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 JUNE 30, 2011

☐ **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 August 5, 2011 there were 94,641,792 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

	JUNE 30, 2011 (UNAUDITED)	DECEMBER 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 134,483	$ 41,623
Trade accounts receivable, net	16,949	11,270
Inventories	26,814	18,917
Prepaid expenses and other current assets	3,787	1,803
TOTAL CURRENT ASSETS	182,033	73,613
PROPERTY, PLANT AND EQUIPMENT, NET	37,498	32,731
OTHER LONG-TERM ASSETS		
Goodwill	14,749	—
Other intangibles, net	16,057	3,122
Deferred financing costs	3,719	1,545
Other	1,268	105
TOTAL OTHER LONG-TERM ASSETS	35,793	4,772
TOTAL ASSETS	$ 255,324	$ 111,116
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$ 10,707	$ 4,894
Accrued compensation	2,896	3,396
Accrued expenses and other liabilities	4,672	3,473
Advance from unconsolidated joint venture	—	10,177
TOTAL CURRENT LIABILITIES	18,275	21,940
LONG-TERM LIABILITIES		
Long-term debt	98,903	—
Lease incentive obligation	1,050	1,125
Product warranty liability	1,299	1,299
TOTAL LONG-TERM LIABILITIES	101,252	2,424
TOTAL LIABILITIES	119,527	24,364
SHAREHOLDERS' EQUITY		
Common stock, no par value — 150,000,000 shares authorized; 94,624,138 and 93,975,334 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	209,482	182,466
Warrants to acquire common stock	17,946	19,673
Accumulated deficit	(91,631)	(115,387)
TOTAL SHAREHOLDERS' EQUITY	135,797	86,752
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 255,324	$ 111,116

See notes to condensed consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
Revenues	$ 32,148	$ 20,185	$ 57,592	$ 40,705
Cost of sales	14,265	10,322	25,456	22,414
GROSS PROFIT	17,883	9,863	32,136	18,291
Selling, general and administrative expenses	8,131	5,993	14,533	10,750
Research and development expenses	2,767	1,881	4,654	3,313
Amortization of intangibles	309	572	565	986
TOTAL OPERATING EXPENSES	11,207	8,446	19,752	15,049
OPERATING INCOME	6,676	1,417	12,384	3,242
Interest expense, net	(610)	(234)	(599)	(524)
Write-off and amortization of deferred financing costs	(1,403)	(273)	(1,596)	(546)
Equity in earnings of unconsolidated joint venture	13,706	369	14,530	833
Change in fair value of warrants liability	—	(10,679)	—	(8,881)
INCOME (LOSS) BEFORE INCOME TAXES	18,369	(9,400)	24,719	(5,876)
Income tax provision	423	33	963	37
NET INCOME (LOSS)	$ 17,946	$ (9,433)	$ 23,756	$ (5,913)
NET INCOME (LOSS) PER SHARE:				
BASIC	$ 0.19	$ (0.10)	$ 0.25	$ (0.06)
DILUTED	$ 0.17	$ (0.10)	$ 0.23	$ (0.06)
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:				
BASIC	94,579	92,745	94,389	91,764
DILUTED	105,233	92,745	104,653	91,764

See notes to condensed consolidated financial statements.

AKORN, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
UNAUDITED
(In Thousands)

	Common Stock		Warrants to acquire Common	Accumulated	
Six Months Ended June 30, 2011	**Shares**	**Amount**	**Stock**	**Deficit**	**Total**
BALANCES AT DECEMBER 31, 2010	93,975	$ 182,466	$ 19,673	$ (115,387)	$ 86,752
Net income	—	—	—	23,756	23,756
Net proceeds from exercise of warrants	365	3,454	(1,727)	—	1,727
Stock option exercises	152	282	—	—	282
Employee stock purchase plan issuances	129	220	—	—	220
Amortization of deferred compensation related to restricted stock awards	3	9	—	—	9
Equity portion of convertible notes offering	—	20,566	—	—	20,566
Stock-based compensation expense	—	2,485	—	—	2,485
BALANCES AT JUNE 30, 2011	94,624	$ 209,482	$ 17,946	$ (91,631)	$ 135,797

	Common Stock		Warrants to acquire Common	Accumulated	
Six Months Ended June 30, 2010	**Shares**	**Amount**	**Stock**	**Deficit**	**Total**
BALANCES AT DECEMBER 31, 2009	90,390	$ 174,027	$ 1,821	$ (137,211)	$ 38,637
Net loss	—	—	—	(5,913)	(5,913)
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	11	18	—	—	18
Employee stock purchase plan issuances	47	119	—	—	119
Amortization of deferred compensation related to restricted stock awards	17	42	—	—	42
Stock-based compensation expense	—	1,263	—	—	1,263
BALANCES AT JUNE 30, 2010	93,708	$ 180,438	$ 19,767	$ (143,124)	$ 57,081

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

	SIX MONTHS ENDED JUNE 30,	
	2011	**2010**
OPERATING ACTIVITIES:		
Net income (loss)	$ 23,756	$ (5,913)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,309	2,745
Write-off and amortization of deferred financing fees	1,596	546
Non-cash stock compensation expense	2,494	1,305
Non-cash change in fair value of warrants liability	—	8,881
Amortization of debt discount	286	—
Equity in earnings of unconsolidated joint venture	(14,530)	(833)
Changes in operating assets and liabilities:		
Trade accounts receivable	(5,068)	(2,905)
Inventories	(3,521)	(2,122)
Prepaid expenses and other current assets	(1,120)	960
Supply agreement termination liabilities	—	(1,500)
Trade accounts payable	3,222	781
Accrued expenses and other liabilities	(1,087)	(256)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,337	1,689
INVESTING ACTIVITIES:		
Payments for acquisitions	(26,011)	—
Purchases of property, plant and equipment	(6,239)	(1,611)
Distribution from unconsolidated joint venture	3,131	958
Purchase of product licensing rights	(4,000)	—
NET CASH USED IN INVESTING ACTIVITIES	(33,119)	(653)
FINANCING ACTIVITIES:		
Proceeds from issuance of convertible notes	120,000	—
Debt financing costs	(4,587)	—
Repayments of line of credit	—	(3,000)
Net proceeds from common stock offering and warrant exercises	1,727	4,969
Proceeds under stock option and stock purchase plans	502	137
NET CASH PROVIDED BY FINANCING ACTIVITIES	117,642	2,106
INCREASE IN CASH AND CASH EQUIVALENTS	92,860	3,142
Cash and cash equivalents at beginning of period	41,623	1,617
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 134,483	$ 4,759
SUPPLEMENTAL DISCLOSURES		
Amount paid for interest	$ 8	$ 517
Amount paid for income taxes	$ 1,155	$ 96

See notes to condensed consolidated financial statements

NOTE A — BUSINESS AND BASIS OF PRESENTATION

Business: Akorn, Inc. and its wholly owned subsidiaries (collectively, the "Company") manufacture and market a full line of diagnostic and therapeutic ophthalmic pharmaceuticals as well as niche hospital drugs and injectable pharmaceuticals. Through its recently acquired subsidiary, Advanced Vision Research, Inc. ("AVR"), the Company manufactures and markets a line of over-the-counter ("OTC") ophthalmic products for the treatment of dry eye, eyelid hygiene and macular degeneration primarily under the TheraTears® brand name. The Company is a manufacturer and/or marketer of diagnostic and therapeutic pharmaceutical products in various specialty areas, including ophthalmology, 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 center in Skokie, Illinois and corporate offices in Lake Forest, Illinois. Customers of the Company's products include physicians, optometrists, chain drug stores, group purchasing organizations and their member hospitals, alternate site providers, wholesalers, distributors, retail chains, and other pharmaceutical companies. In addition, the Company is a 50% investor in a limited liability company, Akorn-Strides, LLC (the "Joint Venture Company"), which developed and manufactured injectable pharmaceutical products for sale in the United States. The Joint Venture Company sold the rights to all of its Abbreviated New Drug Applications ("ANDAs") to Pfizer, Inc. ("Pfizer") in December 2010 and discontinued product sales in June 2011. Its operations are expected to be phased down over the coming months. 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 its wholly owned subsidiaries. Inter-company 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 six-month period ended June 30, 2011 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, 2010, included in the Company's Annual Report on Form 10-K filed March 14, 2011.

