SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended June 30, 1996

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

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Commission File Number: 0-13976

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

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

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

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

None

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

Common Stock, No Par Value
(Title of Class)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ____

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

The aggregate market value of the voting stock held by nonaffiliates (affiliates being, for these purposes only, directors, executive officers and holders of more than 5% of the Issuer's common stock) of the Issuer as of September 23, 1996 was approximately $27,500,000.

The number of shares of the Issuer's common stock, no par value per share, outstanding as of September 23, 1996 was 16,573,915.

PART I

Item 1. Description of Business.

General Development of Business

Akorn, Inc. (Akorn or the Company) manufactures, markets and distributes an extensive line of therapeutic, diagnostic and surgical pharmaceutical and over-the-counter ophthalmic products. In addition, through its wholly-owned subsidiary Taylor Pharmaceuticals, Inc. (Taylor), the Company manufactures and distributes injectable pharmaceutical products and provides sterile contract manufacturing services to several large and small pharmaceutical companies. Akorn, a Louisiana corporation founded in 1971, is headquartered in Abita Springs, Louisiana, a suburb of New Orleans.

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

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

For information regarding sales, operating income and identifiable assets for each of the Company's segments, see Note Q to the financial statements included in Item 8 of this report.

Ophthalmic Distribution Business

The Company distributes a complete line of therapeutic, diagnostic and over-the-counter ophthalmic pharmaceutical products as well as other surgical and office-based non-pharmaceutical products. The Company's therapeutic ophthalmic pharmaceutical product line is extensive and includes antibiotics, anti-infectives, steroids, steroid combinations, glaucoma medications, decongestants/antihistamines, and anti-edema medications. Diagnostic products, primarily for use in doctors' offices, include a complete line of mydriatics and cycloplegics, anesthetics, topical stains, gonioscopic solutions and others. Surgical products available from Akorn include surgical knives and other surgical instruments, balanced salt solution, post-operative kits, surgical tapes, eye shields, anti-ultraviolet goggles, facial drape supports, and other supplies. Ophthalmic over-the-counter products include various artificial tear solutions, preservative-free lubricating ointments, lid cleansers, vitamin supplements and contact lens accessories.

Injectable Manufacturing and Distribution Business

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

Contract Manufacturing Business

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

segments. Given that sales to contract customers are large in relation to the distribution segments, sharp reductions in contract manufacturing sales can occur should customers discontinue the contract for any reason.

Sales and Marketing

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

The Company maintains an efficient three-pronged ophthalmic distribution sales effort. This effort includes 23 outside sales representatives who, together with two district managers, make personal calls on customers in the Northeast, Southeast, Midwest and West regions of the country. In addition, the Company maintains an in-house telemarketing and a customer service sales group of 25 persons who operate at the Company's facilities in Abita Springs. The Company also maintains a direct-mail marketing effort. Ophthalmic distribution customers consist primarily of ophthalmologists, optometrists, independent pharmacies, and full-service wholesalers whose customers include hospitals and other institutions.

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

The Company's sales and marketing efforts in the contract manufacturing business have been limited to personal contact with major pharmaceutical companies and limited trade journal advertisements. Attendance at manufacturing trade shows and an aggressive marketing of the full-service capabilities of Taylor's contract operations will be implemented in fiscal 1997. The Company's contract customers include several large pharmaceutical companies. Throughout Taylor's history, it has performed contract manufacturing services for some of the largest pharmaceutical companies.

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

Research and Development

The acquisition of Taylor provided the Company with resources to begin its research and development program, which began in the last quarter of fiscal 1992 and has since expanded. As of June 30, 1996, the Company had 4 new ophthalmic ANDAs on file with the FDA for products which the Company has not previously manufactured. See "Government Regulation." These products, along with a recently approved ANDA product which the Company will market upon patent expiration of the innovator product, have a current aggregate brand market of approximately $180 million. In addition, by the third quarter of calendar 1996, the Company had seven products in various stages of development leading to ANDA submission. These injectable products have a current aggregate brand market of approximately $300 million. No assurance can be given as to whether the Company will develop marketable products based on these filings or as to the size of the market for any such products.

The Company has targeted its research and development efforts over the next three years on 25 to 30 additional ophthalmic and injectable products, the patents on which have expired or will expire in the near future. Production and marketing of any products developed as a result of these efforts are expected to take several years.

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

At June 30, 1996, 19 full-time employees of the Company were involved in research and development and product licensing. The Company's research and development expenditures for 1996, 1995 and 1994 were $1.9 million, $1.7 million and $1.4 million, respectively.

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

Employee Relations

The Company has 282 full-time employees, of whom 75 are employed in the Abita Springs facility, 167 are employed in Decatur, Illinois, 15 are employed in San Clemente, CA, and 25 are in outside sales. The Company enjoys good relations with its employees, none of whom are represented by a collective bargaining agent.

Competition

The manufacture and distribution of ophthalmic and injectable pharmaceutical products is highly competitive, with many established manufacturers, suppliers and distributors actively engaged in all phases of the business. Most of the Company's competitors have substantially larger financial and other resources, including a larger volume of sales, more sales personnel and larger facilities than the Company.

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

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

Product Supply

Since the acquisition of Taylor in 1992, the Company has been steadily regaining control of the supply of its ophthalmic pharmaceutical products, which had been impacted by the closure of the Los Angeles facility in 1991. During the fiscal year ended June 30, 1996, approximately 30% of the Company's net ophthalmic distribution sales were accounted for by products manufactured at Taylor and approximately 70% by unaffiliated suppliers, the largest of which is Sight Pharmaceuticals, Inc. (a division of B&L). This company supplied products accounting for 13% of the Company's net ophthalmic distribution sales during fiscal 1996. No other supplier supplied products accounting for more than 10% of the Company's net ophthalmic distribution sales during fiscal 1996.

The Company uses several suppliers for its injectable distribution business. Several of the leading products distributed by this segment are in the process of being transferred to Taylor's manufacturing facilities. The Company intends to produce the majority of its high volume injectable distribution products over the next several years.

Government Regulation

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

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

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

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

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

Item 1A. Executive Officers of the Registrant

The executive officers of the Company are listed below. Each officer serves as such at the pleasure of the Board of Directors.

John N. Kapoor, Ph.D. Dr. Kapoor, age 53, has served as Chief Executive Officer of the Company since May 1996. He has also been a director and member of the Executive Committee of the Company since December 1991. From May 1995, he has served as Chairman of the Board of the Company. Dr. Kapoor had served as acting Chairman of the Board of Directors from April 1993 to May 1995; he served as Chairman of the Board of the Company from December 1991 to January 1993. Dr. Kapoor also served as Chairman of the Board and Chief Executive Officer of Option Care, Inc., a franchiser of home infusion therapy businesses, from August 1993 to April 1996. Since 1990, he has served as President of EJ Financial Enterprises, Inc., a privately held financial services and consulting

company.

Floyd Benjamin	Mr. Benjamin, age 53, was elected President of Taylor and Executive Vice President of the Company on May 31, 1996, upon the merger of PRL and Taylor. Mr. Benjamin served as President of PRL since October 1994 and as a consultant to PRL since becoming a shareholder in October 1993. Prior to joining PRL, Mr. Benjamin served as President and Chief Executive Officer of Neocrin, a biomedical venture company, from February 1992 until October 1993. Prior to then, Mr. Benjamin served as Chief Operating Officer of Lyphomed, Inc., a manufacturer and distributor of injectable pharmaceuticals.
Barry D. LeBlanc	Mr. LeBlanc, age 41, was elected President, Chief Executive Officer of the Company in December 1991. In May 1996, Mr. LeBlanc relinquished his position of CEO and became President of the Company's Ophthalmic Division and Executive Vice President of the Company. From August 1987 to December 1991, Mr. LeBlanc served as President and Chief Operating Officer of the Company. He also was a director and member of the Executive Committee of the Company since August 1987. Prior to 1987, Mr. LeBlanc was principally employed as a practicing certified public accountant and served as a financial consultant to the Company. Effective July 3, 1996, Mr. LeBlanc resigned all of his positions with the Company, including his postion as a director.
Harold O. Koch	Mr. Koch, age 47, has served as Senior Vice President since January 1995. From January 1993 to December 1994, he served as Vice President - Business Development. From July 1991 to December 1992, Mr. Koch coordinated the reorganization of the Company's manufacturing operations. From November 1988 to June 1991, he acted as an independent consultant in the area of biotechnology formulation, ophthalmic manufacturing processes and ophthalmic marketing. From May 1987 to October 1988, he served as Vice President - Product Development for the Cooper Company. Prior to this Mr. Koch served as Director of Product Development for Cooper Vision Ophthalmics.
Eric M. Wingerter	Mr. Wingerter, age 34, has served as Vice President - Finance and Administration since July 1993 and as Vice President - Finance from January 1993 through June 1993. Since September 1988, Mr. Wingerter has been the Company's Chief Financial Officer. From January 1984 to September 1988, he practiced as a certified public accountant in the audit department at Ernst & Young.

