	7,509
Net proceeds from common stock and warrant offering	4,969	—
Proceeds under stock option and stock purchase plans	352	1,323
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,321	7,476
INCREASE IN CASH AND CASH EQUIVALENTS	7,881	955
Cash and cash equivalents at beginning of period	1,617	1,063
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 9,498	$ 2,018
SUPPLEMENTAL DISCLOSURES:		
Amounts paid for interest	$ 744	$ 387
Amounts paid for income taxes	$ 96	$ 3

See notes to condensed consolidated financial statements

AKORN, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A — BUSINESS AND BASIS OF PRESENTATION

Business: Akorn, Inc. and its wholly owned subsidiary, Akorn (New Jersey), Inc. (collectively, the "Company") manufacture and market a full line of diagnostic and therapeutic ophthalmic pharmaceuticals in various specialty areas as well as niche hospital drugs and injectable pharmaceuticals, including antidotes, anti-infectives, and controlled substances for pain management and anesthesia, among others. The Company operates pharmaceutical manufacturing plants in Decatur, Illinois and Somerset, New Jersey, a central distribution warehouse in Gurnee, Illinois, a research and development facility in Skokie, Illinois and corporate offices in Lake Forest, Illinois. The Company's customers include physicians, optometrists, wholesalers, group purchasing organizations and other pharmaceutical companies The Company is also a 50% investor in a limited liability company, Akorn-Strides, LLC (the "Joint Venture Company"), which develops and manufactures injectable pharmaceutical products for sale in the United States. The Company accounts for the Joint Venture Company using the equity method of accounting. The accompanying unaudited condensed consolidated financial statements include the accounts of Akorn, Inc. and Akorn (New Jersey) Inc. Intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation: The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and accordingly do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments of a normal and recurring nature considered necessary for a fair presentation have been included in these financial statements. Operating results for the three and nine-month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 2009, included in the Company's Annual Report on Form 10-K filed March 16, 2010.

The Company has considered the accounting and disclosure of events occurring after the balance sheet date through the filing date of this Form 10-Q.

NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 materially from those estimates.

Chargebacks: The Company enters into contractual agreements with certain third parties such as hospitals and group purchasing organizations to sell certain products at predetermined prices. The parties have elected to have these contracts administered through wholesalers that buy products from the Company and subsequently sell them to these third parties. When a wholesaler sells products to one of these third parties that are subject to a contractual price agreement, the difference between the price paid to the Company by the wholesaler and the price under the specific contract is charged back to the Company by the wholesaler. The Company tracks sales and submitted chargebacks by product number and contract for each wholesaler. Utilizing this information, the Company estimates a chargeback percentage for each product. The Company reduces gross sales and increases the chargeback allowance by the estimated chargeback amount for each product sold to a wholesaler. The Company reduces the chargeback allowance when it processes a request for a chargeback from a wholesaler. Actual chargebacks processed by the Company can vary materially from period to period based upon actual sales volume through the wholesalers. However, the Company's expense provision for chargebacks is recorded at the time when sales revenues are recognized.

Management obtains periodic wholesaler inventory reports to aid in analyzing the reasonableness of the chargeback allowance. The Company assesses the reasonableness of its chargeback allowance by applying the product chargeback percentage based on historical activity to the quantities of inventory on hand per the wholesaler inventory reports and an estimate of in-transit inventory that is not reported on the wholesaler inventory reports at the end of the period. In accordance with its accounting policy, the Company's estimate of the percentage amount of wholesaler inventory that will ultimately be sold to a third party that is subject to a contractual price agreement is based on a six-quarter trend of such sales through wholesalers. The Company uses the established percentage estimate until historical and current trends indicate that a revision should be made. The Company used an estimate of 95% during the six months ended June 30, 2009 and had used an estimate of 97% for subsequent periods through June 30, 2010. For the quarter ending September 30, 2010 the Company revised this estimate to 98.5%.

Sales Returns: Certain of the Company's products are sold with the customer having the right to return the product within specified periods and guidelines for a variety of reasons, including but not limited to, pending expiration dates. Provisions are made at the time of sale based upon tracked historical experience, by customer in some cases. The Company estimates its sales returns reserve based on a historical percentage of returns to sales by product. One-time historical factors, new product introductions or pending new developments that would impact the expected level of returns are taken into account to determine the appropriate reserve estimate at each balance sheet date.

As part of the evaluation of the balance required, the Company considers actual returns to date that are in process, the expected impact of any product recalls and the wholesaler's inventory information to assess the magnitude of unconsumed product that may result in a sales return to the Company in the future. The sales returns level can be impacted by factors such as overall market demand and market competition and availability for substitute products which can increase or decrease the end-user pull through for sales of the Company's products and ultimately impact the level of sales returns. Actual returns experience and trends are factored into the Company's estimates each quarter as market conditions change.

Income taxes: Due to uncertainty in the ability of the Company to realize deferred tax assets, a valuation allowance has been recorded for the net deferred income tax assets. The tax expense in the condensed consolidated statements of operations primarily relates to certain minimum state tax assessments. The Company's federal taxable income in the current year quarter was offset by large net operating loss carry-forwards from prior years that had been fully reserved.

Warrants liability – related party: The Company issued various warrants during 2009 to entities controlled by John N. Kapoor, Ph.D., the Chairman of the Company's Board of Directors (the "Kapoor Warrants"). The Company had classified the fair value of these warrants as a current liability in accordance with ASC 815-40-15-3, *Derivatives and Hedging*, (formerly EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*). This classification was made as a result of the requirement that the shares to be issued upon exercise of the Kapoor Warrants be registered shares, which could not be absolutely assured. The Kapoor Warrants were adjusted to fair value at the end of each quarter through Black-Scholes calculations which considered changes in the market price of the Company's common stock, the remaining contractual life of the Kapoor Warrants, and other factors. Any change in the fair value of the Kapoor Warrants was recorded as income or expense on the Company's consolidated statement of operations for the applicable period.

ASC 820, *Fair Value Measurement and Disclosures*, establishes the fair value hierarchy that combines fair value measurement inputs into three classifications: Level 1, Level 2, or Level 3. Level 1 inputs are quoted prices in an active market for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The fair values of the warrants were considered Level 3 inputs. There were no transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy and no purchases, sales, issuances or settlements of Level 3 assets or liabilities from December 31, 2009 until June 28, 2010.

On June 28, 2010, the Company and Dr. Kapoor entered into an Amended and Restated Registration Rights Agreement (the "Amended Agreement") which modified certain terms related to the Company's obligation to obtain and maintain registration of any shares issued pursuant to exercise of the Kapoor Warrants. The Amended Agreement still requires the Company to use "commercially reasonable efforts" to file a registration statement pursuant to Rule 415 of the Securities Act of 1933 ("Registration Statement") for any shares of common stock that may be issued under the applicable warrant agreements, and to maintain the continuous effectiveness of such Registration Statement until the earliest of: (i) the date no shares of the Company's common stock qualify as registrable securities, (ii) the date on which all of the registrable securities may be sold in a single transaction by the holder to the public pursuant to Rule 144 or similar rule, or (iii) the date upon which the John N. Kapoor Trust Dated September 20, 1989 (the "Kapoor Trust") and EJ Funds, LP ("EJ Funds") have transferred all of the registrable securities. However, the Registration Rights Agreement has been amended to explicitly state that in the event the Company, after using its good faith commercially reasonable efforts, is not able to obtain or maintain registration of the common stock, delivery of unregistered shares upon exercise of the Kapoor Warrants will be deemed acceptable and a net cash settlement will not be required. The Amended Agreement further provides that the term "commercially reasonable efforts" in such instance shall not mean an absolute obligation of the Company to obtain and maintain registration.

As a result of the changes effected through the Amended Agreement, on June 28, 2010 the Company changed its accounting treatment of the Kapoor Warrants, no longer classifying them as a current liability with periodic adjustments to fair value but instead classifying them as a component of shareholders' equity in accordance with ASC 815-40. Accordingly, the fair value of the Kapoor Warrants, which was $17,946,000 on June 28, 2010, was reclassified from a current liability to a component of shareholders' equity. No future fair value adjustments will be required.

The liability at June 28, 2010 for the Kapoor Warrants was estimated using a Black-Scholes valuation model with the fair value per warrant ranging from $2.49 to $2.50. During the nine months ended September 30, 2010, the Company recorded a non-operating expense of $8,881,000 to reflect the change in fair value of the Kapoor Warrants for the period of January 1, 2010 to June 28, 2010, the date the Kapoor Warrants were reclassified to shareholders' equity. This expense is listed under the caption "Change in fair value of warrants liability" in the Company's condensed consolidated statements of operations for the nine months ended September 30, 2010.

The expected volatility of the Kapoor Warrants was based on the historical volatility of the Company's common stock. The expected life assumption was based on the remaining life of the Kapoor Warrants. The risk-free interest rate for the expected term of the Kapoor Warrants was based on the average market rate on U.S. treasury securities in effect during the applicable quarter. The dividend yield reflected historical experience as well as future expectations over the expected term of the Kapoor Warrants.

The assumptions used in estimating the fair value of the warrants at June 28, 2010 and December 31, 2009 were as follows:

	June 28, 2010	December 31, 2009
Expected Volatility	79.7%	79.5%
Expected Life (in years)	3.8 – 4.1	4.3 – 4.6
Risk-free interest rate	1.8%	2.3%
Dividend yield	—	—

The following table summarizes the terms of the Kapoor Warrants:

					Fair Value (000's)		
Granted To:	Warrant Identification	Grant Date [1]	Warrants Granted	Exercise Price	Dec. 31, 2009	Mar. 31, 2010	June 28, 2010
EJ Funds	Modification Warrant	Apr. 15, 2009	1,939,639	$ 1.11	$ 2,425	$ 1,939	$ 4,829
Kapoor Trust	Reimbursement Warrant	Apr. 15, 2009	1,501,933	$ 1.11	1,877	1,502	3,740
EJ Funds	Restatement Warrants [2]	Aug. 17,2009	1,650,806	$ 1.16	2,096	1,684	4,127
Kapoor Trust	Subordinated Note Warrants [3]	Aug. 17,2009	2,099,935	$ 1.16	2,667	2,142	5,250
			7,192,313		$ 9,065	$ 7,267	$ 17,946

[1] The expiration date on all Kapoor Warrants is five (5) years after Grant Date.

[2] Restatement Warrants refers to warrants granted to EJ Funds in connection with modification to the credit agreement originally entered into between the Company and General Electric Credit Corporation ("GE Capital") on January 7, 2009 and subsequently assigned from GE Capital to EJ Funds on March 31, 2009 (the "Credit Agreement") to increase the total loan commitment under the Credit Agreement from $5,650,000 to $10,000,000.