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. When an actual chargeback request is received from a wholesaler, the Company reduces the chargeback allowance when it processes the chargeback. 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 inventory in transit to the wholesaler 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 98.5% during the six months ended June 30, 2011 and 97% during the six months ended June 30, 2010.

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.

Coupons and Promotions: The Company utilizes various types of coupons, as well as sales promotions through major retail chains to assist in selling its OTC eye care products. At the time coupons are issued, the Company records a provision based on the dollar amount of the coupon offer and the estimated rate of redemption which is calculated based on historical experience.

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 for the six months ended June 30, 2011 reflects the legislative suspension of the use of prior year's carryforward net operating losses ("NOL's") in certain states. Prior to this suspension, the Company was able to use the prior years' NOL's to reduce or eliminate current income taxes in those states. The tax expense for the six months ended June 30, 2010 primarily relates to certain minimum state tax assessments. The Company has not recorded a federal tax provision as it is still able to use those NOL's for federal income tax purposes.

Convertible Senior Notes: On June 1, 2011, the Company closed on its offering of $120,000,000 aggregate principal amount of 3.50% Convertible Senior Notes due 2016 (the "Notes"), The net proceeds from the sale of the Notes were $115,413,000, after deducting underwriting fees and other related expenses. The Notes are accounted for in accordance with Accounting Standards Codification ("ASC") 470-20, "Debt with Conversion and Other Options." Under ASC 470-20, issuers of certain convertible debt instruments that have a net settlement feature and may be settled in cash upon conversion, including partial cash settlement, are required to separately account for the liability (debt) and equity (conversion option) components of the instrument. The carrying amount of the liability component of the Notes, as of the issuance date, was calculated by estimating the fair value of a similar liability issued at an 8.96% effective interest rate, which was determined by considering the rate of return investors would require given the Company's capitalization and debt structure. The amount of the equity component was calculated by deducting the fair value of the liability component from the total principal amount of the Notes, and resulted in a corresponding increase to debt discount. The resulting allocation of the $120,000,000 in gross proceeds was $98,617,000 to long-term debt and $21,383,000 to equity. The debt discount is being amortized as interest expense through the earlier of the maturity date of the Notes or the date of conversion. Amortization of the debt discount for the three months ended June 30, 2011 resulted in non-cash interest expense of $286,000.

The Company incurred debt issuance costs of $4,587,000 related to its issuance of the Notes. In accordance with ASC 470-20, the Company allocated this debt issuance cost ratably between the liability and equity components of the Notes, resulting in $3,770,000 of debt issuance costs allocated to the liability component and $817,000 allocated to the equity component. The $3,770,000 was classified as debt financing costs and is being amortized using the effective interest method through the earlier of the maturity date of the Notes or the date of conversion, while the $817,000 was recorded as an offset to additional paid-in capital upon issuance of the Notes.

Further information on the Notes is included in Note H below.

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. Following this change in classification, no future fair value adjustments are 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. For the quarter and six months ended June 30, 2010, the Company recorded non-operating expenses of $10,679,000 and $8,881,000, respectively, related to the change in fair value of these warrants through June 28, 2010. The expenses are listed under the caption "Change in fair value of warrants liability" in the Company's condensed consolidated statements of operations for the quarter and six months ended June 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 were as follows:

	June 28, 2010
Expected Volatility	79.7%
Expected Life (in years)	3.8 – 4.1
Risk-free interest rate	1.8%
Dividend yield	—

The following table summarizes the terms of the Kapoor Warrants:

Granted To:	Warrant Identification	Grant Date [1]	Warrants Granted	Exercise Price	Fair Value (000's) June 28, 2010
EJ Funds	Modification Warrant	April 15, 2009	1,939,639	$ 1.11	$ 4,829
Kapoor Trust	Reimbursement Warrant	April 15, 2009	1,501,933	$ 1.11	3,740
EJ Funds	Restatement Warrants [2]	August 17,2009	1,650,806	$ 1.16	4,127
Kapoor Trust	Subordinated Note Warrants [3]	August 17,2009	2,099,935	$ 1.16	5,250
			7,192,313		$ 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 common 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 initial estimates.

The Company recorded stock-based compensation expense related to options of $1,758,000 and $2,485,000 during the three and six months ended June 30, 2011, respectively. In the prior year, the Company recorded stock-based compensation of $994,000 and $1,263,000 during the respective three and six month periods ended June 30, 2010. 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 June 30, 2011 and 2010, along with the weighted-average grant date fair values, were as follows:

	THREE MONTHS ENDED JUNE 30, 2011	THREE MONTHS ENDED JUNE 30, 2010
Expected volatility	76%	80%
Expected life (in years)	3.8	3.9
Risk-free interest rate	2.0%	2.0%
Dividend yield	—	—
Fair value per stock option	$ 3.70	$ 1.53
Forfeiture rate	8%	8%

The table below sets forth a summary of activity within the Company's stock-based compensation plans for the six months ended June 30, 2011:

	Number of Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	7,960	$ 1.87	3.93	$ 33,452,000
Granted	1,935	6.62		
Exercised	(153)	1.85		
Forfeited	(124)	2.25		
Outstanding at June 30, 2011	9,618	$ 2.82	3.72	$ 40,203,000
Exercisable at June 30, 2011	3,412	$ 1.83	3.35	$ 17,653,000

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 and the exercise price of the stock options. Stock option exercises during the six months ended June 30, 2011 and 2010 generated tax-deductible expenses totaling $643,000 and $14,000, respectively.

The Company also may grant restricted stock awards ("RSAs") 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 six months ended June 30, 2011 or June 30, 2010. As of June 30, 2011, the total amount of unrecognized compensation expense related to non-vested restricted stock awards was $17,000. The Company recorded compensation expense of $5,000 and $9,000 during the three and six months ended June 30, 2011 related to outstanding restricted stock awards. In the prior year, the Company recorded compensation expense of $10,000 and $42,000 during the three and six months ended June 30, 2010 related to outstanding restricted stock awards.