Item 2. Description of Property.

The Company's ophthalmic executive offices, sales and distribution center are based in two adjacent buildings totalling approximately 30,000 square feet located on ten acres of land in Abita Springs, Louisiana. These buildings are believed adequate for Akorn's present ophthalmic executive office, sales and warehousing and distribution activities. The land owned by the Company in Abita Springs can accommodate growth in Company executive and ophthalmic sales and distribution operations for the foreseeable future.

Through Taylor, the Company owns a 76,000 square-foot facility located on 15 acres of land in Decatur, Illinois. This facility is currently used for packaging, distribution, warehousing and office space. In addition, Taylor owns a 55,000 square-foot manufacturing facility, also in Decatur, Illinois. Through Taylor, the Company also leases 7,000 square feet of office and warehousing space in San Clemente, California for use in the injectable

distribution segment, including sales, distribution and executive offices. This space, along with available space in Decatur, Illinois, is considered adequate to accomodate growth in the injectable distribution and contract manufacturing operations for the foreseeable future.

Item 3. Legal Proceedings.

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

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

No matters were submitted to a vote of security holders during the quarter ended June 30, 1996.

PART II

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

The Company's Common Stock is traded on the Nasdaq National Market under the symbol AKRN. On September 15, 1996, the Company estimated that the number of holders of its Common Stock was approximately 3,000, including record holders and individual participants in security position listings.

High and low prices for the last two years were:

	1996			1995		
	Market Price (1)		Cash Dividends	Market Price<F1>		Cash Dividends
Dividends	Low	High	Declared	Low	High	Declared
1st Quarter	$ 2.25	$ 2.81	$ -	$ 2.38	$ 3.19	$ -
2nd Quarter	2.06	3.13	-	2.94	4.00	-
3rd Quarter	2.44	3.19	-	2.88	3.63	-
4th Quarter	2.53	3.50	-	2.25	3.31	-

<F1> Per NASDAQ

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

Item 6. Selected Consolidated Financial Data.

The following table sets forth selected consolidated financial information for Akorn, Inc. for the five years ended June 30, 1996.

	Years Ended June 30				
	1996<F1>	1995<F1>	1994<F1>	1993<F3>	1992<F4>
PER SHARE					
Equity	$ 0.97	$ 0.93	$ 0.76	$ 0.47	$ 0.35
Net income (loss)	$ 0.05	$ 0.15	$ 0.14	$ 0.12	$ (0.51)
Price: High	$ 3.50	$ 4.00	$ 3.88	$ 3.13	$ 4.13

Low	$ 2.06	$ 2.25	$ 1.88	$ 1.50	$ 1.25
P/E: High	58x	27x	28x	26x	NM
Low	34x	15x	13x	13x	NM
INCOME DATA (000)					
Net sales	33,925	37,505	31,266	23,612	20,914
Gross profit	11,953	15,177	13,218	9,699	7,942
Operating income (loss)	1,089	3,910	2,654	1,712	(7,237)
Interest expense	(441)	(25)	(181)	(288)	(305)
Pretax income (loss)	977	3,738	2,573	1,518	(7,370)
Income taxes (benefit)	189	1,232	158	(263)	(521)
Net income (loss)	788	2,506	2,415	1,781	(6,849)
Weighted average shares outstanding	16,788	16,799	16,711	14,799	13,522
BALANCE SHEET (000)					
Current assets	17,251	15,474	15,044	9,209	9,989
Net fixed assets	11,524	11,060	6,346	5,325	5,174
Total assets	29,817	27,491	22,190	15,008	15,692
Current liabilities	9,601	7,016	7,106	3,764	7,559
Long-term obligations	3,915	4,890	2,380	4,328	3,396
Shareholders' equity	16,301	15,585	12,704	6,916	4,737
FUNDS FLOW DATA (000)					
From operations	10	712	2,212	(479)	(414)
Dividends paid<F2>	(583)	-	-	-	-
From investing	(873)	(4,943)	(3,745)	(531)	2,239
From financing	979	3,112	2,313	(26)	(1,001)
Change in cash & equivalents	116	(1,119)	780	(1,036)	824
RATIO ANALYSIS					
Gross margin	35.2%	40.5%	42.3%	41.1%	38.0 %
Operating margin	3.2%	10.4%	8.5%	7.3%	(34.6)%
Pretax margin	2.9%	10.0%	8.2%	6.4%	(35.2)%
Effective tax rate	19.3%	33.0%	6.1%	(17.3)%	NM
Net margin	2.3%	6.7%	7.7%	7.5%	(32.7)%
Return on assets	2.8%	10.1%	13.0%	11.6%	(39.6)%
Return on equity	4.9%	17.7%	24.6%	30.6%	(89.0)%

All of the information shown in the table above has been restated to reflect the combined operations of Akorn and Pasadena Research Labs, Inc. (PRL). The information shown in the table for 1992 has been restated to reflect the combined operations of Akorn and Taylor Pharmaceuticals, Inc. (Taylor).

<FN>

<F1> For information regarding the effects of unusual, infrequently occurring or year end adjustments on reported results for fiscal 1994 through 1996, see Notes B, D and O to the financial statements included in Item 8 of this report.

<F2> Dividends paid pertain to Subchapter S distributions made to former PRL shareholders for pre-acquisition earnings.

<F3> Includes the reversal of the provision for a litigation judgment ($0.7 million), the reduction of estimated costs of reorganizing manufacturing operations ($0.4 million), and income tax benefits ($0.3 million).

<F4> Includes charges for the reorganization of manufacturing operations ($5.3 million), acquisition costs of Taylor ($1.3 million), and provision for a litigation judgment ($0.8 million).

</FN>

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

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

Results of Operations

Net Sales

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

Years Ended June 30

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

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

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

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

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

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

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

Contract manufacturing sales were relatively flat in 1996 versus 1995 and increased 18% in 1995 as compared to 1994. Contract sales for 1995 were enhanced by a new contract from Janssen Pharmaceutica, Inc. (Janssen), which increased sales significantly beginning in the second half of fiscal 1994. Sales to Janssen accounted for 12% and 13% of consolidated net sales in 1996 and 1995, respectively. Janssen had recently notified the Company that it

would be transferring the production of certain products during fiscal 1996 and 1997 to its own facilities in Puerto Rico. Such products accounted for $1.3 million and $1.4 million in contract manufacturing sales for 1996 and 1995, respectively.

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

Income and Expenses

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

	Years Ended June 30		
	1996	1995	1994
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	64.8	59.5	57.8
Gross margin	35.2	40.5	42.2
Selling, general and administrative expenses	26.4	27.7	30.8
Research and development	3.6	2.4	2.9
Acquisition and severance costs	2.0	-	-
Operating income	3.2	10.4	8.5
Interest and other income (expense), net	(.3)	(.4)	(.3)
Income before income taxes	2.9	10.0	8.2
Income taxes	.6	3.3	.5
Net income	2.3%	6.7%	7.7%

Gross Margins

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

The gross margin percentage declined 1.7 percentage points from 42.2% in 1994 to 40.5% in 1995. The decline in gross margin percentage in 1995 is primarily due to the effects of price increases from manufacturers (primarily in the second half of the fiscal year), which were not fully offset by price increases to customers. In addition, a shift in the mix of lower margin

catalog products added to the decline in gross margin. The decline in gross margin was more prevalent in the second half of the fiscal year as a result of the loss of sales from AK-Con-A discussed earlier.