[3] Subordinated Note Warrants refers to warrants granted to the Kapoor Trust on August 17, 2009 in connection with refinancing the subordinated note for $5,000,000 issued on July 28, 2008 (the "Subordinated Note") to extend its term for an additional five years and increase the principal from $5,000,000 to $5,853,267 to include accrued interest through the refinancing date, August 17, 2009.

NOTE C — STOCK BASED COMPENSATION

Stock-based compensation cost is estimated at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the vesting period. The Company uses the Black-Scholes model for estimating the grant date fair value of stock options. Determining the assumptions that enter into the model is highly subjective and requires judgment. The Company uses an expected volatility that is based on the historical volatility of its stock. The expected life assumption is based on historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the average market rate on U.S. treasury securities in effect during the quarter in which the options were granted. The dividend yield reflects historical experience as well as future expectations over the expected term of the option. The Company estimates forfeitures at the time of grant and revises in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The Company recorded stock-based compensation expense related to options of $681,000 and $1,944,000 during the three and nine months ended September 30, 2010, respectively. In the prior year, the Company recorded stock-based compensation of $339,000 and $1,389,000 during the respective three and nine month periods ended September 30, 2009. The Company uses the single-award method for allocating compensation cost to each period.

The weighted-average assumptions used in estimating the grant date fair value of the stock options granted during the three months ended September 30, 2010 and 2009, along with the weighted-average grant date fair values, were as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2010	THREE MONTHS ENDED SEPTEMBER 30, 2009
Expected volatility	80%	81%
Expected life (in years)	3.8	3.9
Risk-free interest rate	1.6%	2.5%
Dividend yield	—	—
Fair value per stock option	$ 2.09	$ 0.81
Forfeiture rate	8%	13%

The table below sets forth a summary of activity within the Company's stock-based compensation plans for the nine months ended September 30, 2010:

	Number of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value [1]
Outstanding at December 31, 2009	5,157	$ 1.49	4.58	$ 2,140,500
Granted	2,939	2.25		
Exercised	(113)	1.80		
Forfeited	(202)	3.38		
Outstanding at September 30, 2010	7,781	$ 1.72	4.13	$ 18,143,000
Exercisable at September 30, 2010	1,445	$ 1.53	3.79	$ 3,719,000

[1] The aggregate intrinsic value for stock options outstanding and exercisable is defined as the difference between the market value of the Company's common stock as of the end of the period ($4.04 per share) and the exercise price of the stock options.

During the nine months ended September 30, 2010, the Company received cash proceeds of $202,000 from stock option exercises. These exercises generated tax-deductible expenses totaling $160,000.

The Company also grants restricted stock awards to certain employees and members of its Board of Directors. Restricted stock awards are valued based on the closing market price of the Company's common stock on the date of grant and the total value of the award is recognized as expense ratably over the vesting period of the grants. The Company did not grant any restricted stock awards during the nine months ended September 30, 2010. As of September 30, 2010, the total amount of unrecognized compensation expense related to non-vested restricted stock awards was $35,000. The Company recorded compensation expense of $9,000 and $51,000 during the three and nine months ended September 30, 2010 related to outstanding restricted stock awards. In the prior year, the company recorded compensation expense of $93,000 and $286,000 during the three and nine months ended September 30, 2009 related to outstanding restricted stock awards.

The following is a summary of non-vested restricted stock activity during the nine months ended September 30, 2010:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2009	108	$ 2.73
Granted	—	—
Forfeited	(55)	2.43
Vested	(25)	4.34
Non-vested at September 30, 2010	28	$ 1.89

NOTE D — REVENUE RECOGNITION

The Company recognizes sales upon the shipment of goods or completion of services as appropriate. Revenue is recognized when all obligations of the Company have been fulfilled and collection of the related receivable is probable.

Provision for estimated chargebacks, rebates, discounts, product returns and doubtful accounts is made at the time of sale and is analyzed and adjusted, if necessary, at each balance sheet date.

NOTE E — ACCOUNTS RECEIVABLE ALLOWANCES

The nature of the Company's business inherently involves, in the ordinary course, significant amounts and substantial volumes of transactions and estimates relating to allowances for product returns, chargebacks, rebates, doubtful accounts and discounts given to customers. This is a natural circumstance of the pharmaceutical industry and not specific to the Company and inherently lengthens the final net collections process. Depending on the product, the end-user customer, the specific terms of national supply contracts and the particular arrangements with the Company's wholesaler customers, certain rebates, chargebacks and other credits are deducted from the Company's accounts receivable. The process of claiming these deductions depends on wholesalers reporting to the Company the amount of deductions that were earned under the respective terms with end-user customers (which in turn depends on which end-user customer, with different pricing arrangements might be entitled to a particular deduction). This process can lead to partial payments against outstanding invoices as the wholesalers take the claimed deductions at the time of payment.

The provisions for the following customer reserves are reflected in the accompanying financial statements as reductions of revenues in the statements of operations with the exception of the provision for doubtful accounts which is reflected as part of selling, general and administrative expense. The ending reserve amounts are included in trade accounts receivable in the balance sheet.

Net trade accounts receivable consists of the following (in thousands):

	SEPTEMBER 30, 2010	DECEMBER 31, 2009
Gross accounts receivable	$ 18,621	$ 15,991
Less:		
Chargeback and rebates reserves	(2,885)	(3,234)
Returns reserve	(3,624)	(3,192)
Discount and allowances reserve	(353)	(336)
Allowance for doubtful accounts	—	(4)
Net trade accounts receivable	$ 11,759	$ 9,225

For the three months ended September 30, 2010 and 2009, the Company recorded chargeback and rebate expense of $12,111,000 and $6,238,000, respectively. During the nine months ended September 30, 2010 and 2009, the Company recorded chargeback and rebate expense of $34,342,000 and $20,178,000, respectively. The current year expenses exceeded the prior year expenses primarily due to increased sales in the Ophthalmic and Hospital Drugs & Injectables segments.

For the three month periods ended September 30, 2010 and 2009, the Company recorded provisions for product returns of $121,000 and $489,000, respectively. For the nine months ended September 30, 2010 and 2009, the Company recorded provisions for product returns of $1,519,000 and $3,809,000, respectively. The provision for product returns during the nine months ended September 30, 2010 was significantly lower than the provision in the corresponding prior year period due to lower actual returns experience in recent quarters and due to the prior year total including incremental return reserves of $708,000 related to the Company's Akten® ophthalmic solution product and $242,000 related to a product recall on the Company's Cyanide Antidote Kits due to recall of a component manufactured by a third party.

For the three month periods ended September 30, 2010 and 2009, the Company recorded provisions for cash discounts of $502,000 and $379,000, respectively. For the nine months ended September 30, 2010 and 2009, the Company recorded provisions for cash discounts of $1,479,000 and $1,246,000, respectively. These increases in the current year periods were due to higher sales within the Ophthalmic and the Hospital drugs & injectables segments.

NOTE F — INVENTORIES

The components of inventories are as follows (in thousands):

	SEPTEMBER 30, 2010	DECEMBER 31, 2009
Finished goods	$ 4,957	$ 4,229
Work in process	2,673	1,887
Raw materials and supplies	10,471	7,051
	$ 18,101	$ 13,167

The Company maintains reserves and records provisions for slow-moving and obsolete inventory as well as inventory with a carrying value in excess of its net realizable value. Inventory at September 30, 2010 and December 31, 2009 was reported net of these reserves of $1,510,000 and $1,780,000, respectively, primarily related to finished goods.

As of September 30, 2010 and December 31, 2009, the Company's inventory balances included $2,996,000and $1,126,000, respectively, related to products which have not yet received approval from the U.S. Food and Drug Administration ("FDA"). However, the Company believes that FDA approval is probable and that it will be able to fully recover the costs of this inventory.

NOTE G — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (in thousands):

	SEPTEMBER 30, 2010	DECEMBER 31, 2009
Land	$ 396	$ 396
Buildings and leasehold improvements	20,094	20,070
Furniture and equipment	48,224	46,854
Sub-total	68,714	67,320
Accumulated depreciation	(38,771)	(36,171)
	29,943	31,149
Construction in progress	1,528	324
Property, plant and equipment, net	$ 31,471	$ 31,473

NOTE H — FINANCING ARRANGEMENTS

Subordinated Note Payable

On July 28, 2008, the Company borrowed $5,000,000 from the Kapoor Trust, the sole trustee and sole beneficiary of which is Dr. John N. Kapoor, the Company's Chairman of the Board of Directors and the holder of a significant stock position in the Company, in return for issuing the trust the Subordinated Note. The Subordinated Note accrued interest at a rate of 15% per year and was due and payable on July 28, 2009.

On August 17, 2009, the Company refinanced its $5,000,000 subordinated debt payable to the Kapoor Trust. The principal amount of $5,000,000 was increased to $5,853,267 to include accrued interest through August 16, 2009 (interest accruing thereafter is payable monthly) and the annual interest rate of 15% remained unchanged. The term of the Subordinated Note was extended by an additional five years and is now due and payable on August 17, 2014. Should the Company choose to pay off the Subordinated Note prior to its scheduled expiration, the payoff amount would equal 110% of the principal and accrued interest due as of the day of payoff. As part of this refinancing agreement, the Company issued the Kapoor Trust an additional 2,099,935 warrants to purchase the Company's common stock at an exercise price of $1.16 per share, the closing market price of the Company's stock on August 14, 2009 (the "Subordinated Note Warrants"). The warrants remain exercisable for five years following grant. On the date of grant, the fair value of the Subordinated Note Warrants as calculated using a Black-Scholes valuation model was $1,575,000. This amount plus $28,000 in other associated costs was capitalized as financing costs and is being amortized over the term of the Subordinated Note.

The fair value of the Subordinated Note Warrants increased to $5,250,000 by June 28, 2010. On this date, the Company entered into the Amended Agreement which amended the terms of the Registration Rights Agreement related to any shares issued from exercise of the Kapoor Warrants, including the Subordinated Note Warrants. The Amended Agreement removed net cash settlement as an option should the Company fail, after using good faith commercially reasonable efforts, to obtain or maintain registration of shares issued from exercise of the Kapoor Warrants. Under the Amended Agreement the term "commercially reasonable efforts" shall not mean an absolute obligation of the Company to obtain and maintain registration. Upon effecting this amendment, on June 28, 2010 the Company reclassified the $5,250,000 fair value of the Subordinated Note Warrants from a current liability to a component of shareholders' equity.