The following is a summary of non-vested restricted stock activity:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2010	28	$ 1.89
Granted	—	—
Forfeited	—	—
Vested	(3)	7.34
Non-vested at June 30, 2011	25	$ 1.34

NOTE D — REVENUE RECOGNITION

Revenue is recognized when all obligations of the Company have been fulfilled and collection of the related receivable is probable. For sales of prescription and contract manufactured products, the Company recognizes sales upon the shipment of goods or completion of services as appropriate. For certain OTC eye care products, the Company recognizes sales upon receipt of the shipment by the customer which is consistent with the timing of title transfer to the customer.

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, net in the Company's balance sheet.

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

	JUNE 30, 2011	DECEMBER 31, 2010
Gross accounts receivable	$ 28,100	$ 17,603
Less:		
Chargeback and rebates reserves	(4,033)	(2,522)
Returns reserve	(6,352)	(3,463)
Discount and allowances reserve	(560)	(345)
Allowance for doubtful accounts	(206)	(3)
Net trade accounts receivable	$ 16,949	$ 11,270

For the three months ended June 30, 2011 and 2010, the Company recorded chargeback and rebate expense of $16,926,000 and $12,625,000, respectively. During the six months ended June 30, 2011 and 2010, the Company recorded chargeback and rebate expense of $29,265,000 and $22,231,000, respectively. The increase in both the chargeback and rebate expense and reserve was primarily due to increased sales in the Ophthalmic and Hospital drugs & Injectables segments.

For the three months ended June 30, 2011 and 2010, the Company recorded provisions for product returns of $959,000 and $847,000, respectively. For the six months ended June 30, 2011 and 2010, the Company recorded provisions for product returns of $1,485,000 and $1,397,000, respectively.

For the three months ended June 30, 2011 and 2010, the Company recorded provisions for cash discounts of $850,000 and $519,000, respectively. For the six months ended June 30, 2011 and 2010, the Company recorded provisions for cash discounts of $1,429,000 and $977,000, respectively.

NOTE F — INVENTORIES

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

	JUNE 30, 2011	DECEMBER 31, 2010
Finished goods	$ 9,674	$ 5,935
Work in process	2,718	2,058
Raw materials and supplies	14,422	10,924
	$ 26,814	$ 18,917

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 June 30, 2011 and December 31, 2010 was reported net of these reserves of $1,379,000 and $1,612,000, respectively.

As of June 30, 2011 and December 31, 2010, the Company's inventory balances included $2,653,000 and $3,460,000, respectively, related to products which have not yet received approval from the U.S. Food and Drug Administration ("FDA"). During the three months ended June 30, 2011, the Company recorded a reserve of $816,000 related to this inventory based on the timing of expiry for certain products. However, the Company believes that FDA approval is probable for the remaining portion of this inventory 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):

	JUNE 30, 2011	DECEMBER 31, 2010
Land	$ 396	$ 396
Buildings and leasehold improvements	20,185	20,096
Furniture and equipment	49,642	48,743
Sub-total	70,223	69,235
Accumulated depreciation	(41,405)	(39,661)
	28,818	29,574
Construction in progress	8,680	3,157
Property, plant and equipment, net	$ 37,498	$ 32,731

NOTE H — FINANCING ARRANGEMENTS

Convertible Notes

On June 1, 2011, the Company closed the offering of $120,000,000 aggregate principal amount of 3.50% Convertible Senior Notes due 2016 which includes $20,000,000 in aggregate principal amount of the Notes issued in connection with the full exercise by the initial purchasers of their over-allotment option. The Notes were offered and sold only to qualified institutional buyers. The net proceeds from the sale of the Notes were approximately $115,413,000, after deducting underwriting fees and other related expenses.

The Notes have a maturity date of June 1, 2016 and pay interest at an annual rate of 3.50% semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2011. The Notes are convertible into Akorn's common stock, cash or a combination thereof at an initial conversion price of $8.76 per share, which is equivalent to an initial conversion rate of approximately 114.1553 shares per $1,000 principal amount of Notes.

The Notes may be converted at any time prior to the close of business on the business day immediately preceding December 1, 2015 only under the following circumstances: (1) during any calendar quarter commencing after September 30, 2011, if the closing sale price of the Company's common stock, for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price in effect on each applicable trading day; (2) during the five consecutive trading-day period following any five consecutive trading-day period in which the trading price for the Notes per $1,000 principal amount of Notes for each such trading day was less than 98% of the closing sale price of the Company's common stock on such date multiplied by the then-current conversion rate; or (3) upon the occurrence of specified corporate events. On or after December 1, 2015 until the close of business on the business day immediately preceding the stated maturity date, holders may surrender all or any portion of their Notes for conversion at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, at the Company's option, cash, shares of the Company's common stock, or a combination thereof.

The Notes are accounted for in accordance with ASC 470-20. Under ASC 470-20, issuers of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, are required to separately account for the liability (debt) and equity (conversion option) components.

The application of ASC 470-20 resulted in the recognition of $21,383,000 as the value for the equity component. At June 30, 2011, the net carrying amount of the liability component and the remaining unamortized debt discount were as follows (in thousands):

	JUNE 1, 2011	JUNE 30, 2011
Carrying amount of equity component	$ 21,383	$ 21,383
Carrying amount of the liability component	98,617	98,903
Unamortized discount of the liability component	21,383	21,097
Unamortized deferred financing costs	3,770	3,719

The Company incurred debt issuance costs of $4,587,000 related to its issuance of the Notes. In accordance with ASC 470-20, the Company allocated this debt issuance cost ratably between the liability and equity components of the Notes, resulting in $3,770,000 of debt issuance costs allocated to the liability component and $817,000 allocated to the equity component. The $3,770,000 was classified as deferred financing costs and is being amortized using the effective interest method through the earlier of the maturity date of the Notes or the date of conversion, while the $817,000 was recorded as an offset to additional paid-in capital upon issuance of the Notes.

For the three months ended June 30, 2011, the Company recorded interest expense of $350,000 based on the 3.50% stated coupon rate on the convertible notes. In addition, the Company recorded debt discount amortization expense of $286,000 and deferred financing cost amortization expense of $51,000 during the three months ended June 30, 2011.

Subordinated Note Payable

On July 28, 2008, the Company borrowed $5,000,000 from The John N. Kapoor Trust dated September 20, 1989 (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 a Subordinated Promissory Note ("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 was due and payable on August 17, 2014. 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.

On December 16, 2010, the Company voluntarily prepaid the principal of the Subordinated Note, along with a 10% early payment fee and all accrued interest. The Company's total cash payment on December 16, 2010, including principal, accrued interest, and the early payment fee, was $6,475,176. Upon completing this early payment, the Company expensed the remaining $1,176,000 unamortized balance of the $1,603,000 in deferred financing costs that it incurred when the Subordinated Note was refinanced.

Credit Facility

On January 7, 2009, the Company entered into a Credit Agreement (the "Credit Agreement") with General Electric Capital Corporation ("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 up to an aggregate principal amount of $25,000,000 (the "Credit Facility"). The Credit Facility was scheduled to terminate, and all amounts outstanding thereunder were to become due and payable, on January 7, 2013, or on an earlier date as specified in the Credit Agreement. The Company elected to early terminate the Credit Agreement on June 17, 2011.

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 LP ("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 is no longer the Company's 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.

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, and (ii) set the interest rate for all amounts outstanding under the Credit Agreement at an annual rate of 10% with interest payable monthly. 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.