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of net sales declined 1.3 percentage points from 27.7% in 1995 to 26.4% in 1996. In the quarter ended March 31, 1996, the Company decided to no longer pursue ANDAs for several ophthalmic products which had been produced in previously-owned facilities. This decision was based on the cost of the ANDAs versus the future incremental profit to be derived from the sales of these products, given changed market conditions. This change in estimate was also based on the Company's recent decision to enter into the injectable distribution marketplace and the need to redeploy R&D resources for the pursuit of injectable ANDAs. The total amount of the accrual reversed was approximately $316,000 and is included as a reduction in S,G&A expenses. During the quarter ended March 31, 1995, the Company, based on evaluations made by management, changed the estimated liability related to aged customer credits. This resulted in a reduction in S,G&A expenses of approximately $330,000.

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

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

Research and Development

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

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

With the acquisition of PRL, the Company expects to increase its mix of injectable grandfathered and ANDA products. PRL had several ANDA filings in process through joint venture arrangements. It is anticipated that these arrangements would continue and that the Company would also continue to develop other injectable products for manufacture by Taylor. Several of the products currently marketed and distributed by the injectable distribution segment do not require FDA approval and production of such products will be

transferred to the Taylor facilities as soon as practicable. In addition to injectable and ophthalmic ANDAs, the Company will continue its work on the ophthalmic NDA for Piroxicam.

The remaining number of products in the R&D pipeline which are being transferred from the Company's previous manufacturing site in Los Angeles is minimal at June 30, 1996. The costs associated with these products had been previously accrued. Accordingly, as the mix of transfer products declines, R&D expense will increase, given a level amount of R&D expenditures. Due to the factors noted above, it is anticipated that the Company's R&D expenditures will increase in 1997. However, the level of R&D will continue to be monitored in light of operating performance.

Acquisition and Severance Costs

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

Operating Income

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

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

Interest and Other Income (Expense)

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

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

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

Income Taxes

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

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

The Company has been in discussions with the Internal Revenue Service (IRS) regarding the examination of tax returns for the periods of 1988 through 1993. The IRS has proposed adjustments to such returns, some of which the Company has agreed to and some which the Company has appealed. These adjustments primarily relate to the timing of deductions taken for tax purposes in connection with the reorganization of its manufacturing operations in 1991 and 1992. The agreed upon adjustments, which resulted in additional interest and taxes of approximately $700,000, was paid in fiscal 1996 through a bank line of credit. The Company had previously accrued the financial statement effects of these agreed upon adjustments; accordingly, no material financial statement impact of these adjustments was recorded in 1995 or 1996. With respect to the appealed items, the Company does not anticipate any adverse financial statement effect as accruals for these assessments have been previously recorded.

Net Income

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

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

Financial Condition and Liquidity

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

The Company traditionally has generated cash from operations in excess of working capital requirements. The net cash provided by operating activities was $10,000 in 1996 compared to $712,000 in 1995 and $2.2 million in 1994.

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

In 1997, the Company will continue to fund the payment of certain previously accrued research and development activities including the site transfer of ANDAs from the Company's Los Angeles facility and the development of the NDA for Piroxicam discussed previously. Management believes that cash flows from operations, funds received from Pfizer and the available working capital line of credit are sufficient to handle these short-term needs.

In addition to these short-term needs, the Company may be required to make payments of additional interest and taxes in connection with the ongoing appeal resulting from the examination by the IRS of tax returns for the periods of 1988 through 1993. If unsuccessful in its appeal, the Company could be liable for additional interest and taxes currently due of approximately $700,000. The tax portion of the appeal items would be offset by deferred tax assets; the interest portion of the appeal items is sufficiently reserved for in the financial statements. The Company continues to challenge the findings of the IRS through the appeals process. Payment of the remaining unsettled issues will be based on the timing of the appeals process and the success of the Company in arguing its position.

Net cash utilized for investing activities in 1996 of $873,000 includes $1.4 million of property, plant and equipment additions associated with the expansion of the Company's Decatur facilities. These additions were partially funded by net sales of investments of $659,000. In addition, 1996 net cash utilized for investing activities includes approximately $200,000 related to product licensing costs. The Company has plans for capital improvements of $1.5 million to $2 million in 1997. These improvements are for both requirements to meet current FDA and DEA regulations as well as upgrades to the Company's managment information systems. These improvements are expected to be financed through bank financing, of which approximately $1.2 million is currently available under previously approved construction lines of credit.

On July 1, 1996, the Company acquired certain high-speed inspection equipment and the rights to two injectable products in the anesthesia/analgesia area from Janssen. The total acquisition cost includes $1.6 million, which was funded primarily through a $1.5 million bank credit facility. In addition, the Company is required to provide other products to Janssen, at no cost, estimated not to exceed $100,000, should certain contingent events occur.

Net cash provided by financing activities of approximately $1.0 million in 1996 primarily consists of the net increase in short-term borrowings. Increases in long-term debt were offset by 1996 debt service requirements. Also, in 1996, proceeds from the exercise of options provided $599,000 in cash, while dividends (representing pre-merger Subchapter S earnings) totalling $583,000 were paid to the former shareholders of PRL.

On September 30, 1994, the Company entered into a $6.3 million credit facility with First National Bank of Commerce in New Orleans (FNBC). This facility was amended in May 1996 which increased the total facility to include the following:

- - $1.3 million Term loan for the payout of existing debt and reimbursement for the early payout of a capital lease on the Taylor manufacturing facility.

- - $2.6 million Term construction loan to finance expansion of the Taylor facilities.

- - $2.5 million Line of Credit for working capital purposes.

- - $1.5 million financing of Janssen product line.

- - $1.6 million Revolver/Term construction financing to finance 1996 and 1997 capital requirements.

- - $600,000 short-term financing of IRS agreed issues.

The entire Term loans have been drawn as of June 30, 1996 and, as of this date, $400,000 has been drawn on the Revolver/Term construction loan and $550,000 on the IRS loan. As of June 30, 1996, $227,000 was outstanding under the Line of Credit. In addition, as of June 30, 1996, $517,000 was outstanding under a Line of Credit with PRL's former bank. Any amounts outstanding under this line were transferred to the FNBC Line of Credit facility subsequent to year end.

Selected Quarterly Data

In Thousands, Except Per Share Amounts

	Net Sales	Gross Profit	Net Income(Loss) Amount	Per Share
1996				
1st Quarter	$ 8,739	$ 3,305	$ 499	$ 0.03
2nd Quarter	8,210	3,172	296	0.02
3rd Quarter	8,817	3,066	550	0.03
4th Quarter	8,159	2,410	(557)	(0.03)
	$ 33,925	$ 11,953	$ 788	$ 0.05
1995				
1st Quarter	$ 9,929	$ 4,174	$ 1,043	$ 0.06
2nd Quarter	9,707	4,169	364	0.02
3rd Quarter	8,637	3,225	404	0.02
4th Quarter	9,232	3,609	695	0.04
	$ 37,505	$ 15,177	$ 2,506	$ 0.15

All of the information shown in the table above has been restated to reflect the combined operations of Akorn and PRL. For information regarding unusual, infrequently occurring or year end adjustments, see notes B, D and O to the financial statements included in Item 8 of this report.

Item 8. Financial Statements and Supplementary Data.

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

Report of Independent Auditors . . . . . .

Consolidated Balance Sheets as of June 30, 1996 and 1995 . . . . . .

Consolidated Statements of Operations for the years ended June 30, 1996, 1995 and 1994. . . . . .

Consolidated Statements of Shareholders' Equity for the years ended June 30, 1996, 1995 and 1994. . . . . .

Consolidated Statements of Cash Flows for the years ended June 30, 1996, 1995 and 1994. . . . . .

Report of Deloitte & Touche LLP

Independent Auditors

To the Board of Directors and Shareholders of

Akorn, Inc.