Credit Facility

On January 7, 2009, the Company entered into a Credit Agreement (the "Credit Agreement") with GE Capital as agent for several financial institutions (the "Lenders") to replace its previous credit agreement with Bank of America which expired on January 1, 2009. (As more fully discussed below, the Credit Agreement was subsequently assigned to EJ Funds, LP.) Pursuant to the Credit Agreement, the Lenders agreed to extend loans to the Company under a revolving credit facility (including a letter of credit subfacility) up to an aggregate principal amount of $25,000,000 (the "Credit Facility") through January 6, 2013. At the Company's election, borrowings under the Credit Facility bore interest at a rate equal to either: (i) the base rate (defined as the highest of the Wall Street Journal prime rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%), plus a margin equal to (x) 4% for the period commencing on the closing date through April 14, 2009, or (y) a percentage that ranged between 3.75% and 4.25% for the period after April 14, 2009, or (ii) LIBOR (or 2.75%, if LIBOR is less than 2.75%), plus a margin equal to (x) 5% for the period commencing on the closing date through April 14, 2009, or (y) a percentage that ranged between 4.75% and 5.25% for the period after April 14, 2009. Upon the occurrence of any event of default, the Company was to pay interest equal to an additional 2.0% per year. The Credit Agreement contained affirmative, negative and financial covenants customary for financings of this type. The negative covenants included restrictions on liens, indebtedness, payments of dividends, disposition of assets, fundamental changes, loans and investments, transactions with affiliates and negative pledges. The financial covenants included fixed charge coverage ratio, minimum-EBITDA, minimum liquidity and a maximum level of capital expenditures. In addition, the Company's obligations under the Credit Agreement could have been accelerated upon the occurrence of an event of default under the Credit Agreement, which included customary events of default such as payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy and insolvency related defaults, defaults relating to judgments, defaults relating to certain governmental enforcement actions, and a change of control default.

Also on January 7, 2009, in connection with the Credit Agreement, the Company entered into a Guaranty and Security Agreement (the "Guaranty and Security Agreement") with GE Capital, as agent for the Lenders and each other secured party thereunder. Pursuant to this agreement, the Company granted a security interest to GE Capital in the collateral described in the Guaranty and Security Agreement as security for the Credit Facility. The Company's obligations were secured by substantially all of its assets, excluding its ownership interest in Akorn-Strides, LLC and in certain licenses and other property in which assignments were prohibited by confidential provisions. In connection with the Credit Agreement, on January 7, 2009, the Company also entered into a Mortgage, Security Agreement, Assignment of Leases and Rents, Financing Statement and Fixture Filing by the Company, in favor of GE Capital, relating to the real property owned by the Company located in Decatur, IL. The mortgage granted a security interest in the two parcels of real property to GE Capital, as security for the Credit Facility.

Also on January 7, 2009, in connection with the Credit Agreement, the Company entered into a Subordination Agreement with the Kapoor Trust and GE Capital, as agent for the Lenders. Pursuant to the Subordination Agreement, the Kapoor Trust and the Company agreed that the Subordinated Note payable to the Kapoor Trust was subordinated to the Credit Facility, except that so long as there was no event of default outstanding under the Credit Agreement, the Company could repay that debt in full if the repayment occurred by July 28, 2009.

On February 19, 2009, GE Capital informed the Company that it was applying a reserve against availability which effectively restricted the Company's borrowings under the Credit Agreement to the balance outstanding as of February 19, 2009, which was $5,523,620. GE Capital advised that it had applied this reserve due to concerns about financial performance, including the Company's prospective compliance with certain covenants in the Credit Agreement for the quarter ended March 31, 2009.

On March 31, 2009, the Company consented to an Assignment Agreement ("Assignment") between GE Capital and EJ Funds which transferred all of GE Capital's rights and obligations under the Credit Agreement to EJ Funds. Pursuant to the Assignment, EJ Funds became the agent and lender under the Credit Agreement. Accordingly, GE is no longer the Company's lender. Dr. Kapoor, Chairman of the Company's Board of Directors, is the President of EJ Financial Enterprises, Inc., a healthcare consulting investment company ("EJ Financial") and EJ Financial is the general partner of EJ Funds.

In connection with the Assignment, on April 13, 2009, the Company entered into a Modification, Warrant and Investor Rights Agreement (the "Modification Agreement") with EJ Funds that, among other things, (i) reduced the revolving loan commitment under the Credit Agreement to $5,650,000, (ii) provided an extended cure period until July 22, 2009 for any event, other than specified types of "material defaults" listed in the Modification Agreement, which could constitute an event of default under the Credit Agreement, unless that period is terminated earlier due to the occurrence of a material default or as otherwise provided in the Modification Agreement, (iii) set the interest rate for all amounts outstanding under the Credit Agreement at an annual rate of 10% with interest payable monthly, (iv) granted a security interest in and lien upon all the collateral under the Credit Agreement to the Kapoor Trust as security for the Subordinated Note, and (v) required the Company, within 30 days after the date of the Modification Agreement, to enter into security documents consisting of a security agreement and mortgages (if requested by the Kapoor Trust) in form and substance substantially similar to the corresponding security documents under the Credit Agreement for the Kapoor Trust's interest in connection with the Subordinated Note. The Modification Agreement also granted EJ Funds the right to require the Company to nominate two directors to serve on its Board of Directors. The Kapoor Trust is entitled to require the Company to nominate a third director under its Stock Purchase Agreement dated November 15, 1990 with the Kapoor Trust. In addition, the Company agreed to pay all accrued legal fees and other expenses of EJ Funds that relate to the Credit Agreement and other loan documents, including legal expenses incurred with respect to the Modification Agreement and the Assignment.

Pursuant to the Modification Agreement, on April 13, 2009, the Company granted EJ Funds a warrant (the "Modification Warrant") to purchase 1,939,639 shares of its common stock at an exercise price of $1.11 per share, subject to certain adjustments. The Modification Warrant expires five years after its issuance and is exercisable upon payment of the exercise price in cash or by means of a cashless exercise yielding a net share figure. Under the Modification Agreement, the Company has the right to convert the Subordinated Note into term indebtedness under the Credit Agreement in exchange for additional warrants, on terms substantially identical to the Modification Warrant, to purchase 343,299 shares of its common stock for each $1,000,000 of converted debt. The exercise price of the additional warrants would also be $1.11 per share.

In 2008, the Company capitalized $272,000 of loan origination fees and costs in association with the Credit Facility. In 2009, the Company incurred closing costs and additional legal fees related to the Credit Facility of $1,182,000. Upon the assignment of the Credit Facility to EJ Funds on March 31, 2009, the Company expensed the total deferred financing costs of $1,454,000. In 2009, the Company capitalized $1,358,000 for the fair value of the Modification Warrant and $153,000 for other costs in association with the assignment of the Credit Facility. The Company is amortizing the fees associated with the Credit Facility assignment on a straight-line basis over the remaining term of the Credit Facility.

On August 17, 2009, the Company completed negotiations with EJ Funds for additional capacity on its Credit Facility, increasing the loan commitment from $5,650,000 to $10,000,000. The Credit Facility is secured by the assets of the Company and was not subject to debt covenants until April 1, 2010. Subsequently, on January 13, 2010, the Company entered into a First Amendment to its Credit Agreement with EJ Funds (the "First Amendment"). The First Amendment, among other things, reduced the number of financial covenants to two: (1) a cap on capital expenditures of $7,500,000 in 2010, and (2) a requirement for the Company to have positive liquidity throughout the life of the Credit Agreement. Positive liquidity is defined as the revolving line of credit borrowing base (up to $10,000,000) plus cash and cash equivalents less the outstanding principal on the revolving line of credit, the total of which must be greater than zero.

In connection with the August 17, 2009 agreement that increased the loan commitment under the Credit Facility, the Company issued to EJ Funds 1,650,806 warrants to purchase the Company's common stock at an exercise price of $1.16 per share, the closing market price of the Company's stock on August 14, 2009 (the "Restatement Warrants"). The warrants are exercisable for five years following the grant. The estimated fair value of the Restatement Warrants, using a Black-Scholes valuation model, was $1,238,000 on date of grant. This amount plus $7,000 in other associated costs was capitalized as financing costs and is being amortized over the remaining term of the Credit Facility.

The Modification Warrant and the Restatement Warrants were revalued quarterly using the Black-Scholes pricing model, from issuance date until June 28, 2010, the date the Company entered into the Amended Agreement which removed net cash settlement as on option in the event that, after using good faith commercially reasonable efforts, registration could not be obtained or maintained for any shares issued upon exercise of the warrants. Upon entering into the Amended Agreement, the Company reclassified the fair value of the warrants from a current liability to a component of shareholders' equity.

NOTE I — COMMON STOCK ISSUANCE

On March 11, 2010, the Company entered into an agreement to issue and sell 1,838,235 shares of the Company's common stock to Serum Institute of India Ltd. ("Serum") at a price of $1.36 per share, resulting in aggregate proceeds of $2,500,000 (the "Serum Stock Purchase Agreement"). The purchase price represented a discount of 15% to the closing price of the Company's common stock on March 5, 2010. As part of the Serum Stock Purchase Agreement, Serum was granted a warrant to purchase 1,404,494 shares of the Company's common stock at an exercise price of $1.78 per share (the "Serum Warrants"). The net proceeds, after payment of $31,000 in expenses, were allocated based on the relative fair market values of the common stock and warrants, with $2,060,000 allocated to the common stock and $409,000 allocated to the warrants. There were no commissions paid in connection with this private placement.

The Serum Warrants were to become exercisable beginning on the fifth consecutive trading day that the Company's common stock closed at $2.22 per share or above, and were to expire upon the earlier of 30 days after becoming exercisable or on March 10, 2013. The Serum Warrants became exercisable on May 10, 2010 and were exercised by Serum on May 24, 2010 upon delivery of the $2,500,000 cash purchase price to the Company.

The initial 1,838,235 common shares issued to Serum and the subsequent 1,404,494 shares issued upon exercise of the Serum Warrants are restricted securities (the "Restricted Securities"). Serum has agreed that it will not sell, dispose of or otherwise deal in the Restricted Securities for 180 days from date of purchase. If at any time during which the Restricted Securities may be sold without restriction pursuant to Securities and Exchange Commission ("SEC") Rule 144, the Company fails to satisfy the current public information requirement under SEC Rule 144(c), then the Company shall pay to Serum cash in an amount equal to 1.0% of the aggregate purchase price of the Restricted Securities per month for each month until such failure is cured, up to a maximum liability of 6.0% of the total purchase price. Serum's right to receive such cash payment would be subordinated to obligations under the Credit Facility.

Under the Serum Stock Purchase Agreement, Serum relinquished all right that it and any of its affiliates had to appoint a nominee for election to the Company's Board of Directors. Prior to relinquishing such right, Dr. Subhash Kapre, Executive Director of Serum, served on the Company's Board of Directors from 2007 until his resignation on March 8, 2010. Serum retains the right to appoint a representative to attend all meetings of the Company's Board of Directors and all committees thereof as a nonvoting observer, and to receive copies of all notices, minutes, consents and other materials that the Company provides to its directors. The appointed representative is subject to the Company's consent, not to be unreasonably withheld, and will be required to enter into a non-disclosure agreement with the Company. This right to an observer continues as long as Serum owns one of the following: (i) at least 1,000,000 shares of Akorn, Inc. common stock of the 1,838,235 acquired on March 11, 2010; (ii) at least 1,000,000 unexercised Serum Warrants, or (iii) at least 1,000,000 shares purchased through exercise of the Serum Warrants.