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. In consideration of this amendment, EJ Funds was granted a warrant to acquire 1,650,806 shares of the Company's common stock at $1.16 per share, the closing market price on August 14, 2009. The Credit Facility is secured by the assets of the Company and was not subject to debt covenants until April 1, 2010.

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 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 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 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. The fair value of the Restatement Warrants increased from $1,684,000 at March 31, 2010 to $4,127,000 at June 28, 2010. This $2,443,000 increase in fair value was recorded as a non-operating expense in the Company's condensed consolidated statement of operations for the quarter ended June 30, 2010.

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 limit on capital expenditures of $7,500,000 in 2010, $5,000,000 in 2011, and $5,000,000 in 2012 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. The capital expenditures limit allows that any unused portion from one year may be carried over and added to the next year's limit.

On January 27, 2011, EJ Funds and the Company signed a Waiver and Consent that waived the Company's obligation to comply with the capital expenditure limit for 2011.

On June 17, 2011, the Company elected to early terminate its $10,000,000 revolving Credit Agreement with EJ Funds. The Company had not borrowed against the Credit Agreement since repaying its outstanding balance in the first quarter of 2010. Upon terminating the Credit Agreement, the Company expensed $1,187,000 in remaining unamortized deferred financing costs related to the Credit Agreement. The Company incurred no fees or penalties related to its early termination of the Credit Agreement.

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. Additionally, the Serum Stock Purchase Agreement granted Serum 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"). 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 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.

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 "PIPE Warrants"). The PIPE Warrants were exercisable for a five-year period ended March 8, 2011 at an exercise price of $5.40 per share and could be exercised by cash payment of the exercise price or by means of a cashless exercise. 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 values of the common stock and warrants, with $16,257,000 allocated to the common stock and $1,821,000 allocated to the warrants.

In December 2010, holders submitted 77,779 of the PIPE Warrants for cashless exercise, resulting in the Company issuing 9,195 shares of its common stock. Of the 1,431,309 PIPE Warrants that remained outstanding as of December 31, 2010, (a) 319,863 warrants were exercised for $1,727,000, (b) 878,112 warrants were cashless exercises resulting in the issuance of 45,294 shares, and (c) 233,334 warrants expired unexercised on March 8, 2011.

NOTE J — EARNINGS PER COMMON SHARE

Basic net income (loss) per common share is based upon the weighted average common shares outstanding during the period. Diluted net income (loss) per common share is based upon the weighted average number of common shares outstanding, including the dilutive effect, if any, of stock options, warrants and the conversion feature of convertible notes using the treasury stock method. However, for the three and six-month periods ended June 30, 2010, 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.

Certain shares that are potentially dilutive in the future have been excluded from the diluted net income (loss) per share computation as they would have been anti-dilutive for the period. The number of such shares subject to warrants as of June 30, 2011 and June 30, 2010 was zero and 8,701,000, respectively. The number of such shares subject to options as of June 30, 2011 and June 30, 2010 was 1,032,000 and 7,938,000, respectively. The number of shares subject to the conversion of the Notes at the initial conversion price of $8.76 per share was 13,699,000 as of June 30, 2011.

The Company's potentially dilutive shares consist of: (i) vested and unvested stock options that are in-the-money, (ii) warrants that are in-the-money, and (iii) unvested RSAs. A reconciliation of the earnings per share data from a basic to a fully diluted basis is detailed below:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
Net income (loss)	$ 17,946	$ (9,433)	$ 23,756	$ (5,913)
Net income (loss) per share:				
Basic	$ 0.19	$ (0.10)	$ 0.25	$ (0.06)
Diluted	$ 0.17	$ (0.10)	$ 0.23	$ (0.06)
Shares used in computing net income (loss) per share:				
Weighted average basic shares outstanding	94,579	92,745	94,389	91,764
Dilutive securities:				
Stock option and unvested RSAs	4,707	—	4,434	—
Stock warrants	5,947	—	5,830	—
Total dilutive securities	10,654	—	10,264	—
Weighted average diluted shares outstanding	105,233	92,745	104,653	91,764

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, as well as OTC eye care products. The hospital drugs & injectables segment manufactures, markets and distributes drugs and injectable pharmaceuticals, primarily in niche markets. The contract services segment manufactures products for third party pharmaceutical and biotechnology customers based on their specifications. The biologics & vaccines segment, which the Company exited during the first quarter of 2010, marketed adult Tetanus-Diphtheria ("Td") and Flu vaccines directly to hospitals and physicians as well as through wholesalers and national distributors.

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 Td vaccine. The Company exited the biologics & vaccines segment upon termination of the MBL Distribution Agreement on March 14, 2010. The Company had terminated distribution of Flu vaccines during 2009. The Company has not operated in the biologics & vaccines segment since March 31, 2010.

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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
REVENUES				
Ophthalmic	$ 18,224	$ 8,635	$ 29,242	$ 14,970
Hospital Drugs & Injectables	11,744	7,145	20,799	13,120
Contract Services	2,180	4,405	7,551	7,434
Biologics & Vaccines	—	—	—	5,181
Total revenues	$ 32,148	$ 20,185	$ 57,592	$ 40,705
GROSS PROFIT				
Ophthalmic	$ 10,892	$ 5,021	$ 18,078	$ 8,137
Hospital Drugs & Injectables	6,095	3,163	10,956	5,387
Contract Services	896	1,679	3,102	2,705
Biologics & Vaccines	—	—	—	2,062
Total gross profit	17,883	9,863	32,136	18,291
Operating expenses	11,207	8,446	19,752	15,049
Operating income	6,676	1,417	12,384	3,242
Other income (expense), net	11,693	(10,817)	12,335	(9,118)
Income (loss) before income taxes	$ 18,369	$ (9,400)	$ 24,719	$ (5,876)

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 study 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. All studies to date have confirmed the product's stability. This reserve balance was $1,299,000 at June 30, 2011 and December 31, 2010.

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 June 30, 2011, the Company anticipates that approximately $4,945,000 will be due in the remainder of 2011 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 distributors of the Company's products, as well as suppliers of a broad range of health care products. These three customers accounted for 64% and 67% of the Company's gross revenues and 61% and 46% of net revenues for the three months ended June 30, 2011 and 2010, respectively. These three customers accounted for approximately 64% and 65% of the Company's gross revenues and 60% and 47% of net revenues for the six months ended June 30, 2011 and 2010, respectively. They also accounted for approximately 66% and 68% of the Company's gross accounts receivable balance as of June 30, 2011 and December 31, 2010, 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.

For the three months ended June 30, 2011 and 2010, no supplier accounted for 10% or more of the Company's purchases. For the six months ended June 30, 2011, purchases of packaging materials from Intrapac Corporation accounted for 11% of the Company's purchases. For the six months ended June 30, 2010, purchases of Td vaccine from MBL accounted for 27% of the Company's purchases. The Company ceased distributing Td vaccines in March 2010 in conjunction with the termination of the MBL Distribution Agreement.