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

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

New Orleans, Louisiana

September 11, 1996

AKORN, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	June 30 1996	1995
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 891	$ 775
Short-term investments	902	1,569
Trade accounts receivable (less allowances for uncollectibles of $339 and $291 in 1996 and 1995, respectively)	4,916	5,464
Inventory	8,860	6,476
Deferred income taxes	1,157	709
Prepaid expenses and other assets	525	481
TOTAL CURRENT ASSETS	17,251	15,474
OTHER ASSETS		
Intangibles, net	848	728
Other	194	229
TOTAL OTHER ASSETS	1,042	957
PROPERTY, PLANT AND EQUIPMENT, NET	11,524	11,060
TOTAL ASSETS	$ 29,817	$ 27,491
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 1,294	$ 288
Current installments of long-term debt	707	513
Current portion of capital lease obligations	151	149
Current portion of pre-funded development costs	650	667
Trade accounts payable	2,680	1,878
Income taxes payable	626	782
Accrued compensation	1,106	905
Accrued reorganization costs	306	727
Deferred royalties	667	-
Accrued expenses and other liabilities	1,414	1,107
TOTAL CURRENT LIABILITIES	9,601	7,016
LONG-TERM DEBT	3,117	3,353
CAPITAL LEASE OBLIGATIONS	427	580
PRE-FUNDED DEVELOPMENT COSTS	174	304
DEFERRED INCOME TAXES	197	327
OTHER LONG-TERM LIABILITIES	-	326
SHAREHOLDERS' EQUITY		
Common stock, no par value--authorized 20,000,000 shares; issued 16,600,927 shares in 1996 and 16,515,673 shares in 1995; outstanding 16,573,915 shares in 1996 and 16,304,653 shares in 1995	14,174	13,959
Treasury stock, at cost--27,012 shares in 1996 and 211,020 shares in 1995	(92)	(291)
Retained earnings	2,219	1,830
Unrealized gain on marketable equity securities	-	87
TOTAL SHAREHOLDERS' EQUITY	16,301	15,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 29,817	$ 27,491

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except per Share Data)

	Years Ended June 30		
	1996	1995	1994
Net sales	$ 33,925	$ 37,505	$ 31,266
Cost of goods sold	21,972	22,328	18,048
GROSS PROFIT	11,953	15,177	13,218
Selling, general and administrative expenses	8,974	10,376	9,643
Research and development	1,213	891	921
Acquisition and severance costs	677	-	-
	10,864	11,267	10,564
OPERATING INCOME	1,089	3,910	2,654
Interest and other income (expense):			
Interest income	113	106	84
Interest expense	(441)	(25)	(181)
Gain (loss) on marketable equity securities	80	(308)	-
Other income, net	136	55	16
	(112)	(172)	(81)
INCOME BEFORE INCOME TAXES	977	3,738	2,573
Income taxes	189	1,232	158
NET INCOME	$ 788	$ 2,506	$ 2,415
NET INCOME PER SHARE	$ .05	$ .15	$ .14
Weighted average shares outstanding	16,788	16,799	16,711

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands)

	Common Stock					
	Share Outstanding	Amount	Retained Earnings (Deficit)	Treasury Stock	Unrealized Gain (Loss) on Marketable Equity Securities	Total
Balances at July 1, 1993	13,715	$ 10,709	$ (3,152)	$ (641)	$ -	$ 6,916
Net income for 1994			2,415			2,415
Exercise of stock options and warrants	2,010	3,000	(1)	20		3,019
Issuance of common stock	467	250				250
Cancellation of shares due to resolution of manufacturing pre-acquisition contingencies	(52)					-
Unrealized loss on marketable equity securities					(32)	(32)
Treasury stock reissued	58		19	118		137
Balances at June 30, 1994	16,198	13,959	(719)	(503)	(32)	12,705

Net income for 1995			2,506			2,506
Exercise of stock options	35		8	70		78
Unrealized loss on marketable equity securities					(276)	(276)
Reversal of unrealized loss on marketable equity securities					308	308
Unrealized gain on marketable equity securities					87	87
Treasury stock reissued	72		35	142		177
Balances at June 30, 1995	16,305	13,959	1,830	(291)	87	15,585
Net income for 1996			788			788
Exercise of stock options	249	215	186	198		599
Treasury stock received in lieu of cash	(36)			(123)		(123)
Dividends paid to Subchapter S shareholders			(583)			(583)
Reversal of unrealized gain on marketable equity securities					(87)	(87)
Treasury stock reissued	56		(2)	124		122
Balances at June 30, 1996	16,574	$ 14,174	$ 2,219	$ (92)	$ -	$ 16,301

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Years Ended June 30		
	1996	1995	1994
OPERATING ACTIVITIES			
Net income	$ 788	$ 2,506	$ 2,415
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	984	980	763
(Gain) loss on marketable equity securities	(80)	308	-
Provision for losses on accounts receivable and inventory	825	160	68
Deferred income taxes	(578)	2	(387)
Other	-	(1)	11
Changes in operating assets and liabilities:			
Accounts receivable	424	(350)	(2,172)
Inventory, prepaid expenses and other assets	(3,129)	(1,420)	(1,047)
Refundable income taxes	-	-	288
Trade accounts payable and accrued expenses	1,229	(1,514)	1,600
Income taxes payable	(155)	70	673
Pre-funded development costs	(298)	(29)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	10	712	2,212
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(1,360)	(4,818)	(1,671)
Product licensing costs	(172)	(421)	(432)
Purchases of investments	(1,173)	(2,023)	(2,625)
Sales of investments	1,832	2,319	983
NET CASH USED IN INVESTING ACTIVITIES	(873)	(4,943)	(3,745)
FINANCING ACTIVITIES			
Proceeds from sale of stock	599	256	1,805
Repayments of long-term debt	(442)	(944)	(118)
Proceeds from issuance of long-term debt	400	3,900	-
Pre-funded development receipts	150	-	1,000
Principal payments under capital lease obligations	(151)	(58)	(464)
Short-term borrowings, net	1,006	128	90
Dividends paid	(583)	-	-
Debt acquisition costs	-	(170)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	979	3,112	2,313
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	116	(1,119)	780

Cash and cash equivalents at beginning of year	775	1,894	1,114
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 891	$ 775	$ 1,894

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Akorn, Inc.

Note A - Summary of Significant Accounting Policies

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

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

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

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

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

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

Intangibles: Intangibles consist primarily of product licensing costs which are capitalized at cost and amortized on the straight-line method over the lives of the related license periods. Amortization expense for the three years ended June 30, 1996 was $53,328, $144,820 and $82,143, respectively. Accumulated amortization at June 30, 1996 and 1995 amounted to $269,828 and $216,500, respectively.

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

Under an agreement with Pfizer, Inc. (see Note H) the Company has received reimbursement for the purchase of certain equipment. As of June 30, 1996 and

1995, the total amount reimbursed was approximately $593,000. The Company has accounted for these reimbursements by reducing its carrying value of the associated equipment.

Interest Capitalization: The Company capitalizes interest during periods of construction of qualifying assets. For the year ended June 30, 1995, the Company incurred interest costs of $282,007 relating to construction, all of which was capitalized. No interest was capitalized during 1996 or 1994.

Stock Options: The Company records as an expense the difference, if any, between the value of stock options granted with an exercise price below the market value of the Company's stock and the then market value of the Company's stock on the date the options are granted.

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

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

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

Effect of Recent Accounting Pronouncements: During March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" (SFAS No. 121). SFAS No. 121 establishes accounting standards for recording the impairment of long-lived assets, certain identifiable intangibles, goodwill, and assets to be disposed of. The Company is required to adopt SFAS No. 121 effective for fiscal 1997. Management believes that the implementation of SFAS No. 121 will not have a material impact on the Company's consolidated financial statements.

During October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). SFAS No. 123, which the Company is required to adopt effective for fiscal 1997, provides guidance relating to the recognition, measurement and disclosure of stock-based compensation. Management does not expect the new pronouncement to have an impact on the Company's consolidated financial statements since the intrinsic value-based method prescribed by APB Opinion No. 25 and also allowed by SFAS No. 123 will continue to be used for the measurement and recognition of stock-based compensation plans.

Note B - Acquisition of Pasadena Research Laboratories, Inc.

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

The Company's financial statements as contained herein have been restated to include the results of PRL for all periods presented. Combined and separate results of operations of the Company and PRL during the periods preceding the merger are presented below.

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

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

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

Note C - Acquisition of Manufacturing Operations

On January 15, 1992, the Company acquired Taylor Pharmaceuticals, Inc., in a business combination accounted for as a pooling of interests. Taylor is a contract manufacturer of sterile pharmaceuticals, which it produces and delivers pursuant to contracts with third parties. Pursuant to the merger agreement, the Company delivered 926,753 shares of its Common Stock in exchange for all of the outstanding stock of Taylor.