In connection with the Serum Stock Purchase Agreement, on March 10, 2010 the Company entered into a Waiver and Consent with EJ Funds as lender under the Credit Agreement. Under the Waiver and Consent, EJ Funds consented to the Serum Stock Purchase Agreement and waived compliance with certain of the Company's covenants under the Credit Agreement with respect to the Serum Stock Purchase Agreement, the shares issued thereunder and the Serum Warrants that were granted.

On March 8, 2006, the Company issued 4,311,669 shares of its common stock in a private placement with various investors at a price of $4.50 per share which included warrants to purchase 1,509,088 additional shares of common stock. The warrants are exercisable for a five-year period at an exercise price of $5.40 per share and may be exercised by cash payment of the exercise price or by means of a cashless exercise. All 1,509,088 warrants remained outstanding as of September 30, 2010. The total price of the private placement was approximately $19,402,000 and the net proceeds to the Company, after payment of approximately $1,324,000 of commissions and expenses, was approximately $18,078,000. The net proceeds were allocated based on the relative fair market values of the common stock and warrants, with $16,257,000 allocated to the common stock and $1,821,000 allocated to the warrants.

NOTE J — EARNINGS PER COMMON SHARE

Basic net loss per common share is based upon the weighted average common shares outstanding during the period. Diluted net loss per common share is based upon the weighted average number of common shares outstanding, including the dilutive effect, if any, of stock options and warrants using the treasury stock method. During the nine month period ended September 30, 2010, as well as the three and nine month periods ended September 30, 2009, the Company reported a net loss. Therefore, the assumed exercise of any of these securities would have been anti-dilutive. Accordingly, the diluted loss per share equals the basic loss per share for these periods.

The Company's potentially dilutive shares consist of: (i) vested and unvested stock options that are in-the-money, (ii) vested and unvested warrants that are in-the-money, and (iii) unvested restricted stock awards ("RSAs"). The number of such potentially dilutive shares subject to warrants and options that have been excluded from the calculation of diluted net income (loss) per share because they would have been anti-dilutive has been set forth in the table below.

A reconciliation of the earnings per share data from a basic to a fully diluted basis is detailed below:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2010	2009	2010	2009
Net income (loss)	$ 3,990	$ (5,101)	$ (1,923)	$ (22,742)
Net income (loss) per share:				
Basic	$ 0.04	$ (0.06)	$ (0.02)	$ (0.25)
Diluted	$ 0.04	$ (0.06)	$ (0.02)	$ (0.25)
Shares used in computing net income (loss) per share:				
Weighted average basic shares outstanding	93,770	90,303	92,440	90,209
Dilutive securities:				
Stock options and unvested RSAs	2,164	—	—	—
Stock warrants	4,831	—	—	—
Total dilutive securities	6,995	—	—	—
Weighted average diluted shares outstanding	100,765	90,303	92,440	90,209
Shares subject to options and warrants excluded from the calculation of net income (loss) per diluted share because they would have been anti-dilutive:				
Stock options	1,984	3,128	7,781	3,128
Stock warrants	1,509	8,701	8,701	8,701

NOTE K — INDUSTRY SEGMENT INFORMATION

The Company classifies its operations into four business segments: ophthalmic, hospital drugs & injectables, biologics & vaccines, and contract services. The ophthalmic segment manufactures, markets and distributes diagnostic and therapeutic pharmaceuticals. The hospital drugs & injectables segment manufactures, markets and distributes drugs and injectable pharmaceuticals, primarily in niche markets. The biologics & vaccines segment marketed adult Tetanus Diphtheria ("Td") and Flu vaccines directly to hospitals and physicians as well as through wholesalers and national distributors. The contract services segment manufactures products for third party pharmaceutical and biotechnology customers based on their specifications.

The Company was party to an Exclusive Distribution Agreement with the Massachusetts Biologic Laboratories of the University of Massachusetts Medical School ("MBL") dated as of March 22, 2007 (the "MBL Distribution Agreement") for the distribution of MBL's Tetanus-Diphtheria vaccine ("Td vaccine"). The Company exited the biologics & vaccines segment upon termination of the MBL Distribution Agreement on March 14, 2010. The Company terminated distribution of Flu vaccines during 2009. The Company currently does not anticipate operating in this segment in the foreseeable future.

The Company's basis of accounting in preparing its segment information is consistent with that used in preparing its consolidated financial statements.

Selected financial information by industry segment is presented below (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2010	2009	2010	2009
REVENUES:				
Ophthalmic	$ 7,842	$ 4,803	$ 22,812	$ 12,867
Hospital drugs & injectables	8,178	3,220	21,298	11,054
Contract services	5,639	1,927	13,073	5,840
Biologics & vaccines	—	9,421	5,181	27,950
Total revenues	$ 21,659	$ 19,371	$ 62,364	$ 57,711
GROSS PROFIT:				
Ophthalmic	$ 4,938	$ 1,406	$ 13,075	$ 1,957
Hospital drugs & injectables	4,478	39	9,865	1,149
Contract services	1,999	199	4,704	535
Biologics & vaccines	—	1,041	2,062	6,073
Total gross profit	11,415	2,685	29,706	9,714
Operating expenses	7,426	6,520	22,475	28,860
Operating income (loss)	3,989	(3,835)	7,231	(19,146)
Other income (expense)	1	(1,266)	(9,117)	(3,594)
Income (loss) before income taxes	$ 3,990	$ (5,101)	$ (1,886)	$ (22,740)

The Company manages its business segments to the gross profit level and manages its operating and other costs on a company-wide basis. Inter-segment activity at the gross profit level is minimal. The Company does not identify assets by segment for internal purposes, as certain manufacturing and warehouse facilities support more than one segment.

NOTE L — COMMITMENTS AND CONTINGENCIES

Product Warranty Reserve

The Company has an outstanding product warranty reserve which relates to a ten-year expiration guarantee on injectable radiation antidote products ("DTPA") sold to the United States Department of Health and Human Services in 2006. The Company is performing yearly stability studies for this product and, if the annual stability does not support the ten-year product life, it will replace the product at no charge. The Company's supplier, Hameln Pharmaceuticals, will also share one-half of this cost if the product does not meet the stability requirement. If the ongoing product testing confirms the ten-year stability for DTPA, the Company will not incur a replacement cost and this reserve will be eliminated with a corresponding reduction to cost of sales after the ten-year period. This reserve balance was $1,299,000 at September 30, 2010 and December 31, 2009.

MBL Settlement Agreement - 2009

The Company was unable to make a payment of approximately $3,375,000 for Td vaccine products which was due to MBL by February 27, 2009 under the MBL Distribution Agreement. While the Company made a partial payment of $1,000,000 to MBL on March 13, 2009, it was unable to make another payment of approximately $3,375,000 due to MBL on March 28, 2009. Accordingly, the Company entered into a letter agreement with MBL on March 27, 2009 ("MBL Letter Agreement"), pursuant to which the Company agreed to pay MBL the $5,750,000 remaining due for these Td vaccine products plus an additional $4,750,000 in consideration of the amendments to the MBL Distribution Agreement payable according to a periodic payment schedule through June 30, 2010 (the "Settlement Payments"). In addition, pursuant to the MBL Letter Agreement, the MBL Distribution Agreement was converted to a non-exclusive agreement, the Company became obligated to provide MBL with a standby letter of credit (the "L/C") to secure its obligation to pay amounts due to MBL, and the Company was released from its obligation to further purchase Td vaccine products from MBL upon providing MBL with such L/C. In addition, pursuant to the MBL Letter Agreement, MBL agreed not to declare a breach or otherwise act to terminate the MBL Distribution Agreement if the Company complied with the terms of the MBL Letter Agreement, the MBL Distribution Agreement (as amended by the MBL Letter Agreement) and any agreements required to be entered into pursuant to the MBL Letter Agreement.

On April 15, 2009, the Company entered into a Settlement Agreement with MBL (the "MBL Settlement Agreement") to elaborate upon the MBL Letter Agreement. The MBL Settlement Agreement provided that the Company would pay MBL the Settlement Payments according to a fixed payment schedule through June 30, 2010. The MBL Settlement Agreement provided that MBL could only draw on the L/C if: (i) the Company failed to make any Settlement Payment when due, (ii) any Settlement Payment made was set aside or otherwise required to be repaid by MBL, or (iii) the Company become the debtor in a bankruptcy or other insolvency proceeding begun before October 6, 2010 and no replacement letter of credit was issued prior to the expiration of the L/C.

Also on April 15, 2009, the Company entered into an amendment to the MBL Distribution Agreement with MBL (the "MBL Amendment"). The MBL Amendment modified the MBL Distribution Agreement to (among other things) eliminate the Company's future minimum purchase requirements under the MBL Distribution Agreement.

On December 14, 2009, MBL delivered a 90-day notice of termination of the MBL Distribution Agreement. Accordingly, the Company ceased distributing Td vaccine and exited the biologics & vaccines segment effective March 14, 2010.

During the quarter ended June 30, 2010, the Company made its final scheduled payment of $1,500,000 due in accordance with the terms of the MBL Settlement Agreement. The Company has no further financial obligation to MBL.

Arthur Przybyl Arbitration

On April 3, 2009, the Company's former President and Chief Executive Officer, Arthur Przybyl, filed a demand for arbitration against the Company under his April 24, 2006 Executive Employment Agreement (the "Employment Agreement"). Mr. Przybyl initiated this arbitration with the Chicago, Illinois office of the American Arbitration Association under an arbitration provision in the Employment Agreement.

In his arbitration demand, Mr. Przybyl seeks severance and related benefits that would have been payable under the Employment Agreement were Mr. Przybyl terminated without cause and had he met additional requirements. Mr. Przybyl's arbitration demand states that he seeks more than $1,250,000. In the Company's response to Mr. Przybyl's claim that it filed in the arbitration, the Company asserted counterclaims against Mr. Przybyl for (among other things) breach of contract and breach of fiduciary duty. The Company seeks affirmative monetary relief under its counterclaims. The arbitration hearing is scheduled to proceed in November 2010.