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 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 — BUSINESS COMBINATIONS

On May 3, 2011, the Company purchased all the outstanding shares of stock of Advanced Vision Research, Inc. ("AVR") for $26,011,000 in cash, net of cash held by AVR. The purchase price is subject to adjustment based on a working capital guarantee contained in the purchase agreement. In addition, Akorn has agreed to reimburse AVR Business Trust, Advanced Vision Research, Inc., Advanced Vision Pharmaceuticals, LLC , and the Shareholders of AVR Business Trust (collectively, the "Sellers") for any incremental income tax expense they should incur related to the parties making an Internal Revenue Code Section 338(h)(10) election. The Company paid $734,000 to the Sellers at closing, which amount represents the initial estimate of the Sellers' incremental income tax expense burden.

The acquisition of AVR is a strategic extension of the Company's Ophthalmic business where it intends to leverage its existing sales infrastructure that markets products to ophthalmologists, optometrists, and retailers nationwide and it also expects to attain cost savings and synergies as the Company integrates the AVR business into its existing operations.

AVR markets a line of over-the-counter eye care products under the TheraTears® brand name, generating annual sales of approximately $20 million. Akorn has been a contract manufacturer and supplier to AVR of certain TheraTears® products since 2008. For the six months ended June 30, 2011 and 2010, the Company generated revenues of $607,000 and $1,151,000 from the sale of TheraTears® products to AVR. Subsequent to the acquisition on May 3, 2011, the AVR subsidiary contributed $3,735,000 in revenues and $199,000 in net income for the quarter ended June 30, 2011.

The following table sets forth the preliminary allocation of purchase price for AVR. The figures presented below are subject to resolution of working capital adjustments, calculation of the amount due the Sellers to cover their incremental tax burden as discussed above and completion of fair value analyses for intangibles (amounts in thousands):

PURCHASE PRICE:	
Cash paid at closing,	$ 26,011
Estimated additional consideration due	904
Assumed liabilities	3,376
Total purchase price	$ 30,291
ALLOCATION OF PURCHASE PRICE:	
Accounts receivable, net	$ 611
Inventories, net	4,376
Prepaid expenses and other current assets	805
Property and equipment	250
Goodwill	14,749
Other intangible assets	9,500
Total allocation of purchase price	$ 30,291

Goodwill represents expected synergies and intangible assets that do not qualify for separate recognition. For income tax purposes, the Company will be able to deduct the goodwill resulting from the acquisition ratably over 15 years. Goodwill will not be amortized for book purposes but will be subject to impairment testing. Acquired other intangible assets consist of product rights for TheraTears® products and is expected to be amortized over 30 years.

The unaudited pro forma results presented below reflect the consolidated results of operations of the Company as if the acquisition of AVR had taken place on at the beginning of each period presented below. The pro forma results include amortization associated with the acquired intangible assets and interest on funds used for the acquisition. To better reflect the combined operating results, material non-recurring charges directly attributable to the transaction have been excluded. In addition, the unaudited pro forma financial information does not reflect the impact of any actual or anticipated synergies expected to result from the transaction. Accordingly, the unaudited pro forma financial information is not necessarily indicative of results of operations as they would have been had the transaction been effected on the assumed date.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2011	2010	2011	2010
Revenues	$ 33,707	$ 24,690	$ 63,943	$ 49,502
Net income (loss)	17,790	(9,925)	24,425	(6,128)
Income (loss) per diluted share	$ 0.17	$ (0.11)	$ 0.23	$ (0.07)

NOTE O — UNCONSOLIDATED JOINT VENTURE

On September 22, 2004, the Company entered into a 50/50 joint venture agreement (the "Joint Venture Agreement") with Strides Arcolab Limited ("Strides"), a pharmaceutical manufacturer based in India, for the development, manufacturing and marketing of various generic pharmaceutical products for sale in the United States. The joint venture, known as Akorn-Strides LLC (the "Joint Venture Company"), launched its first commercialized product during 2008. Under the Joint Venture Agreement, Strides has been primarily responsible for developing and manufacturing the products, while the Company has been responsible for marketing and selling the products. To supplement Strides' manufacturing capabilities, the Company began manufacturing one Joint Venture Company product in the second quarter of 2010. For its sales and marketing efforts, the Company earns revenue from the Joint Venture Company in the form of a fee calculated as a percentage of the Joint Venture Company's monthly net sales revenue.

On December 29, 2010, the Joint Venture Company entered into an Asset Purchase Agreement with Pfizer, Inc. ("Pfizer") to sell the rights to all of its ANDAs to Pfizer for $63,200,000 in cash. In accordance with an amendment to the Joint Venture Agreement, the proceeds were split unevenly, with the Company receiving $35,000,000 and Strides receiving $28,200,000. The Asset Purchase Agreement included an initial closing date of December 29, 2010 and a final closing date of May 1, 2011. The ANDAs for dormant and in-development products were transferred on the initial closing date, while the ANDAs for actively-marketed products were transferred to Pfizer on the final closing date. The Joint Venture Company recognized a gain of $63,097,000 from the sale, of which $38,937,000 was recognized in the fourth quarter of 2010 and the remaining $24,160,000 was recognized in the second quarter of 2011. Having sold all of its ANDAs, the Joint Venture Company discontinued product sales in the second quarter of 2011 and its operations are expected to be phased down in the coming months.

The following tables set forth condensed statements of income of the Joint Venture Company for the quarters and six-month periods ended June 30, 2011 and 2010, as well as condensed balance sheets as of June 30, 2011 and December 31, 2010.

CONDENSED STATEMENTS OF INCOME
(IN THOUSANDS)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenues	$ 1,668	$ 3,368	$ 6,332	$ 8,143
Cost of sales	884	2,380	3,534	5,706
Gross profit	784	988	2,798	2,437
Operating expenses	131	250	497	768
Operating income	653	738	2,301	1,669
Gain from Pfizer ANDA Sale	24,160	—	24,160	—
Income before income taxes	24,813	738	26,461	1,669
Income tax provision	—	—	—	3
Net income	$ 24,813	$ 738	$ 26,461	$ 1,666
Allocation of net income to members:				
Akorn, Inc.	13,706	369	14,530	833
Strides	11,107	369	11,931	833
Total	$ 24,813	$ 738	$ 26,461	$ 1,666

CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	June 30, 2011	December 31, 2010
Assets:		
Cash	$ 1,972	$ 1,205
Trade accounts receivable, net	42	2,701
Inventories, net	—	2,239
Total assets	$ 2,014	$ 6,145
Liabilities and members' equity:		
Trade accounts payable	$ 9	$ 75
Accounts payable – members	182	1,870
Deferred gain on Pfizer ANDA Sale	—	24,160
Total liabilities	191	26,105
Members' equity (deficit), net of advances	1,823	(19,960)
Total liabilities & members' equity	$ 2,014	$ 6,145

NOTE P — SUBSEQUENT EVENTS

On August 1, 2011, the Company entered into an agreement to acquire a 16% minority ownership in Aciex Therapeutics Inc. ("Aciex"), based in Westborough, MA, for $8,000,000 in cash. Aciex is an ophthalmic drug development company with a focus on developing novel therapeutics to treat ocular diseases. Aciex's pipeline consists of both clinical stage assets and pre-Investigational New Drug stage assets. In addition, the Company signed a global licensing agreement for a novel over-the-counter eye care product and manufacturing agreement for one of Aciex's lead prescription ophthalmic pipeline products.