Of the total shares issued in the merger agreement, 922,500 shares were held in escrow pending the settlement of a default judgment against Taylor entered on November 8, 1991. During fiscal 1993, a settlement between Taylor's insurer and the plaintiffs was reached. As a result, in 1993 the Company reduced its provision for the judgment to $100,000, the approximate amount of expenses incurred in defending the judgment. In accordance with the terms of the Taylor acquisition agreement, 51,917 shares valued at $2 per share were forfeited and returned as treasury stock by the escrow agent during fiscal 1994 in order to cover these expenses and finally resolve this pre-acquisition contingency. The remaining shares held in escrow of 870,583 were distributed to the former Taylor shareholders thereby terminating the escrow agreement.

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

Note D - Investments

Effective July 1, 1994, the Company adopted Statement of Financial Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities". This Statement requires certain securities to be classified into one of three reporting categories (held-to-maturity, available-for-sale or trading). The Company has completed a review of its securities relative to SFAS 115 and has classified its investments in debt securities (consisting primarily of U.S. Government securities and municipal bonds with a carrying value of $902,120 and $0, respectively, at June 30, 1996 and $1,136,010 and $303,092, respectively, at June 30, 1995) as held-to-maturity. Therefore, in accordance with SFAS 115, these investments, all of which have contractual maturities within one year, are being reported at amortized cost, which approximates fair market value. The Company has classified its investment in equity securities as available-for-sale, requiring that they be carried at fair value with any unrealized gain or loss reflected as a component of shareholders' equity. Such investments had a fair market value of approximately $130,000 at June 30, 1995. The Company held no equity investments at June 30, 1996.

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

Note E - Allowance for Uncollectibles

The activity in the allowance for uncollectibles is as follows for the years ended June 30:

	1996	1995	1994
	(in thousands)		
Balance at beginning of year	$ 291	$ 272	$ 240
Provision for bad debts	124	60	61
Accounts written off	(76)	(41)	(29)
Balance at end of year	$ 339	$ 272	$ 272

Note F - Inventory

The components of inventory at June 30 are as follows:

	1996	1995
	(in thousands)	
Finished goods	$ 5,376	$ 4,239
Work in process	1,311	1,043
Raw materials and supplies	2,173	1,194
	$ 8,860	$ 6,476

Inventory for 1996 and 1995 is reported net of reserves of $681,920 and

$352,143, respectively, for slow-moving, unsalable and obsolete items.

The activity in the inventory reserve is as follows for the years ended June 30:

	1996	1995	1994
	(in thousands)		
Balance at beginning of year	$ 352	$ 290	$ 427
Provision for slow-moving, unsalable and obsolete items	701	100	7
Inventory written off	(371)	(38)	(144)
Balance at end of year	$ 682	$ 352	$ 290

Note G - Property, Plant and Equipment

Property, plant and equipment at June 30 consists of the following:

	1996	1995
	(in thousands)	
Land	$ 479	$ 479
Buildings and leasehold improvements	7,738	5,516
Furniture and equipment	10,139	7,880
Automobiles	166	133
	18,522	14,008
Accumulated depreciation	(7,771)	(6,875)
	10,751	7,133
Construction in progress	773	3,927
	$ 11,524	$ 11,060

Note H - Pre-Funded Development Costs

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

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

In addition, the agreement stipulated that Pfizer would reimburse Akorn for one-half of the costs to obtain FDA approval on the licensed product, including the cost of certain agreed upon equipment acquisitions required for the manufacturing of the licensed product. A New Drug Application (NDA) was filed for the licensed product on June 8, 1994. During fiscal 1996, the Company obtained FDA approval of the NDA for the licensed product. Therefore,

in accordance with the agreement, Pfizer paid the Company an advance royalty of $1 million for the initial year sales of the licensed product. The Company is recognizing this deferred revenue balance over a one year period beginning in March 1996.

Note I - Financing Arrangements

The Company's short-term borrowings at June 30 are summarized as follows:

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

The $2.5 million Line of Credit and $550,000 short-term note payable are pursuant to the credit facility amended during fiscal 1996 as further described below.

Long-term debt at June 30 consists of:

	1996	1995
	(in thousands)	
Note payable to First National Bank of Commerce; due 1999; interest at 8.03%, payable in monthly principal installments of $33,521 commencing December 1995	$ 2,308	$ 2,600
Note payable to First National Bank of Commerce; due 1999; interest at 10.25%, payable in monthly principal installments of $10,834 with a final installment of $660,794 due in 1999	1,083	1,213
Note payable to First National Bank of Commerce; due 1999; interest at (% over the Chase Manhattan prime rate (9% at June 30, 1996), payable in monthly principal installments of $12,857 commencing July 1996	400	-
Other obligations	33	53
	3,824	3,866
Deduct: Current installments payable within one year	(707)	(513)
Portion payable after one year	$ 3,117	$ 3,353

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

Years ending June 30:	
1997	$ 707
1998	698
1999	624
2000	1,795
Total	$ 3,824

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

repay debt to the Trust and the remaining $1.4 million was received in cash. Interest expense related to this indebtedness was $61,334 in 1994.

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

In 1995 the Company entered into a $6.3 million loan agreement with First National Bank of Commerce to obtain financing for the expansion of its manufacturing facilities in Decatur, Illinois and to refinance existing debt. During fiscal 1996, the loan agreement was amended to provide additional financing and to adjust the interest rate and principal payment requirements for certain facilities. The amendments increased the total loan commitment to $10.1 million including: (1) $2.6 million Term loan, (2) $1.3 million Term loan, (3) $2.5 million Line of Credit, (4) $1.5 million Term loan for financing of Janssen acquisition, (see Note U), (5) $1.6 million Revolver/Term loan, and (6) $600,000 short-term financing for IRS settlements (see Note N). As of June 30, 1996, all of the Term loans and $400,000 of the Revolver/Term loan have been drawn. In addition, $550,000 had been borrowed under the $600,000 IRS facility as of June 30, 1996.

Borrowings under the loan agreements are collateralized by substantially all of the Company's receivables, inventory and property, plant and equipment. In addition, the Company is required to comply with positive and negative loan covenants, including restrictions on the payment of dividends and maintenance of specified financial covenants, including minimum net worth and cash flow coverage. The Company failed to meet certain financial covenants specified in the loan agreement relating to cash flow coverage. Effective August 19, 1996, the Company obtained the bank's waiver of these events of default which should enable the Company to comply with the aforementioned provisions of the loan agreement.

Note J - Leasing Arrangements

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

Property, plant and equipment at June 30 includes the following amounts relating to such capital leases:

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

Depreciation expense provided on these assets was $94,254, $25,822 and $18,833 during 1996, 1995 and 1994, respectively.

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

Years ending June 30:	
1997	$ 194
1998	177
1999	173

2000	129
Total Minimum Lease Payments	673
Less: Amount Representing Interest	(95)
Present Value of Net Minimum Lease Payments	$ 578

The Company leases real property in the normal course of business under various operating leases, including non-cancelable and month-to-month agreements. Payments under these leases were $73,196, $169,825 and $198,072 in 1996, 1995 and 1994, respectively.

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

Years ended June 30:

1997	$ 74
1998	23
1999	14
2000	6
2001	1
Total Minimum Payments Required	$ 118

During fiscal 1993, the Company entered into a sublease agreement for one of its leased facilities. Sublease rentals were $113,326 and $111,164, respectively, for fiscal years ended June 30, 1995 and 1994. This agreement expired effective May 1995, in conjunction with the expiration of the primary lease.

Note K - Stock Option and Stock Purchase Plans

The Company has two stock option plans and one stock purchase plan. The first stock option plan is the 1988 Incentive Compensation Program (the Incentive Program). Under the Incentive Program any officer or key employee of the Company is eligible to receive options when designated by the Company's Board of Directors. The number of shares of the Company's Common Stock which may be issued under the Incentive Program upon the exercise of options may not exceed 2,000,000 shares. The exercise price of the options granted under the Incentive Program will be determined by the Board of Directors but may not be less than 50% of the fair market value of the shares subject to the option on the date of grant. All options granted under the Incentive Program during fiscal 1996, 1995 and 1994 have exercise prices equivalent to the market value of the Company's Common Stock on the date of grant.