Reimbursement and Warrant Agreement with EJ Funds and the Kapoor Trust

On April 15, 2009, the Company entered into a Reimbursement and Warrant Agreement (the "Reimbursement Agreement") with EJ Funds and the Kapoor Trust, pursuant to which the Kapoor Trust agreed to provide the L/C as security for the Company's payment obligations to MBL under the MBL Letter Agreement and the MBL Settlement Agreement. Per terms contained in the MBL agreements, the L/C requirement expired on October 3, 2010, ninety-five (95) days after June 30, 2010, the date the Company submitted its final payment under the MBL Settlement Agreement. The Reimbursement Agreement provided, among other things, that the Company would reimburse the Kapoor Trust for any draws by MBL under the L/C through the mechanism of causing the amount of the draws to become term indebtedness payable to the Kapoor Trust on the same terms as revolving debt under the Credit Agreement. All of the Company's obligations under the Reimbursement Agreement were also to be considered secured obligations under the Credit Agreement.

Pursuant to the Reimbursement Agreement, the Company issued a warrant to the Kapoor Trust (the "Reimbursement Warrant") to purchase 1,501,933 shares of its common stock at an exercise price of $1.11 per share, subject to certain adjustments. The Reimbursement Warrant expires five years from the date of issuance and is exercisable upon payment of the exercise price in cash or by means of a cashless exercise yielding a net share figure.

The estimated fair value of the Reimbursement Warrant, using a Black-Scholes valuation model, was $3,740,000 as of June 28, 2010, an increase of $1,863,000 from the value on December 31, 2009. From issuance until June 28, 2010, the Reimbursement Warrant was classified as a current liability on the Company's condensed consolidated balance sheets. On June 28, 2010, the Kapoor Trust and the Company entered into an Amended Agreement which provides that in the event the Company, after using its good faith commercially reasonable efforts, is not able to obtain or maintain registration of the common stock, delivery of unregistered shares upon exercise of the Kapoor Warrants (including the Reimbursement Warrant) will be deemed acceptable and a net cash settlement will not be required. Upon entering into the Amended Agreement, the Company reclassified the June 28, 2010 fair value of the warrants from a current liability to a component of shareholders' equity.

Payments Due under Strategic Business Agreements

The Company has entered into strategic business agreements for the development and marketing of finished dosage form pharmaceutical products with various pharmaceutical development companies. Each strategic business agreement includes a future payment schedule for contingent milestone payments. The Company will be responsible for contingent milestone payments to these strategic business partners based upon the occurrence of future events. Each strategic business agreement defines the triggering event of its future payment schedule, such as meeting product development progress timelines, successful product testing and validation, successful clinical studies, various FDA and other regulatory approvals and other factors as negotiated in each agreement. None of the contingent milestone payments is expected to be individually material to the Company. These costs, when realized, will be reported as part of research and development expense in the Company's condensed consolidated statement of operations. As of September 30, 2010, the Company anticipates that approximately $3,012,000 will be due in the remainder of 2010 and in subsequent years under the terms of its existing strategic business agreements.

NOTE M — CUSTOMER AND SUPPLIER CONCENTRATION

AmerisourceBergen Health Corporation ("Amerisource"), Cardinal Health, Inc. ("Cardinal") and McKesson Drug Company ("McKesson") are all wholesale distributors of the Company's products, as well as suppliers of a broad range of health care products. These three customers accounted for 63% and 53% of the Company's gross revenues and 45% and 43% of net revenues for the three months ended September 30, 2010 and 2009, respectively. These customers accounted for 65% and 60% of the Company's gross revenues and 46% and 56% of net revenues for the nine months ended September 30, 2010 and 2009, respectively. They also accounted for approximately 67% and 56% of the Company's gross accounts receivable balance as of September 30, 2010 and December 31, 2009, respectively. No other customers accounted for more than 10% of gross sales, net revenues or gross trade receivables for the indicated dates and periods.

If sales to any of Amerisource, Cardinal or McKesson were to diminish or cease, the Company believes that the end users of its products would find little difficulty obtaining the Company's products either directly from the Company or from another distributor.

Certain of the Company's suppliers have represented a significant portion of overall purchases. During the quarter ended September 30, 2010, Zhejiang Medicine Company accounted for 18% of the Company's purchases and Alcan Global Pharma Packaging accounted for 11% of the Company's purchases. In the prior year quarter ended September 30, 2009, MBL (supplier for Td vaccine) accounted for 52% of the Company's purchases and McKesson Medical Surgical (supplier for flu vaccine) accounted for 29% of the Company's purchases. For the nine-month periods ended September 30, 2010 and 2009, MBL accounted for 18% and 42% of the Company's purchases, respectively. MBL had been the sole supplier of Td vaccine distributed by the Company pursuant to terms of the MBL Distribution Agreement. This agreement terminated on March 14, 2010. The Company has not subsequently purchased any Td vaccine from MBL and does not anticipate any future purchases of vaccine products from MBL.

The Company requires a supply of quality raw materials and components to manufacture and package pharmaceutical products for its own use and for third parties with which it has contracted. The principal components of the Company's products are active and inactive pharmaceutical ingredients and certain packaging materials. Certain of these ingredients and components are available from only a single source and, in the case of certain of the Company's Abbreviated New Drug Applications ("ANDAs") and New Drug Applications, only one supplier of raw materials has been identified. Because FDA approval of drugs requires manufacturers to specify their proposed suppliers of active ingredients and certain packaging materials in their applications, FDA approval of any new supplier would be required if active ingredients or such packaging materials were no longer available from the specified supplier. The qualification of a new supplier could delay the Company's development and marketing efforts. If for any reason the Company is unable to obtain sufficient quantities of any of the raw materials or components required to produce and package its products, it may not be able to manufacture its products as planned, which could have a material adverse effect on the Company's business, financial condition and results of operations.

NOTE N — RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU No, 2010-06 which amends ASC 820, *Fair Value Measurements and Disclosures,* to require additional disclosures regarding transfers between Level 1 and Level 2 of the fair value hierarchy and reasons for transfers in or transfers out of Level 3. These disclosures were required effective January 1, 2010. Also, effective January 1, 2011, ASU No. 2010-06 requires a gross presentation of activities within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This updated standard does not significantly impact the Company's consolidated financial statements.

NOTE O — UNCONSOLIDATED JOINT VENTURE

The Company and Strides Arcolab Limited ("Strides") are each 50% investors in the Joint Venture Company, which produces and manufactures certain generic pharmaceutical products for sale in the United States. The Joint Venture Company launched its first commercialized product in the third quarter of 2008. Historically, Strides has been responsible for developing and manufacturing the products, while the Company has been responsible for marketing and selling the products. As compensation for its marketing and sales efforts, the Company receives a fee calculated as a percentage of the Joint Venture Company's eligible monthly net sales. In order to supplement Strides' manufacturing capabilities, the Company began manufacturing one Joint Venture Company product in the Company's Decatur, Illinois plant during the quarter ended June 30, 2010. For the three and nine months ended September 30, 2010, the Company recorded revenue of $674,000 and $1,029,000, respectively, related to sales of this product to the Joint Venture Company. All other Joint Venture Company products are manufactured by Strides in India.

The following table sets forth revenue and income information of the Joint Venture Company for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2010	2009	2010	2009
Revenue	$ 3,874	$ 3,771	$ 12,017	$ 6,534
Cost of revenue	2,564	2,446	8,270	4,249
Gross profit	1,310	1,325	3,747	2,285
Operating expenses	306	358	1,074	942
Pre-tax income	$ 1,004	$ 967	$ 2,673	$ 1,343
Income tax provision	—	—	4	—
Net income	$ 1,004	$ 967	$ 2,669	$ 1,343
50% share to each partner	$ 502	$ 484	$ 1,335	$ 672

The Company records its 50% share of the Joint Venture Company's net income under separate captions within the Company's condensed consolidated statement of operations and statements of cash flows.

During the three and nine months ended September 30, 2010, the Joint Venture Company made cash distributions to each partner of $149,000 and $1,107,000, respectively. No cash distributions were made prior to 2010.

NOTE P — SUBSEQUENT EVENT

None.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING STATEMENTS AND FACTORS AFFECTING FUTURE RESULTS

Certain statements in this Form 10-Q are forward looking statements and are intended to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. These statements relate to future events or future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements are only predictions.

You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties, and other factors that are, in some cases, beyond our control and that could materially affect actual results, levels of activity, performance or achievements. Factors that could materially affect our actual results, levels of activity, performance or achievements include, without limitation, those detailed under the caption "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed with the SEC on March 16, 2010, and include the following items:

- Our ability to generate cash from operations sufficient to meet our working capital requirements;
- Our ability to obtain additional funding or financing to operate and grow our business;
- Our ability to sustain positive relationships with our major customers;
- The effects of federal, state and other governmental regulation on our business;
- Our success in developing, manufacturing, acquiring and marketing new products;
- The success of our strategic partnerships for the development and marketing of new products;
- Our ability to comply with all of the requirements of the FDA, including current Good Manufacturing Practices regulations;
- Our ability to bring new products to market and the effects of sales of such products on our financial results;
- The effects of competition from generic pharmaceuticals and from other pharmaceutical companies;
- Availability of raw materials needed to produce our products; and
- Other factors referred to in this Form 10-Q, our Form 10-K for the fiscal year ended December 31, 2009, and our other SEC filings.

If any of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you read in the following Management's Discussion and Analysis of Financial Condition and Results of Operations reflects our current views with respect to future events and is subject to these and other risks, uncertainties, and assumptions relating to our operations, results of operations, growth strategy, and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise.