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, 2010, as filed with the SEC on March 14, 2011, and include the following items:

- Our ability to generate cash from operations sufficient to meet our working capital requirements;
- 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 U.S. Food and Drug Administration ("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;
- Our ability to effectively integrate acquired businesses;
- Our ability to raise funds to pay interest on our outstanding convertible senior notes or repurchase the Notes upon a fundamental change;
- Our ability to obtain additional funding or financing to operate and grow our business;
- Availability of raw materials needed to produce our products; and
- Other factors referred to in this Form 10-Q, our Form 10-K and our other Securities and Exchange Commission ("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 quarters and six-month periods ended June 30, 2011 and 2010 (dollar amounts in thousands):

	Three months ended June 30,				Six months ended June 30,			
	2011		2010		2011		2010	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:								
Ophthalmic	$ 18,224	56.7%	$ 8,635	42.8%	$ 29,242	50.8%	$ 14,970	36.8%
Hospital drugs & injectables	11,744	36.5%	7,145	35.4%	20,799	36.1%	13,120	32.2%
Biologics & vaccines	—	—%	—	—%	—	—%	5,181	12.7%
Contract services	2,180	6.8%	4,405	21.8%	7,551	13.1%	7,434	18.3%
Total revenues	32,148	100.0%	20,185	100.0%	57,592	100.0%	40,705	100.0%
Gross profit:								
Ophthalmic	10,892	59.8%	5,021	58.1%	18,078	61.8%	8,137	54.4%
Hospital drugs & injectables	6,095	51.9%	3,163	44.3%	10,956	52.7%	5,387	41.1%
Biologics & vaccines	—	—%	—	—%	—	—%	2,062	39.8%
Contract services	896	41.1%	1,679	38.1%	3,102	41.1%	2,705	36.4%
Total gross profit	17,883	55.6%	9,863	48.9%	32,136	55.8%	18,291	44.9%
Operating expenses:								
SG&A expenses	8,131	25.3%	5,993	29.7%	14,533	25.2%	10,750	26.4%
R&D expenses	2,767	8.6%	1,881	9.3%	4,654	8.1%	3,313	8.1%
Amortization & write-down of intangible assets	309	1.0%	572	2.9%	565	1.0%	986	2.4%
Operating income	$ 6,676	20.8%	$ 1,417	7.0%	$ 12,384	21.5%	$ 3,242	8.0%
Other income (expense), net	11,693	36.4%	(10,817)	(53.6%)	12,335	21.4%	(9,118)	(22.4%)
Income tax provision	423	1.3%	33	0.1%	963	1.7%	37	0.1%
Net income (loss)	$ 17,946	55.8%	$ (9,433)	(46.7%)	$ 23,756	41.2%	$ (5,913)	(14.5%)

THREE MONTHS ENDED JUNE 30, 2011 COMPARED TO THREE MONTHS ENDED JUNE 30, 2010

Our consolidated revenue was $32,148,000 for the quarter ended June 30, 2011, representing an increase of $11,963,000, or 59.3%, compared to the prior year quarter ended June 30, 2010. The increase in revenue was related to a number of factors, including AVR sales totaling $3,735,000, the introduction of new products, such as Erythromycin ophthalmic ointment and Hydromorphone Hydrochloride, price increases for certain products, as well as organic growth in many of our established products.

Consolidated gross profit was $17,883,000, or 55.6% of revenue, for the quarter ended June 30, 2011 as compared to $9,863,000, or 48.9% of revenue, in the corresponding prior year quarter. These increases were due to a variety of factors, including sales from new products that carried higher profit margins, higher utilization of plant capacities, and selected price increases for certain of our existing products.

Selling, general and administrative ("SG&A") expenses increased by $2,138,000 or 35.7% during the quarter ended June 30, 2011 as compared to the same period in 2010 mainly due to selling, general and administrative expenses for AVR and increases in management bonuses and non-cash stock option expense.

Research and development ("R&D") expense increased $886,000 or 47.1% in the quarter ended June 30, 2011, to $2,767,000 from $1,881,000 for the same period in 2010 primarily due to our establishing a reserve in the amount of $816,00 against short-dated inventory of new products that are pending FDA approval.

Amortization and write-down of intangible assets was $572,000 for the quarter ended June 30, 2010, which was $263,000 more than the quarter ending June 30, 2011, due to accelerating the 2010 amortization for one product to write off its remaining unamortized balance based on re-evaluation of its anticipated remaining life and value.

For the quarter ended June 30, 2011, we recorded equity in earnings of our unconsolidated joint venture in the amount of $13,706,000 compared to $369,000 in the corresponding prior year quarter. Of the $13,706,000 income in the second quarter of 2011, $13,380,000 was related to our share of the gain from the Joint Venture Company's sale of its remaining ANDAs to Pfizer.

In the quarter ended June 30, 2010, we recorded an expense of $10,679,000 for the change in fair value of the Kapoor Warrants. These warrants, which were issued in 2009, were adjusted to fair value on a quarterly basis until we amended our registration rights agreement related to these warrants on June 28, 2010. After that date, the warrants were reclassified to shareholders' equity and were no longer subject to periodic adjustments related to the fair value of these warrants.

Interest expense was $610,000 in the quarter ended June 30, 2011, representing an increase of $376,000 from the corresponding prior year quarter. Of the $610,000 interest expense in the second quarter of 2011, $286,000 was non-cash interest expense related to the convertible notes.

Write-off and amortization of deferred financing cost was $1,403,000 for the quarter ended June 30, 2011, representing an increase of $1,130,000 from the corresponding prior year quarter. This increase was due to the write-off of $1,187,000 which was the remaining unamortized deferred financing costs related to our Credit Facility, which we elected to early terminate on June 17, 2011.

For the quarter ended June 30, 2011, our income tax provision was $423,000 versus a minimal income tax provision of $33,000 during the same period in 2010. This increase primarily relates to recent changes in Illinois' state income tax regulations which resulted in an increase to our effective state income tax rate as well as suspension of the use of prior year net operating loss carry forwards effective January 1, 2011. Our prior year federal net operating losses are still available to offset federal tax provision amounts.

We reported net income of $17,946,000 for the three months ended June 30, 2011 versus a net loss of $9,433,000 for the same period in 2010. Our share of the gain from the Joint Venture Company's sale of ANDAs contributed $13,380,000 to net income in the second quarter of 2011. The prior year net loss was entirely due to the $10,679,000 non-cash expense we recorded to recognize the change in fair value of the Kapoor Warrants. We did not incur similar expense related to the Kapoor Warrants in the current year due to a change effected by the Amended Agreement, which allowed us to reclassify the warrants from a current liability to a component of shareholders' equity on June 28, 2010.

SIX MONTHS ENDED JUNE 30, 2011 COMPARED TO SIX MONTHS ENDED JUNE 30, 2010

Our consolidated revenue was $57,592,000 for the six months ended June 30, 2011, representing an increase of $16,887,000, or 41.5%, compared to the same period in 2010. Significant sales increases in each of the ophthalmic and hospital drugs & injectables segments more than offset the decline of $5,181,000 in biologics & vaccines related to our exit from that segment in March 2010. Ophthalmic segment revenues were $29,242,000 for the six months ended June 30, 2011, representing an increase of $14,272,000, or 95.3%, over the same period in 2010. This increase was due to a combination of sales from new products, increased volume and selected unit price increases from our existing products, and the acquisition of AVR, which contributed $3,735,000 to the increase. Hospital drugs & injectables revenues were $20,799,000 during the six months ended June 30, 2011, representing an increase of $7,679,000, or 58.5%, over the same period in 2010. This increase was due to sales of new products, along with increased sales demand for our existing products. Contract services revenues were $7,551,000 for the six months ended June 30, 2011, representing an increase of $117,000, or 1.6%, over the same period in 2010 due to a combination of shifts in contract customer volumes partially offset by the decrease in revenue associated with sales to AVR upon acquisition during the second quarter of 2011.