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

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

Note L - Stock Options and Warrants

The summary of activity in stock options and warrants for each of the three years ended June 30, 1996 is as follows:

Outstanding at July 1, 1993 (at prices ranging from $1.50 to to $3.88 per share)	4,241,386
Granted (at prices ranging from $2.00 to $3.50 per share)	228,000
Exercised (at prices ranging from $1.50 to $1.94 per share)	(2,010,000)
Outstanding at June 30, 1994 (at prices ranging from $1.50 to $3.88 per share)	2,459,386
Granted (at prices ranging from $2.81 to $3.50 per share)	238,000
Exercised (at prices ranging from $2.00 to $2.81 per share)	(73,000)
Outstanding at June 30, 1995 (at prices ranging from $1.50 to $3.88 per share)	2,624,386
Granted (at $2.75 per share)	215,000
Exercised (at prices ranging from $2.00 to $2.88 per share)	(249,500)
Expired (at prices ranging from $2.00 to $3.88 per share)	(346,500)
Outstanding at June 30, 1996 (at prices ranging from $1.50 to $3.50 per share)	2,243,386

The amount of options and warrants exercisable at year end was 2,133,586, 2,368,843 and 2,236,762 for 1996, 1995 and 1994, respectively. All of these options were exercisable at prices ranging from $1.50 to $3.50 per share.

Note M - Earnings Per Share

Earnings per share is based upon the weighted average number of common shares outstanding. The computation of the weighted average number of shares outstanding includes the effect of dilutive stock options and warrants using the treasury stock method. The weighted average number of shares outstanding used in the per share computations was 16,787,635 shares in 1996, 16,799,350 shares in 1995 and 16,710,885 shares in 1994.

Note N - Income Taxes

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

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

	1996	1995	1994
	(in thousands)		
Current:			
Federal	$ 756	$ 1,177	$ 481
State	11	53	61
	767	1,230	542
Deferred:			
Federal	(516)	2	(343)
State	(62)	-	(41)
	(578)	2	(384)

$	189	$ 1,232	$ 158

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

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of June 30, 1996 and 1995 are as follows:

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

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

Deferred income tax asset-current	$ 1,157	$ 709
Deferred income tax liability non-current	(197)	(327)
	$ 960	$ 382

Income taxes refunded during 1996 and 1994 were $178,690 and $282,641, respectively.

The Company is currently in discussions with the Internal Revenue Service (IRS) regarding the examination of tax returns for years 1988 through 1993.

The IRS has proposed adjustments to such returns, some of which the Company has agreed to and some of which the Company has appealed. The agreed upon adjustments resulted in additional taxes and interest due of approximately $700,000, all of which was paid in fiscal 1996. The Company does not currently anticipate any adverse financial statement effect from the appealed assessment as accruals for the financial statement effects of these proposed adjustments have been previously recorded.

Note O - Changes in Accounting Estimate

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

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

In the quarter ended March 31, 1996, the Company decided to no longer pursue Abbreviated New Drug Applications (ANDAs) for certain products which had been produced in previously-owned facilities, and for which estimated costs of transferring such ANDAs had been accrued. This decision was based on a reevaluation of the costs of developing such products as compared to their potential market, given the emergence of alternate suppliers, since the Company suspended their production. This change in estimate was also based on the Company's recent decision to enter into the injectable distribution marketplace and the need to redeploy R&D resources for the pursuit of injectable ANDAs. The total amount of the accrual reversed was approximately $316,000 ($.01 per share, net of tax).

During the quarter ended March 31, 1995, an evaluation by the Company resulted in a change in the estimated liability related to aged customer credits. This change resulted in a reduction of S,G&A expenses of approximately $330,000 ($.01 per share net of tax) for the quarter ended March 31, 1995.

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

Note P - Supplemental Disclosures of Cash Flow Information

The following is a summary of supplemental cash flow and noncash investing and financing information for the years ended June 30:

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

Note Q - Industry Segment Information

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

Selected financial information by industry segment for fiscal years ended June 30 is presented as follows:

	1996	1995	1994
		(in thousands)	
NET SALES			
Ophthalmic distribution	$ 20,833	$ 23,791	$ 20,694
Injectable distribution	4,160	4,642	2,862
Contract manufacturing:			
Sales to unaffiliated customers	8,932	9,072	7,710
Sales to affiliated customer	2,395	2,521	1,666
	36,320	40,026	32,932
Eliminations	(2,395)	(2,521)	(1,666)
Total net sales	$ 33,925	$ 37,505	$ 31,266
OPERATING INCOME			
Ophthalmic distribution	$ 1,037	$ 3,515	$ 2,821
Injectable distribution	670	238	(280)
Contract manufacturing	324	1,228	1,155
General corporate	(942)	(1,071)	(1,042)
Total operating income	1,089	3,910	2,654
Interest and other income (expense), net	(112)	(172)	(81)
Income before income taxes	$ 977	$ 3,738	$ 2,573
IDENTIFIABLE ASSETS			
Ophthalmic distribution	$ 13,287	$ 13,044	$ 12,817
Injectable distribution	1,525	1,235	968
Contract manufacturing	14,863	13,085	8,296
General corporate	142	127	108
Total identifiable assets	$ 29,817	$ 27,491	$ 22,189
DEPRECIATION AND AMORTIZATION			
Ophthalmic distribution	$ 323	$ 339	$ 286
Injectable distribution	14	33	37
Contract manufacturing	639	552	433
General corporate	8	56	7
Total depreciation and amortization	$ 984	$ 980	$ 763
CAPITAL ADDITIONS			
Ophthalmic distribution	$ 340	$ 354	$ 465
Injectable distribution	5	-	35

Contract manufacturing	1,001	5,162	1,216
General corporate	14	8	4
Total capital additions	$ 1,360	$ 5,524	$ 1,720

Fiscal 1996 operating income for the ophthalmic distribution segment was affected by the changes in accounting estimates related to accrued costs of transferring ANDAs, chargeback accruals and inventory reserves (see Note O). In addition, fiscal 1996 operating income for the ophthalmic distribution and contract manufacturing segments, includes the effects of transaction and transitional costs associated with the realignment of the Company into two separate divisions (see Note B) totalling $385,000 and $292,000, respectively.

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

During fiscal 1996 and 1995, the Company reported sales to one customer, Janssen Pharmaceutica, Inc., (Janssen) which accounted for approximately 12% and 13%, respectively, of consolidated net sales. The net sales attributable to Janssen were accounted for in the contract manufacturing segment. In 1995 this customer notified the Company that it will be transferring the production of certain products to its own facilities in Puerto Rico during 1997. Such products accounted for $1.3 and $1.4 million, respectively, in contract manufacturing sales for 1996 and 1995. In addition, this customer notified the Company that it will be discontinuing the sale of two other products previously produced by the contract manufacturing segment. These products accounted for approximately $2.6 and $2.9 million in sales during 1996 and 1995, respectively. Following this notification, the Company entered into discussions with this customer to assume the licenses to distribute these two injectable products and another injectable product. Effective July 1, 1996, an agreement was reached whereby Akorn acquired ownership of these NDA's, as well as the trade names and trademarks in the United States (see Note U). During 1994, the Company did not derive ten percent or more of its revenues from any single customer.

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

Note R - Concentration of Credit Risk

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

Note S - Defined Contribution Plan

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

Note T - Reorganization of Manufacturing Operations

Following the Taylor acquisition in January 1992, the Company began the process of transferring the manufacture of its product line from previously-owned manufacturing facilities to the Taylor facility. At that time, the Company estimated the cost of completing the FDA approval process at Taylor

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

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

Note U - Subsequent Event

Effective July 1, 1996, the Company entered into an agreement with Janssen Pharmaceutica, Inc. (Janssen) to acquire the rights to distribute an injectable product line in the anesthesia/analgesia area. As part of this agreement, the Company also acquired certain high-speed inspection equipment. Pursuant to the agreement, the acquisition transfers ownership of the NDAs for the three products, as well as the trade names and trademarks in the United States. In exchange for these product licenses, the Company paid Janssen $1.6 million on the effective date of the agreement. Of this balance, $1.5 million in cash was obtained through the issuance of a separate note payable with the same commercial bank which maintains the Company's existing credit facility (see Note I). This note payable bears interest at 8.5% and provides for monthly principal payments of $25,000, commencing August 1996. The balance is due July 2001. In addition, in accordance with the agreement, Akorn will be required to provide certain other products to Janssen, at no cost, having a value expected not to exceed $100,000. The portion of the acquisition costs allocated to the acquired products will be amortized over 15 years.

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

There was no change in the principal independent accountant of the Company or any significant subsidiary of the Company during the Company's fiscal years ended June 30, 1996, 1995 or 1994.