RESULTS OF OPERATIONS

The following table sets forth the amounts and percentages of total revenue for certain items from our Condensed Consolidated Statements of Operations and our segment reporting information for the three and nine months ended September 30, 2010 and 2009 (dollar amounts in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,				NINE MONTHS ENDED SEPTEMBER 30,			
	2010		2009		2010		2009	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:								
Ophthalmic	$ 7,842	36.2%	$ 4,803	24.8%	$ 22,812	36.6%	$ 12,867	22.3%
Hospital drugs & injectables	8,178	37.8%	3,220	16.6%	21,298	34.1%	11,054	19.2%
Contract services	5,639	26.0%	1,927	10.0%	13,073	21.0%	5,840	10.1%
Biologics & vaccines	—	—%	9,421	48.6%	5,181	8.3%	27,950	48.4%
Total revenues	21,659	100.0%	19,371	100.0%	62,364	100.0%	57,711	100.0%
Gross profit:								
Ophthalmic	4,938	22.8%	1,406	7.3%	13,075	21.0%	1,957	3.4%
Hospital drugs & injectables	4,478	20.7%	39	0.2%	9,865	15.8%	1,149	2.0%
Contract services	1,999	9.2%	199	1.0%	4,704	7.5%	535	0.9%
Biologics & vaccines	—	—%	1,041	5.4%	2,062	3.3%	6,073	10.5%
Total gross profit	11,415	52.7%	2,685	13.9%	29,706	47.6%	9,714	16.8%
Operating expenses:								
SG&A expenses	5,380	24.8%	5,187	26.8%	16,130	25.8%	18,016	31.2%
R&D expenses	1,790	8.3%	1,013	5.2%	5,103	8.2%	3,681	6.4%
Amortization & write-down of intangible assets	256	1.2%	320	1.7%	1,242	2.0%	1,234	2.1%
Supply agreement termination expense	—	—%	—	—%	—	—%	5,929	10.3%
Operating income (loss)	$ 3,989	18.4%	$ (3,835)	(19.8%)	$ 7,231	11.6%	$ (19,146)	(33.2%)
Other expense (income), net	(1)	(—%)	1,266	6.5%	9,117	14.6%	3,594	6.2%
Income tax provision	—	—%	—	—%	37	0.1%	2	0.0%
Net income (loss)	$ 3,990	18.4%	$ (5,101)	(26.3%)	$ (1,923)	(3.1%)	$ (22,742)	(39.4%)

OVERVIEW

Our results of operations improved significantly in the three and nine months ended September 30, 2010 compared to the corresponding prior year periods. Both revenues and profit margins increased due to our launch of new products and increased sales of existing products, higher manufacturing throughput resulting in a reduction in excess capacity and improved inventory management resulting in lower product returns and lower write-offs from excess and obsolete inventory. Significant increases in sales of our Ophthalmic, Hospital drugs & injectables and Contract services products ("core products") more than offset the revenue decline in biologics & vaccines due to our exit from that segment in the first quarter of 2010. SG&A expenses have been held in check, while R&D expenses increased this year, as we have increased our commitment to developing new ophthalmic and injectable products to add to our portfolio. As a result of our increases in core product sales and our improved profit margins, we generated positive operating income in both the quarter and nine months ended September 30, 2010, compared to operating losses in the corresponding prior year periods. We generated positive operating cash flow of $7,097,000 during the nine months ended September 30, 2010 compared to negative operating cash flow of $5,349,000 in the corresponding prior year period. We ended the current year period with more cash than debt on our balance sheet, as our cash balance was $9,498,000, we had no outstanding balance under our revolving Credit Agreement, and $5,853,000 outstanding under the Subordinated Note.

THREE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2009

Our consolidated revenue was $21,659,000 for the quarter ended September 30, 2010, representing an increase of $2,288,000, or 11.8%, compared to the prior year quarter ended September 30, 2009. Total core products revenue increased by over 100%, more than offsetting the decline of $9,421,000 related to our exit from the biologics & vaccines segment. Ophthalmic segment revenue was $7,842,000 for the quarter, an increase of $3,039,000 or 63.3%, over the corresponding prior year quarter, while hospital drugs & injectables revenue was $8,178,000, an increase of $4,958,000, or 154.0% over the prior year quarter. These increases were due to several factors, including revenue growth from recently launched products and higher antidote product sales related to cyclical expiration of previous lots sold. The prior year's revenue was suppressed by targeted wholesaler reductions in stocking levels for our products. Contract services revenue was $5,639,000 for the quarter ended September 30, 2010, an increase of $3,712,000, or 192.6%, over the prior year quarter. This increase was due to a combination of new contracts and higher volume overall on our existing product contracts. Also contributing to the increase was our sales of $674,000 of product to the Joint Venture Company during the quarter ended September 30, 2010 compared to zero in the prior year quarter.

We exited the biologics & vaccines segment in the quarter ended March 31, 2010 and reported no revenue in this segment during the quarter ended September 30, 2010. In the prior year quarter, we recorded revenue of $9,421,000, primarily related to our distribution of Td vaccines under the MBL Distribution Agreement. The MBL Distribution Agreement terminated on March 14, 2010 and we exited the biologics & vaccines segment at that time.

Consolidated gross profit for the quarter ended September 30, 2010 was $11,415,000 or 52.7% of revenue, compared to $2,685,000, or 13.9% of revenue, in the corresponding prior year quarter. Among the factors contributing to the increases in both dollars and gross profit margin were revenue growth from our release of higher gross margin new products, increased sales and selected price increases for existing products and improved utilization of our plant manufacturing capacity.

Selling, general and administrative ("SG&A") expenses were $5,380,000 for the quarter ended September 30, 2010, representing an increase of $193,000, or 3.7%, over the corresponding prior year quarter. Wages, benefits and other employee-related costs increased by $581,000 over the prior year period, while cost reduction efforts in other areas, such as consulting and other outside services, partially offset this increase.

Research and development ("R&D") expense was $1,790,000 for the quarter ended September 30, 2010, an increase of $777,000, or 76.7%, over the corresponding prior year quarter. This dollar increase was primarily due to increased staffing and internal product development activities in the current year quarter.

Amortization and write-down of intangible assets was $256,000 for the quarter ended September 30, 2010, representing a decrease of $64,000 from the prior year quarter. This decrease was due to accelerating the amortization for one product, which was written off in the quarter ended June 30, 2010.

In the quarter ended September 30, 2010, we recorded other income of $1,000 compared to other expense of $1,266,000 in the corresponding prior year quarter. The variance is primarily related to $1,122,000 of expense recorded in the quarter ended September 30, 2009 related to change in fair value of the Kapoor Warrants. There was no corresponding expense in the current year quarter due to the reclassification of the Kapoor Warrants from current liabilities to a component of shareholders' equity on June 28, 2010. On June 28, 2010, we entered into the Amended Agreement which changed our requirements regarding the registration of shares issued pursuant to the warrant agreements. Effective with this change, we reclassified the Kapoor Warrants from a current liability to a component of shareholders' equity. Accordingly, no future adjustments to fair value have been or will be recorded in our condensed consolidated statements of operations related to the Kapoor Warrants subsequent to the date of reclassification.

Interest expense was $227,000 for the quarter ended September 30, 2010, a decline of $214,000 from the corresponding prior year quarter. The decrease was due to paying off the outstanding balance on our revolving Credit Facility earlier in the current year.

Write-off and amortization of deferred financing cost resulted in expense of $274,000 for the quarter ended September 30, 2010, an increase of $87,000 from the corresponding prior year quarter. This increase in expense was due to the amortization of additional deferred financing costs capitalized in August 2009 related to increasing the loan commitment on our Credit Facility and refinancing the Subordinated Note.

For the quarter ended September 30, 2010, we recorded equity in earnings of our unconsolidated joint venture equaling $502,000 compared to $484,000 in the corresponding prior year quarter. This increase was related to higher sales in the current year quarter.

We made no provision for income taxes in either the quarter ended September 30, 2010 or the corresponding prior year quarter. We are carrying significant deferred tax assets including prior year's net operating loss carry forwards ("NOL's") that have previously been fully reserved. Accordingly, we expect that any current year taxable earnings will be offset by these NOL's, resulting in minimal income tax expense.

Net income was $3,990,000 for the quarter ended September 30, 2010 compared to a net loss of $5,101,000 for the corresponding prior year quarter. The improvement was primarily due to significant increases in core product sales, as well as improved plant utilization in the current year quarter.

NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2009

Our consolidated revenue was $62,364,000 for the nine months ended September 30, 2010, representing an increase of $4,653,000, or 8.1%, compared to the corresponding prior year period. Excluding biologics & vaccines segment revenue, core product revenue from our remaining three segments increased by a combined $27,422,000, or 92.1%, over the prior year period. In the current year period, ophthalmic revenue increased 77.3%, hospital drugs & injectables revenue increased 92.7%, and contract services revenue increased 123.9% over the corresponding prior year period. These increases were primarily due a combination of sales from new products and increased volume and selected unit price increases from our existing products. Contract services revenue increased due to new contracts, plus higher volume under existing contracts, along with $1,029,000 of product sold to the Joint Venture Company. We sold no product to the Joint Venture Company during 2009.

Biologics & vaccines segment revenues were $5,181,000 for the nine months ended September 30, 2010, representing a decline of $22,769,000, or 81.5%, compared to the corresponding prior year period. We exited the biologics & vaccines segment upon the termination of the MBL Distribution Agreement on March 14, 2010. All of our 2010 revenue in this segment was related to our distribution of Td vaccines on behalf of MBL prior to the termination of the MBL Distribution Agreement. In the corresponding prior year period, most of our biologics & vaccines revenue was related to sales of Td vaccines, with a smaller amount earned from distribution of flu vaccines.

Consolidated gross profit for the nine months ended September 30, 2010 was $29,706,000 or 47.6% of revenue, compared to gross profit of $9,714,000, or 16.8% of revenue, in the corresponding prior year period. Among the factors contributing to these gross profit increases were revenue growth from our launch of new products, increased sales and selected price increases for existing products, improved inventory management and better utilization of our plant manufacturing capacity.

SG&A expenses were $16,130,000 for the nine months ended September 30, 2010, representing a decrease of $1,886,000, or 10.5%, from the corresponding prior year period. The decline is primarily due to cost containment measures initiated late in 2009, which resulted in reductions in many expense categories, including travel and consulting expenses.

Supply agreement termination expense was related to settlement of our supply agreement with MBL for our distribution of their Td vaccine products. These expenses totaled $5,929,000 for the nine months ended September 30, 2009. No similar expense was incurred or is anticipated in 2010.

R&D expenses were $5,103,000 for the nine months ended September 30, 2010, an increase of $1,422,000, or 38.6%, over the corresponding prior year period. This dollar increase was due to increased staffing and internal product developement activities.

Amortization and write-down of intangible assets was $1,242,000 for the nine months ended September 30, 2010, representing an insignificant increase of $8,000, or 0.6%, from the corresponding prior year period.

During the nine months ended September 30, 2010, we recorded other expense of $9,117,000 compared to other expense of $3,594,000 in the corresponding prior year period. The primary component of the current year expense was $8,881,000 related to the change in fair value of the Kapoor Warrants from December 31, 2009 to June 28, 2010, the date they were reclassified from a current liability to a component of shareholders' equity. In the corresponding nine-month period in 2009, the change in the fair value of the Kapoor Warrants resulted in an expense of $1,432,000.

Interest expense was $751,000 during the nine months ended September 30, 2010, representing a decline of $344,000 from the corresponding prior year period. This decline was primarily due to paying off the outstanding balance on our revolving Credit Facility early in 2010.

Write-off and amortization of deferred financing cost was $820,000 for the nine months ended September 30, 2010 compared to $1,739,000 in the corresponding prior year period. The prior year expense included $1,454,000 of deferred financing fees related to securing our Credit Agreement with GE Capital in January 2009. These deferred financing fees were written off in their entirety when the Credit Agreement was assigned from GE Capital to EJ Funds as of March 31, 2009.

For the nine months ended September 30, 2010, we recorded equity in earnings of unconsolidated joint venture in the amount of $1,335,000, an increase of $663,000 from the $672,000 of earnings recorded in the corresponding prior year period. This increase was related to higher sales volume generated by the Joint Venture Company in the current year period.