Biologics & vaccines segment revenues were $5,181,000 for the six months ended June 30, 2010. We exited from the biologics & vaccines segment upon the termination of the MBL Distribution Agreement on March 14, 2010. All of our 2010 biologics & vaccines segment revenue was related to our distribution of Td vaccines on behalf of MBL, prior to the termination of the MBL Distribution Agreement.

Consolidated gross profit for the six months ended June 30, 2011 was $32,136,000, or 55.8% of revenue, compared to gross profit of $18,291,000, or 44.9% of revenue, for the same period in 2010. Among the factors contributing to these increases were revenue growth from our introduction of new products which carry higher margins, increased sales and selected price increases for existing products, improved inventory management and better utilization of our plant manufacturing capacity.

Selling, general and administrative ("SG&A") expenses were $14,533,000 for the six months ended June 30, 2011, representing an increase of $3,783,000, or 35.2%, compared to the same period in 2010 mainly due to selling, general and administrative expenses for AVR, and increases in management bonuses and non-cash stock option expense.

Research and development ("R&D") expenses were $4,654,000 for the six months ended June 30, 2011, an increase of $1,341,000, or 40.5%, over the same period in 2010 due to our establishing a reserve in the amount of $816,000 against short-dated inventory of new products that are pending FDA approval combined with increased development activities in our new Skokie research and development center.

Amortization and write-down of intangible assets was $565,000 for the six months ended June 30, 2011, a decrease of $421,000 over the same period in 2010. The higher amortization expense for 2010 was due to accelerating the amortization for one product to expense its remaining unamortized balance based on re-evaluation of its anticipated remaining life and value.

For the six months ended June 30, 2011, we recorded equity in earnings of our unconsolidated joint venture in the amount of $14,530,000 compared to $833,000 in the corresponding prior year period. Of the $14,530,000 income in 2011, $13,380,000 was related to our share of the gain from the Joint Venture Company's sale of its remaining ANDAs to Pfizer.

During the six months ended June 30, 2010, we recorded expense of 8,881,000 related to the change in fair value of the Kapoor Warrants. The Amended Agreement we entered into on June 28, 2010 allowed us to reclassify the Kapoor Warrants from a current liability to a component of shareholders equity as of that date. As a result of the reclassification, we are not required to record any adjustments to fair value of these warrants subsequent to the date of the Amended Agreement.

Interest expense was $599,000 during the six months ended June 30, 2011, representing an increase of $75,000 from the corresponding prior year period. Included in the $599,000 recorded in 2011 was $286,000 in non-cash interest related to the convertible notes.

Write-off and amortization of deferred financing cost was $1,596,000 for the six months ended June 30, 2011, an increase of $1,050,000 from the $546,000 of write-off and amortization of deferred financing costs recorded in the same period in 2010. The increase was due to the amortization of the balance of deferred financing costs related to our Credit Facility.

For the six months ended June 30, 2011, our income tax provision was $963,000 compared to $37,000 in the same period in 2010. This increase primarily relates to recent changes in Illinois' state income tax regulations which increased the state's corporate income tax rate and suspended the use of prior year net operating loss carry forwards effective January 1, 2011. Our prior year federal net operating losses are still available to offset federal tax provision amounts.

In the six months ended June 30, 2011, we recorded net income of $23,756,000, compared to a net loss of $5,913,000 in the same period in 2010. Our share of the gain from the Joint Venture Company's sale of ANDAs contributed $13,380,000 to net income in the current year. The loss in the prior year period was the result of the $8,881,000 non-cash expense related to the change in the fair value of the Kapoor Warrant discussed above.

FINANCIAL CONDITION AND LIQUIDITY

Overview

During the six-month period ended June 30, 2011, we generated $8,337,000 in cash from operations, primarily due to net income of $23,756,000 with higher sales plus non-cash items totaling $6,685,000 related to depreciation, amortization, stock compensation expense, and non-cash interest on convertible notes. These positive cash flows were partially offset by the non-cash $14,530,000 of equity in earnings of the Joint Venture Company, a $5,068,000 increase in trade receivables in line with sales increases, an increase of $3,521,000 in inventories to support sales growth and new product launches, and a $1,087,000 decrease in accrued expenses primarily related to the payment of the 2010 management bonus. Investing activities used $33,119,000 in cash flow mainly due to $26,011,000 to acquire AVR, $6,239,000 used to purchase or upgrade property, plant and equipment – mainly to support our expansion of plant capacity and efficiency improvements, and $4,000,000 to purchase product licensing rights, partially offset by $3,131,000 received as a partner distribution from the Joint Venture Company. Financing activities generated $117,642,000 in cash during the period mainly related to the $120,000,000 in proceeds from issuance of convertible notes less associated financing fees of $4,587,000.

Operating activities generated $1,689,000 in positive operating cash flows during the six months ended June 30, 2010. During the period, we reported a net loss of ($5,913,000), but this loss included $13,477,000 of non-cash expense, the largest item being an $8,881,000 expense related to the change in fair value of warrants liability. Operating cash flows were negatively affected by a $2,905,000 increase in accounts receivable and a $2,122,000 increase in inventory, both of which were primarily related to our revenue growth during the six months ended June 30, 2010, as well as $1,500,000 paid in a scheduled installment under the MBL Settlement Agreement. These items were partially offset by certain positive operating cash flow items, including a $781,000 increase in accounts payable and a $960,000 decrease in prepaid expenses and other current assets. Investing activities used $653,000 in cash during the six months ended June 30, 2010, as we spent $1,611,000 to purchase property, plant and equipment, partially offset by $958,000 received as a partner distribution from the Joint Venture Company. Financing activities provided us with $2,106,000 during the six months ended June 30, 2010. We generated a net $4,969,000 in cash from a private placement of stock with Serum Institute of India Ltd. ("Serum") and subsequent warrant exercise, plus $137,000 from our employee stock plans, partially offset by $3,000,000 used to pay off the outstanding balance on our Credit Agreement.

Due to our recent improved earnings performance, we are reviewing the existing full valuation allowance on our net deferred tax assets which could result in a change of our estimate for the tax valuation allowance in the second half of 2011.

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 the Company's 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 and acquired 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 June 30, 2011, we had $134,483,000 in cash and cash equivalents. We believe that our current cash on hand and operating cash flows will be sufficient to meet our cash needs for the foreseeable future.

Convertible Notes

On June 1, 2011, the Company closed its offering of $120,000,000 aggregate principal amount of 3.50% Convertible Senior Notes due 2016 (the "Notes"), which includes $20,000,000 in aggregate principal amount of the Notes issued in connection with the full exercise by the initial purchasers of their over-allotment option. The Notes were offered and sold only to qualified institutional buyers. The net proceeds from the sale of the Notes were approximately $115,413,000, after deducting underwriting fees and other related expenses.