PART III

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

Information concerning directors is incorporated by reference to the Company's Definitive Proxy Statement for its 1996 Annual Meeting of Shareholders. Information concerning the Company's executive officers is included in Item 1A (Executive Officers of the Registrant) of Part I hereof.

Item 11. Executive Compensation.

The information called for by Item 11 is incorporated by reference to the Company's definitive Proxy Statement for its 1996 Annual Meeting of Shareholders.

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

The information called for by Item 12 is incorporated by reference to the Company's definitive Proxy Statement for its 1996 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions.

The information called for by Item 13 is incorporated by reference to the Company's definitive Proxy Statement for its 1996 Annual Meeting of Shareholders.

PART IV

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

(a) Exhibits.

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

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

(2.1) *Agreement and Plan of Merger among Akorn, Inc., Akorn Manufacturing, Inc. (currently named Taylor Pharmaceuticals, Inc. and referred to hereinafter as "Taylor") and Pasadena Research Laboratories, Inc. dated May 7, 1996.

(3.1) Restated Articles of Incorporation of the Company dated September 6, 1991, incorporated by reference to Exhibit 3.1 to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.

(3.2) *Composite of By-laws of the Company, including amendment approved on May 3, 1996.

(4.1) Specimen Common Stock Certificate, incorporated by reference to Exhibit 4.1 to the Company's report on Form 10-K for the fiscal year ended June 30, 1988.

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

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

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

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

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

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

(10.7) Akorn, Inc. Stock Option Plan for Directors, incorporated by reference to Exhibit 4.4 to the Company's registration statement

on Form S-8, registration number 33-24970.

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

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

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

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

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

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

(10.14) 1991 Akorn, Inc. Stock Option Plan for Directors, incorporated by reference to Exhibit 4.3 to the Company's registration statement on Form S-8, registration number 33-44785.

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

(10.16) Form of Employment Agreement between Taylor and five key employees, incorporated by reference to Exhibit 10.2 of the Company's report on Form 8-K dated January 15, 1992.

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

(10.18) Business Promissory Note of Taylor payable to First National Bank of Decatur and Loan Modification Agreement dated January 15, 1992 by and between Taylor and First National Bank of Decatur, incorporated by reference to Exhibit 10.4 of the Company's report on Form 8-K dated January 15, 1992.

(10.19) Amendment and Restated Lease Agreement dated January 15, 1991 between Taylor Building Corporation as Landlord and Taylor as tenant, incorporated by reference to Exhibit 10.5 of the Company's report on Form 8-K dated January 15, 1992.

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

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

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

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

(10.24) *Employment Agreement among Akorn, Inc., Taylor and Floyd Benjamin dated May 31, 1996

(10.25) *Employment Agreement between Akorn, Inc. and Barry D. LeBlanc dated as of January 1, 1996.

(10.26) *Separation Agreement between Akorn, Inc. and Barry D. LeBlanc dated July 3, 1996.

(10.27) *Employment Agreement between Akorn, Inc. and Eric M. Wingerter dated as of January 1, 1996.

(10.28) *Employment Agreement between Akorn, Inc. and Harold O. Koch dated January 1, 1996.

(10.29) *Employment Agreement between Taylor and Tim J. Toney dated as of January 1, 1996.

(11.1) *Computation of Earnings Per Share.

(21.1) *Subsidiaries of the Company.

(23.1) *Consent of Deloitte & Touche LLP.

(24.1) *Power of Attorney of Floyd Benjamin.

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

(24.3) *Power of Attorney of J. Ed Campbell, M.D.

(24.4) *Power of Attorney of George S. Ellis, M.D.

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

(24.6) *Power of Attorney of David H. Turner, M.D.

(24.7) *Power of Attorney of Lawrence A. Yannuzzi, M.D.

(27) *Financial Data Schedule

(b) Reports on Form 8-K.

None.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AKORN, INC.

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

Date: September 23, 1996

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

Signature	Title	Date
/s/ John N. Kapoor, Ph.D. John N. Kapoor, Ph.D.	Chief Executive Officer and Director (Principal Executive Officer)	September 23, 1996
/s/ Eric M. Wingerter Eric M. Wingerter	Vice President - Finance and Administration (Principal Financial Officer and Principal Accounting Officer)	September 23, 1996
* /s/ Floyd Benjamin Floyd Benjamin	Director	September 23, 1996
* /s/ Daniel E. Bruhl, M.D. Daniel E. Bruhl, M.D.	Director	September 23, 1996
* /s/ J. Ed Campbell, M.D. J. Ed Campbell, M.D.	Director	September 23, 1996
* /s/ George S. Ellis, M.D. George S. Ellis, M.D.	Director	September 23, 1996
* /s/ Doyle S. Gaw Doyle S. Gaw	Director	September 23, 1996
* /s/ David H. Turner, M.D. David H. Turner, M.D.	Director	September 23, 1996
* /s/ Lawrence A. Yannuzzi, M.D. Lawrence A. Yannuzzi, M.D.	Director	September 23, 1996

*By: /s/ Eric M. Wingerter
Eric M. Wingerter
Attorney-in-fact

AGREEMENT AND PLAN OF MERGER

Among

AKORN, INC.,

AKORN MANUFACTURING, INC.

and

PASADENA RESEARCH LABS, INC.

DATED

May 7, 1996

TABLE OF CONTENTS

INDEX OF DEFINED TERMS

AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER, dated May 7, 1996 (the "Agreement"), is by and between, on the one hand, Akorn, Inc., a Louisiana corporation ("Akorn"), and its wholly owned subsidiary, Akorn Manufacturing, Inc., an Illinois corporation ("AMI"), and, on the other hand, Pasadena Research Labs, Inc., a California corporation ("PRL") and the following shareholders of PRL: Floyd Benjamin ("Benjamin"), Tom Yankoff ("Yankoff") and David Gencarella ("Gencarella"). Benjamin, Yankoff and Gencarella are referred to collectively herein as the "Shareholders" and, each is sometimes individually referred to as "Shareholder."

RECITALS

WHEREAS, the Board of Directors of PRL and the Boards of Directors of Akorn and AMI have determined it to be desirable and mutually advantageous to enter into a business combination to be effected by the merger of PRL into AMI on the terms and subject to the conditions set forth herein; and

WHEREAS, the parties hereto intend that, for federal income tax purposes, the merger will constitute a reorganization within the meaning of Sections 368(a)(1)(A) and 368(a)(2)(D) of the Internal Revenue Code of 1986 (the "Code"), as amended.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements herein contained, the parties hereto agree as follows:

SECTION 1
THE MERGER

1.1 Merger. At the Effective Time (as defined in Section 1.4 below), in accordance with the terms and subject to conditions of this Agreement, the Illinois Business Corporation Act (the "Illinois Act") and the California General Corporation Law (the "California Law"), PRL shall merge with and into AMI (the "Merger"), the separate existence of PRL shall cease, and AMI shall continue as the surviving corporation (sometimes referred to herein as the "Surviving Corporation").

1.2 The Closing. Unless this Agreement shall have been terminated pursuant to the provisions hereof and subject to satisfaction or waiver of the conditions specified in Section 7 hereof, the closing of the transactions contemplated hereby (the "Closing") shall take place at the offices of Jones, Walker, Waechter, Poitevent, Carrere & Denegre L.L.P. in New Orleans,

Louisiana, commencing at 10:00 a.m. local time on or before June 30, 1996 (the "Closing Date"). If all conditions set forth in Section 7 hereof are satisfied or duly waived, at the Closing (a) the certificates, agreements and instruments specified in Section 7 shall be delivered, (b) the appropriate officers of PRL and AMI shall execute the certifications and acknowledgments attached as pages S-1 and S-2 to this Agreement and shall execute, deliver and acknowledge the Certificate of Merger in the form attached hereto as Exhibit 1.2 and in such other form as may be appropriate to comply with the California Law (collectively, the "Certificate of Merger") and (c) the parties shall take such further action as is required to consummate the transactions contemplated by this Agreement.

1.3 Filing of Certificate of Merger. Immediately following its execution and acknowledgment, the Certificate of Merger shall be delivered, respectively, to the Secretary of State of Illinois and the Secretary of State of California for filing, and such certificate shall thereafter be recorded in the manner required by the Illinois Law and the California Law.