For the nine months ended September 30, 2010, our income tax provision was $37,000 compared to $2,000 in the corresponding prior year period. For 2009, the expense was primarily related to minimum state tax assessments. The 2010 provision includes Federal AMT tax in addition to state tax assessments. The tax expense related to the current year's Federal taxable income was offset by reversal of a portion of our valuation allowances against deferred tax assets.

For the nine months ended September 30, 2010, we recorded a net loss of $1,923,000, compared to a net loss of $22,742,000 in the corresponding prior year period. The current year improvement of $20,819,000 was the result of increased sales volume from both newly launched and continuing products, better utilization of our plant capacities, and the absence of significant non-recurring expenses such as the $5,929,000 of supply agreement termination expense recognized in the prior year period.

FINANCIAL CONDITION AND LIQUIDITY

Overview

Operating activities generated $7,097,000 of positive cash flow during the nine months ended September 30, 2010. During the period, we reported a net loss of $1,923,000, but this net loss included $14,246,000 of non-cash expenses, the largest of which being an $8,881,000 expense related to the change in fair value of the Kapoor Warrants. Operating cash flows were negatively affected by a $2,534,000 increase in accounts receivable and a $4,934,000 increase in inventory, both of which were primarily related to our revenue growth in the current year period, as well as $1,500,000 paid in a scheduled installment under the MBL Settlement Agreement. These items were partially offset by a $2,253,000 increase in accounts payable.

Investing activities used $1,537,000 in cash during the nine months ended September 30, 2010, consisting of $2,644,000 in cash used for the purchase of depreciable assets, principally equipment used in manufacturing and R&D activities, partially offset by $1,107,000 in cash received in capital distributions from the Joint Venture Company.

Financing activities provided us with $2,321,000 during the nine months ended September 30, 2010. We generated net cash proceeds of $4,969,000 from a private placement of stock with, and subsequent warrant exercise by, Serum Institute of India Ltd. ("Serum"), plus $352,000 from employee stock plans. These cash inflows were partially offset by $3,000,000 used to pay off the outstanding balance on our Credit Agreement.

During the nine months ended September 30, 2009, operating activities used $5,349,000 in cash. This net use of cash was primarily due to our net loss of $22,742,000, an increase in accounts receivable of $4,831,000 due to the timing of sales and subsequent collections, and a $4,337,000 decrease in accounts payable, primarily related to a reduction in Td vaccine payables. These items were partially offset by a $12,754,000 decrease in inventory, largely due to reduction in our stock of Td vaccines, and $1,739,000 in write-off of deferred financing fees. In addition, we had a combined $8,276,000 in other non-cash expenses, including depreciation, amortization, stock compensation expense, supply agreement termination expense and the change in fair value of warrants liability. Investing activities used $1,172,000 in cash, of which $922,000 was used for the purchase of equipment for our manufacturing plants and $250,000 was used for the purchase of product licensing rights. Financing activities provided $7,476,000 in cash flow, primarily consisting of $7,509,000 in cash borrowed under our Credit Facility with EJ Funds and $1,323,000 of proceeds from stock option exercises, partially offset by $1,356,000 paid in loan origination fees (see "Credit Facility" below).

Stock Sale

On March 11, 2010, we entered into an agreement (the "Serum Stock Purchase Agreement") to issue and sell 1,838,235 shares of our common stock to Serum at a price of $1.36 per share, resulting in aggregate gross proceeds of $2,500,000. The purchase price represented a discount of 15% to the closing price of our common stock on March 5, 2010. Additionally, the agreement granted Serum a warrant to purchase 1,404,494 shares of our common stock at an exercise price of $1.78 per share (the "Serum Warrants"). The Serum Warrants became exercisable on May 10, 2010, which was the fifth consecutive trading day that our common stock closed at $2.22 per share or above, and would have expired if not exercised within 30 days after becoming exercisable. On May 24, 2010, Serum exercised the warrants, acquiring an additional 1,404,494 shares of our common stock for $2,500,000 in cash. There were no commissions paid in connection with this private placement. We incurred $31,000 in legal expenses related to the private placement, which we netted against the total proceeds.

As of September 30, 2010, we had $9,498,000 in cash and cash equivalents and no outstanding balance under our Credit Facility with EJ Funds. The total loan commitment available to us under the Credit Facility is $10,000,000. There are no fees assessed on the unused portion of the Credit Facility. We believe that operating cash flows and availability under our Credit Facility will be sufficient to meet our cash needs for the foreseeable future.

Credit Facility

We are party to a $10,000,000 Credit Agreement (the "Credit Agreement"), originally entered into on January 7, 2009 with General Electric Capital Corporation ("GE Capital") and subsequently assigned to EJ Funds, LP ("EJ Funds") on March 31, 2009. Borrowings against this Credit Agreement accrue interest at a rate of 10% per annum, payable monthly. There are no fees associated with the unused portion of this Credit Facility. Our outstanding loan balance under the Credit Agreement was zero as of September 30, 2010 and $3,000,000 as of December 31, 2009.

On January 7, 2009, we entered into a Credit Agreement with GE Capital as agent for several financial institutions (the "Lenders"). This Credit Agreement served to replace our previous Credit Facility with Bank of America that expired on January 1, 2009. Pursuant to the Credit Agreement, the Lenders agreed, among other things, to extend loans to us under a revolving credit facility (including a letter of credit sub-facility) up to an aggregate principal amount of $25,000,000 (the "Credit Facility") up through January 6, 2013. At our election, borrowings under the Credit Facility bore interest at a rate equal to either: (i) the base rate (defined as the highest of the Wall Street Journal prime rate, the federal funds rate plus 0.5% or LIBOR plus 1.0%), plus a margin equal to (x) 4% for the period commencing on the closing date through April 14, 2009, or (y) a percentage that ranged between 3.75% and 4.25% for the period after April 14, 2009, or (ii) LIBOR (or 2.75%, if LIBOR is less than 2.75%), plus a margin equal to (x) 5% for the period commencing on the closing date through April 14, 2009, or (y) a percentage that ranged between 4.75% and 5.25% for the period after April 14, 2009. Upon the occurrence of any event of default, we were to pay interest equal to an additional 2.0% per year. The Credit Agreement contained affirmative, negative and financial covenants customary for financings of this type. The negative covenants included restrictions on liens, indebtedness, payments of dividends, disposition of assets, fundamental changes, loans and investments, transactions with affiliates and negative pledges. The financial covenants included fixed charge coverage ratio, minimum-EBITDA, minimum liquidity and a maximum level of capital expenditures. In addition, our obligations under the Credit Agreement could have been accelerated upon the occurrence of an event of default under the Credit Agreement, which included customary events of default such as payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy and insolvency related defaults, defaults relating to judgments, defaults relating to certain governmental enforcement actions, and a change of control default.

Also on January 7, 2009, in connection with the Credit Agreement, we entered into a Guaranty and Security Agreement (the "Guaranty and Security Agreement") with GE Capital, as agent for the Lenders and each other secured party thereunder. Pursuant to the Guaranty and Security Agreement, we granted a security interest to GE Capital in the collateral described in the Guaranty and Security Agreement as security for the Credit Facility. Our obligations were secured by substantially all of our assets, excluding our ownership interest in Akorn-Strides, LLC and in certain licenses and other property in which assignments are prohibited by confidential provisions.

In connection with the Credit Agreement, on January 7, 2009, we also entered into a Mortgage, Security Agreement, Assignment of Leases and Rents, Financing Statement and Fixture Filing by us, in favor of GE Capital, relating to the real property owned by us located in Decatur, Illinois. The mortgage granted a security interest in the two parcels of real property to GE Capital, as security for the Credit Facility.

Also on January 7, 2009, in connection with the Credit Agreement, we entered into a Subordination Agreement with the Kapoor Trust and GE Capital, as agent for the Lenders. Pursuant to the Subordination Agreement, the Kapoor Trust and we agreed that the Subordinated Note payable to the Kapoor Trust was subordinated to the Credit Facility, except that so long as there was no event of default outstanding under the Credit Agreement, we could repay that debt in full if the repayment occurred by July 28, 2009.

On February 19, 2009, GE Capital informed us that it was applying a reserve against availability which effectively restricted our borrowings under the Credit Agreement to the balance outstanding as of February 19, 2009, which was $5,523,620. GE Capital advised that it had applied this reserve due to concerns about financial performance, including our prospective compliance with certain covenants in the Credit Agreement for the quarter ended March 31, 2009.

On March 31, 2009, we consented to an Assignment Agreement ("Assignment") between GE Capital and EJ Funds which transferred to EJ Funds all of GE Capital's rights and obligations under the Credit Agreement. Pursuant to the Assignment, EJ Funds became the agent and lender under the Credit Agreement. Accordingly, GE was no longer our lender. Dr. Kapoor is the President of EJ Financial Enterprises, Inc., a healthcare consulting investment company ("EJ Financial") and EJ Financial is the general partner of EJ Funds. Dr. Kapoor is also the Chairman of our Board of Directors.

In connection with the Assignment, on April 13, 2009, we entered into a Modification, Warrant and Investor Rights Agreement (the "Modification Agreement") with EJ Funds that, among other things, (i) reduced the revolving loan commitment under the Credit Agreement to $5,650,000, (ii) provided an extended cure period until July 22, 2009 for any event, other than specified types of "material defaults" listed in the Modification Agreement, which could constitute an event of default under the Credit Agreement, unless that period is terminated earlier due to the occurrence of a material default or as otherwise provided in the Modification Agreement, (iii) set the interest rate for all amounts outstanding under the Credit Agreement at an annual rate of 10% with interest payable monthly, (iv) granted a security interest in and lien upon all the collateral under the Credit Agreement to the Kapoor Trust as security for the Subordinated Note, and (v) required us, within 30 days after the date of the Modification Agreement, to enter into security similar to the corresponding security documents under the Credit Agreement for the Kapoor Trust's interest in connection with the Subordinated Note. The Modification Agreement also granted EJ Funds the right to require us to nominate two directors to serve on our Board of Directors. The Kapoor Trust is entitled to require us to nominate a third director under its Stock Purchase Agreement dated November 15, 1990 with the Kapoor Trust. In addition, we agreed to pay all accrued legal fees and other expenses of EJ Funds that relate to the Credit Agreement and other loan documents, including legal expenses incurred with respect to the Modification Agreement and the Assignment.

Pursuant to the Modification Agreement, on April 13, 2009, we granted EJ Funds a warrant (the "Modification Warrant") to purchase 1,939,639 shares of our common stock at an exercise price of $1.11 per share, subject to certain adjustments. The Modification Warrant expires five years after its issuance and is exercisable upon payment of the exercise price in cash or by means of a cashless exercise yielding a net share figure. Under the Modification Agreement, we have the right to convert the Subordinated Note into term indebtedness under the Credit Agreement in exchange for additional warrants, on terms substantially identical to the Modification Warrant, to purchase 343,299 shares of our common stock for each $1,000,000 of converted debt. The exercise price of those warrants would also be $1.11 per share. The fair value of the Modification Warrant, using a Black-Scholes valuation model, was $1,358,000 when the warrant was issued on April 13, 2009.