The Notes have a maturity date of June 1, 2016 and pay interest at an annual rate of 3.50% semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2011. The Notes are not convertible prior to the maturity date. The Notes are convertible into Akorn's common stock, cash or a combination thereof at an initial conversion price of $8.76 per share, which is equivalent to an initial conversion rate of approximately 114.1553 shares per $1,000 principal amount of Notes.

The Notes may be converted at any time prior to the close of business on the business day immediately preceding December 1, 2015 only under the following circumstances: (1) during any calendar quarter commencing after September 30, 2011, if the closing sale price of the Company's common stock, for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price in effect on each applicable trading day; during the five consecutive trading-day period following any five consecutive trading-day period in which the trading price for the Notes per $1,000 principal amount of Notes for each such trading day was less than 98% of the closing sale price of the Company's common stock on such date multiplied by the then-current conversion rate; or (3) upon the occurrence of specified corporate events. On or after December 1, 2015 until the close of business on the business day immediately preceding the stated maturity date, holders may surrender all or any portion of their Notes for conversion at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, at the Company's option, cash, shares of the Company's common stock, or a combination thereof.

For the three months ended June 30, 2011, the Company recorded interest expense of $350,000 based on the 3.50% stated coupon rate on the convertible notes. In addition, the Company recorded debt discount amortization expense of $286,000 and deferred financing cost amortization expense of $51,000 during the three months ended June 30, 2011.

Credit Facility

On January 7, 2009, we entered into a Credit Agreement (the "Credit Agreement") with General Electric Capital Corporation ("GE Capital") as agent for several financial institutions (the "Lenders") to replace our 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 us under a revolving credit facility up to an aggregate principal amount of $25,000,000 (the "Credit Facility"). The Credit Facility was scheduled to terminate, and all amounts outstanding thereunder were to become due and payable, on January 7, 2013, or on an earlier date as specified in the Credit Agreement. The Company elected to early terminate the Credit Agreement on June 17, 2011.

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 LP ("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 is 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.

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, and (ii) set the interest rate for all amounts outstanding under the Credit Agreement at an annual rate of 10% with interest payable monthly. 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 our 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.

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. In consideration of this amendment, EJ Funds was granted a warrant to acquire 1,650,806 shares of our common stock at $1.16 per share, the closing market price on August 14, 2009. The Credit Facility is secured by our assets and was not subject to debt covenants until April 1, 2010.

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 limit on capital expenditures of $7,500,000 in 2010, $5,000,000 in 2011, and $5,000,000 in 2012 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. The capital expenditures limit allows that any unused portion from one year may be carried over and added to the next year's limit.

On January 27, 2011, EJ Funds and the Company signed a Waiver and Consent that waived our obligation to comply with the capital expenditure limit for 2011.

On June 17, 2011, we elected to early terminate its $10,000,000 revolving Credit Agreement with EJ Funds. We had not borrowed against the Credit Agreement since repaying its outstanding balance in the first quarter of 2010. Upon terminating the Credit Agreement, we expensed $1,187,000 in remaining unamortized deferred financing costs related to the Credit agreement. We incurred no fees or penalties related to the early termination of the Credit Agreement.

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 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, we refinanced our $5,000,000 Subordinated Note payable to the Kapoor Trust. The principal amount was increased to $5,853,267 to include interest accrued through August 16, 2009 and the term of the Subordinated Note was extended by an additional five years to August 17, 2014. The interest rate remained unchanged at 15% per year, and interest on the refinanced note was payable monthly. As part of this refinancing agreement, we issued to the Kapoor Trust an additional 2,099,935 warrants (the "Subordinated Note 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 fair value of these warrants on August 17, 2009, as calculated using a Black-Scholes valuation model, was $1,575,000. This amount, along with $28,000 in legal fees, was capitalized as deferred financing costs and was being amortized over the term of the subordinated debt.

On December 16, 2010, we voluntarily prepaid the principal of the Subordinated Note, along with a 10% early payment fee and all accrued interest. Our total cash payment on December 16, 2010, including principal, accrued interest, and the early payment fee, was $6,475,176. Upon completing this early payment we expensed the remaining $1,176,000 unamortized balance of the $1,603,000 in deferred financing costs incurred when we refinanced the Subordinated Note.

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 Item 1. Financial Statements, Note B — Summary of Significant Accounting Policies, which are included in our Annual Report on Form 10-K for the year ended December 31, 2010. 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, 2010. There have been no significant changes in the application of the critical accounting policies since December 31, 2010.

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.

Our convertible debt is set at a fixed rate and, accordingly is not subject to market risk. Our other financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The reported amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments.

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

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 June 30, 2011, 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 June 30, 2011, 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.

Item 1A. Risk Factors.

Other than the risk factors described below, there have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our Form 10-K filed March 14, 2011.

We may not achieve the anticipated benefits from our acquisition of AVR and may face difficulties in integrating AVR's business, which could adversely affect our operating results, increase costs and place a significant strain on our management.

If we fail to manage our integration of the recently acquired AVR business and achieve expected synergies effectively, our business could be disrupted and our operating results could be negatively impacted. Our ability to successfully offer our products requires an effective management and integration of the business. The acquisition and expansion into the over the counter market place, combined with the internal growth of our business based on our business plan, may strain our management systems and resources, and therefore we will need to continue to enhance, expand and improve our management and our operational and financial information systems and controls, and to expand, train, manage and motivate our workforce. Our personnel, systems, procedures, or controls may not be adequate to support our operations in the future in light of anticipated growth. In addition, if we focus our financial resources and management attention on the expansion of our operations rather than on our ongoing operations, our financial results may suffer.

We may not generate cash flow sufficient to pay interest on our outstanding convertible senior notes or repurchase the Notes upon a fundamental change.

In June 2011, we issued $120,000,000 aggregate principal amount of 3.50% Convertible Senior Notes due 2016. If we do not generate sufficient operating cash flows and cannot obtain additional funding from external sources at acceptable terms, we may not have sufficient funds to satisfy our interest payment obligations when those obligations are due. If a fundamental change occurs, holders of the Notes may require us to purchase their notes. If we fail to repurchase the Notes when required, we will be in default under the indenture of the Notes.

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
(4.1)	Indenture dated as of June 1, 2011 by and between Akorn, Inc. and Wells Fargo Bank, National Association, as trustee, including the form of 3.50% Convertible Senior Note due 2016 (included as Exhibit A to the Indenture), incorporated by reference to Exhibit 4.1 to Akorn, Inc.'s report on Form 8-K filed on June 2, 2011.
(10.1)	Share Purchase Agreement, dated May 3, 2011, by and among Akorn, Inc., AVR Business Trust, Advanced Vision Research, Inc., Advanced Vision Pharmaceuticals, LLC, and the Shareholders of AVR Business Trust, incorporated by reference to Exhibit 10.1 to Akorn, Inc.'s report on Form 8-K filed on May 9, 2011.
(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.
(101)	The financial statements and footnotes from the Akorn, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed on August 9, 2011, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statement of Shareholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements.

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: August 9, 2011

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: August 9, 2011

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: August 9, 2011

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 June 30, 2011, 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: August 9, 2011

/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 June 30, 2011, 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: August 9, 2011

/s/ TIMOTHY A. DICK
Timothy A. Dick
Chief Financial Officer