On August 17, 2009, we completed negotiations with EJ Funds for additional capacity on our Credit Facility, increasing the loan commitment from $5,650,000 to $10,000,000. The Credit Facility is secured by our assets and is not subject to debt covenants until April 1, 2010. In connection with this loan commitment increase, we issued EJ Funds 1,650,806 warrants to purchase our common stock at an exercise price of $1.16, the closing price of our stock on August 14, 2009 (the "Restatement Warrants"). The estimated fair value of the Restatement Warrants, using the Black-Scholes valuation model, was $1,238,000 on August 17, 2009, and this amount was capitalized as financing costs and is being amortized over the remaining term of the Credit Facility.

In 2008, we capitalized $272,000 of loan origination fees and costs in association with the Credit Facility. In 2009, we incurred closing costs and additional legal fees related to the Credit Facility of $1,182,000. Upon the assignment of the Credit Facility to EJ Funds, we expensed the total deferred financing costs of $1,454,000. In 2009, we capitalized $1,518,000 for the fair value of the Modification Warrant and other costs in association with the assignment of the Credit Facility. We are amortizing this balance on a straight-line basis over the remaining term of the Credit Facility. During the quarter and nine months ended September 30, 2010, we recorded amortization expense of $274,000 and $820,000, respectively, related to our amortization of capitalized financing costs for the Credit Facility and Subordinated Note.

We classified the fair value of the Modification Warrant and the Restatement Warrants (see Note L — Commitments and Contingencies) as a current liability in accordance with ASC 815-40-15-3, *Derivatives and Hedging*, (formerly EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*) from their dates of issuance until June 28, 2010. This classification was made as a result of the requirement that any shares issued upon exercise of the warrants be registered shares, which could not be absolutely assured. On June 28, 2010, the parties entered into the Amended Agreement which, among other things, provides that in the event that, after using our good faith commercially reasonable efforts, we are not able to obtain or maintain registration of the common stock, delivery of unregistered shares upon exercise of the Kapoor Warrants (including the Modification Warrant) will be deemed acceptable and a net cash settlement will not be required. Upon entering into the Amended Agreement, we reclassified the fair value of the Modification Warrant from a current liability to a component of shareholders' equity in accordance with ASC 815-40, *Contracts in Entity's Own Equity*. Prior to being reclassified as a component of shareholders' equity, the Modification Warrant and Restatement Warrants were revalued quarterly, with increases or decreases in value recorded as non-operating expense or income, respectively, in our condensed consolidated statements of operations. During the nine months ended September 30, 2010, we recorded non-operating expenses of $2,404,000 and $2,031,000 related to the change in fair value of the Modification Warrant and the Restatement Warrants, respectively. During the nine months ended September 30, 2009, we recorded non-operating expenses of $426,000 and $297,000 related to the respective change in fair value of the Modification Warrant and the Restatement Warrants.

On January 13, 2010, the parties entered into an amendment to the Credit Agreement which, among other things, reduced the number of financial covenants to two: (1) a cap on capital expenditures of $7,500,000 in 2010, and (2) a requirement to have positive liquidity throughout the life of the Credit Agreement. Positive liquidity is defined as the revolving line of credit borrowing base (up to $10,000,000) plus cash and cash equivalents less the outstanding principal on the revolving line of credit, the total of which must be greater than zero.

Subordinated Debt

On July 28, 2008, we borrowed $5,000,000 from the Kapoor Trust dated September 20, 1989, the sole trustee and sole beneficiary of which is Dr. John N. Kapoor, the Chairman of our Board of Directors and the holder of a significant stock position in the Company, in return for issuing the trust a Subordinated Promissory Note ("Subordinated Note"). The Subordinated Note accrues interest at a rate of 15% per year and was due and payable on July 28, 2009. The proceeds from the Subordinated Note were used in conjunction with the amended MBL Distribution Agreement that was negotiated with MBL on July 14, 2008, which resulted in favorable pricing and reduced purchase commitments for us (see Note L — Commitments and Contingencies).

On August 17, 2009, we refinanced our $5,000,000 Subordinated Note payable to the Kapoor Trust. The principal amount of $5,000,000 has been increased to $5,853,267 to include accrued interest through August 16, 2009 (interest accruing thereafter is payable monthly) and the annual interest rate of 15% remained unchanged. The term of the Subordinated Note has been extended by an additional five years and is now due and payable on August 17, 2014. Should the Company choose to pay off the Subordinated Note prior to its scheduled expiration, the payoff amount would equal 110% of the principal and accrued interest due as of the day of payoff. As part of this refinancing agreement, we issued the Kapoor Trust an additional 2,099,935 warrants to purchase our common stock at an exercise price of $1.16, the closing price of the our stock on August 14, 2009 (the "Subordinated Note Warrants"). On August 17, 2009, the fair value of the Subordinated Note Warrants was $1,575,000, as calculated using the Black-Scholes valuation model. This fair value amount, along with $28,000 in legal fees, was capitalized as deferred financing costs and is being amortized over the term of the subordinated debt.

The Subordinated Note Warrants were classified as a current liability from their issuance date until June 28, 2010, at which time changes effected by the Amended Agreement allowed reclassification of these warrants from a current liability to a component of shareholders' equity. Prior to this reclassification, the fair value of the Subordinated Note Warrants was adjusted quarterly, with increases or decreases in value recorded as non-operating expense or income, respectively, in our condensed consolidated statements of operations. During the nine months ended September 30, 2010, we recorded expense of $2,583,000 related to the increase in fair value of the Subordinated Note Warrants. During the prior year three and nine month periods ended September 30, 2009, we recorded expense of $378,000 related to the change in value of these warrants.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. A summary of our significant accounting policies is included in this Form 10-Q under Item 1. Financial Statements, Note B — Summary of Significant Accounting Policies, which policies are also included in our Annual Report on Form 10-K for the year ended December 31, 2009. Certain of our accounting policies are considered critical, as these policies require significant, difficult or complex judgments by management, often employing the use of estimates about the effects of matters that are inherently uncertain. Such policies are summarized in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2009. There have been no significant changes in the application of the critical accounting policies since December 31, 2009.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU No, 2010-06 which amends ASC 820, *Fair Value Measurements and Disclosures,* to require additional disclosures regarding transfers between Level 1 and Level 2 of the fair value hierarchy and reasons for transfers in or transfers out of Level 3. These disclosures are required effective January 1, 2010. Also, effective January 1, 2011, ASU No. 2010-06 requires a gross presentation of activities within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This updated standard does not significantly impact our consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have had, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of September 30, 2010, all of our debt was at fixed rates. Accordingly, none of our debt is currently subject to market interest rates risk.

We have no material foreign exchange risk. Foreign sales are immaterial to our total sales and are all transacted in U.S. dollars. Our cash and debt is entirely denominated in U.S. currency.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable and fixed-rate debt. The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of our fixed-rate debt approximates fair value due to the short period of time that has elapsed since the debt agreements were signed and the stability of market interest rates over that period.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation was performed, under the supervision and with the participation of Company management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Act")). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including cost limitations, judgments used in decision making, assumptions regarding the likelihood of future events, soundness of internal controls, fraud, the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable, and not absolute, assurance of achieving their control objectives. Based on that evaluation, management, including the CEO and CFO, has concluded that, as of September 30, 2010, the Company's disclosure controls and procedures were effective in all material respects at the reasonable assurance level to ensure that information required to be disclosed in reports that the Company files or submits under the Act is recorded, processed, summarized and timely reported in accordance with the rules and forms of the SEC.

Changes in Internal Control Over Financial Reporting

In the fiscal quarter ended September 30, 2010, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are party to legal proceedings and potential claims arising in the ordinary course of our business. The amount, if any, of ultimate liability with respect to such matters cannot be determined. Despite the inherent uncertainties of litigation, we at this time do not believe that such proceedings will have a material adverse impact on our financial condition, results of operations, or cash flows.

On April 3, 2009, our former President and Chief Executive Officer, Arthur Przybyl, filed a demand for arbitration against the Company under his April 24, 2006 Executive Employment Agreement (the "Employment Agreement"). A copy of the Employment Agreement is Exhibit 10.1 to the Current Report on Form 8-K we filed with the SEC on April 28, 2006. Mr. Przybyl initiated this arbitration with the Chicago, Illinois office of the American Arbitration Association under an arbitration provision in the Employment Agreement.

In his arbitration demand, Mr. Przybyl seeks severance and related benefits that would have been payable under the Employment Agreement were Mr. Przybyl terminated without cause and had he met additional requirements. Mr. Przybyl's arbitration demand states that he seeks more than $1,250,000. In our response to Mr. Przybyl's claim that we filed in the arbitration, we asserted counterclaims against Mr. Przybyl for (among other things) breach of contract and breach of fiduciary duty. We seek affirmative monetary relief under our counterclaims. The arbitration hearing is scheduled to proceed in November 2010.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed March 16, 2010. We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially affect our operations. The risks, uncertainties and other factors set forth in our Annual Report on Form 10-K may cause our actual results, performances and achievements to be materially different from those expressed or implied by our forward-looking statements. If any of these risks or events occurs, our business, financial condition or results of operations may be adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Reserved)

Item 5. Other Information.

None.

Item 6. Exhibits.

Those exhibits marked with a (*) refer to exhibits filed herewith. The other exhibits are incorporated herein by reference, as indicated in the following list.

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350.

SIGNATURES

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

AKORN, INC.

/s/ TIMOTHY A. DICK

Timothy A. Dick
Chief Financial Officer

Date: November 9, 2010

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Rajat Rai, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Akorn, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RAJAT RAI

Rajat Rai
Chief Executive Officer

Date: November 9, 2010

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Timothy A. Dick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Akorn, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ TIMOTHY A. DICK

Timothy A. Dick
Chief Financial Officer

Date: November 9, 2010

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C 1350

In connection with the Quarterly Report of Akorn, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2010, as filed with the Securities and Exchange Commission and to which this Certification is an exhibit (the "Report"), the undersigned officer of the Company does hereby certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) and Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934 (17 CFR 240.13a-14(b)), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2010

/s/ RAJAT RAI

Rajat Rai
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. 1350

In connection with the Quarterly Report of Akorn, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2010, as filed with the Securities and Exchange Commission and to which this Certification is an exhibit (the "Report"), the undersigned officer of the Company does hereby certify, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) and Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934 (17 CFR 240.13a-14(b)), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2010

/s/ TIMOTHY A. DICK

Timothy A. Dick
Chief Financial Officer