1.4 The Effective Time; Effect of Merger. The Merger shall be effective upon the filing of the Certificate of Merger with the Secretaries of State of Illinois and California in accordance with the Illinois Law and the California Law, or at such other time and date as is provided in the Certificate of Merger pursuant to the mutual agreements of AMI and PRL (hereinafter referred to as the "Effective Time"). Upon the Effective Time and by virtue of the Merger, the Surviving Corporation shall possess all the rights, privileges and franchises possessed by PRL and the Surviving Corporation shall be responsible for all of the liabilities and obligations of PRL in the same manner as if the Surviving Corporation had itself incurred such liabilities or obligations, and the Merger shall have such other effects as may be specified in the applicable provisions of the Illinois Law and the California Law.

1.5 Directors and Officers; Articles of Incorporation. After the Effective Time and until their successors shall have been duly elected or appointed, the directors and officers of AMI will be the directors and officers of the Surviving Corporation; provided, however, that, subject to the execution and delivery of the employment agreements provided for in Section 5.3, effective as of the Effective Time (a) Benjamin shall be a director of the Surviving Corporation and of Akorn, to serve in each such position until the next annual meeting of shareholders of such corporation and until his successor shall have been elected, and (b) Benjamin shall be the President, Yankoff shall be Vice President of Sales and Marketing and Gencarella shall be Director of Business Development of the Surviving Corporation. The Articles of Incorporation and By-laws of AMI, as in effect immediately prior to the Effective Time, shall be the articles of incorporation and bylaws of the Surviving Corporation after the Effective Time until thereafter duly amended.

SECTION 2
CONVERSION OF STOCK

2.1 Conversion of Shares of PRL.

2.1.1 At the Effective Time, by reason of the Merger, all of the 94.50 shares of common stock, no par value per share, of PRL (the "PRL Stock") issued and outstanding immediately prior to the Effective Time shall, by virtue of the Merger, be converted into fully-paid and non-assessable shares of the common stock, no par value per share, of Akorn (the "Akorn Stock"), at a conversion rate (the "Conversion Rate") of 14,814.815 shares of

Akorn Stock, rounded to the nearest whole share, for each share of PRL Stock. The shares of Akorn Stock into which the PRL Stock shall be converted by virtue of the Merger pursuant to this Section 2.1 are sometimes hereinafter referred to as the "Conversion Shares."

2.1.2 As of the Effective Time, by virtue of the Merger, each share of common stock of PRL outstanding immediately prior to the Merger and any shares of capital stock of PRL held in treasury at the Effective Time shall be cancelled.

2.2 Delivery and Exchange of Certificates. On the Closing Date, the Shareholders shall deliver to AMI all certificates representing shares of PRL Stock then outstanding. Upon such delivery, Akorn shall deliver to each Shareholder a certificate representing the shares of Akorn Stock into which such shares will be converted at the Effective Time, as provided in Section 2.1. Until so delivered, each certificate which, before the Effective Time, represented shares of PRL Stock, shall be deemed for all purposes to represent the number of whole shares of Akorn Stock into which the shares of PRL Stock theretofore represented thereby shall have been converted. Akorn may, at its option, refuse to pay any dividend or other distribution, if any, payable after the Effective Time to the holders of shares of Akorn Stock to the holders of certificates evidencing undelivered shares of PRL Stock. Whether or not a stock certificate representing PRL Stock is delivered as provided herein, from and after the Closing Date, such certificate shall under no circumstances evidence, represent or otherwise constitute any stock or interest in PRL or any person, firm or corporation other than Akorn.

SECTION 3
REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS AND PRL

Except as set forth in the Disclosure Schedule attached hereto as Schedule 3 (the "Disclosure Schedule"), (a) each Shareholder, with respect to matters relating to himself and to his PRL Stock, represents and warrants to and agrees with Akorn and AMI as set forth as follows in Sections 3.1 through 3.5 and (b) each Shareholder and PRL, acting jointly, severally and in solido (i.e., the Louisiana term for jointly and severally) represent and warrant to and agree with Akorn and AMI as follows with respect to the matters set forth in Sections 3.6 through 3.35:

3.1 Ownership. Each Shareholder is, and at the Effective Time will be, the record and beneficial owner of the number of shares of PRL Stock, which are represented by the certificates bearing the numbers, shown opposite his name in the Disclosure Schedule. Each Shareholder has and at the Effective Time will have good and marketable title to all such shares and the absolute right to deliver such shares in accordance with the terms hereof, free and clear of all liens, pledges and encumbrances of any kind. Each Shareholder has the power, authority and capacity necessary to approve the Merger, execute and deliver this Agreement and perform his obligations under this Agreement.

3.2 Pending Actions. As of the date hereof there are, and at the Effective Time there will be, no actions, suits or proceedings pending or threatened involving the ownership by any Shareholder of his shares of PRL Stock or his ability to approve the Merger pursuant to this Agreement.

3.3 No Other Agreements. Except for this Agreement, there are no contracts, agreements, arrangements or understandings between any Shareholder and Akorn or AMI relating to PRL or the transactions contemplated by this Agreement. Except as set forth

in the Disclosure Schedule, no Shareholder is a party to any agreement with respect to the voting, sale or transfer of any of the PRL Stock or the issuance of any additional shares of PRL capital stock or the redemption of any such stock (a "Shareholder Agreement"). The Shareholders have furnished to Akorn a copy of each currently effective Shareholder Agreement.

3.4 Restrictions on Resale; Investment Intent.

3.4.1 Each Shareholder is acquiring the Akorn Stock to be received by him in connection with the Merger for investment for his own account and has no present intention of reselling or otherwise distributing or participating in a distribution of such stock. Each Shareholder understands that the shares of Akorn Stock to be issued in the Merger will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), that such shares will be "restricted securities" as that term is defined in Rule 144 ("Rule 144") promulgated by the Securities and Exchange Commission under the Securities Act, and that the Shareholder cannot transfer any of such shares unless they are subsequently registered under the Securities Act and under any applicable state securities law or are transferred in a transfer that, in the opinion of counsel satisfactory to Akorn, is exempt from such registration. Each Shareholder further understands that Akorn is not obligated by this Agreement to register such shares under the Securities Act or under any such state laws and that Akorn will, as a condition to the transfer of any such shares, require that the request for transfer be accompanied by an opinion of counsel, in form and substance satisfactory to Akorn, to the effect that the proposed transfer does not result in a violation of the Securities Act or any applicable state securities law, unless such transfer is covered by an effective registration statement. Each Shareholder understands that such shares of Akorn Stock may not be sold publicly in reliance on the exemption from registration under the Securities Act afforded by Rule 144 unless and until the minimum holding period (currently two years) and other requirements of Rule 144 have been satisfied.

3.4.2 Each Shareholder has been represented by competent and experienced legal counsel in connection with the negotiation and execution of this Agreement, has been granted the opportunity to make a thorough investigation of and to obtain information with respect to the affairs of Akorn and his acquisition of Akorn Stock, and has availed himself of such opportunity either directly or through his legal counsel and other authorized representatives. Each Shareholder acknowledges that he has received from Akorn and has reviewed with his representatives a copy of each of the following documents (the "Akorn Disclosure Documents"): (a) Akorn's annual report to the SEC on Form 10-K for the fiscal year ended June 30, 1995, (b) Akorn's Annual Report to Shareholders for its fiscal year ended June 30, 1995; (c) Notice of Annual Meeting of Shareholders of Akorn held October 28, 1995 and the related Proxy Statement dated September 18, 1995; and (d) Akorn's quarterly report to the SEC on Form 10-Q for the quarters ended September 30, 1995 and December 31, 1995.

3.4.3 Each Shareholder has been advised that the shares of Akorn Stock issued hereunder have not been and are not being registered under the Securities Act and that Akorn in issuing such shares is relying upon, among other things, the representations and warranties of the Shareholders contained in this Section in concluding that such issuance does not require compliance with the registration provisions of the Securities Act.

3.4.4 Each Shareholder understands and agrees that all

certificates evidencing the shares of Akorn Stock issued hereunder will bear restrictive legends in substantially the following form:

> The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Act"), or any applicable state law, and may not be transferred without registration under the Act and any such state law or an opinion of counsel satisfactory to the corporation that registration is not required.

3.5 Information. The Shareholder acknowledges that (a) he has received and has reviewed to his satisfaction this Agreement, the Akorn Disclosure Documents, the PRL Financial Statements referred to in Section 3.11 and such additional material information with respect to the Merger, if any, as he has requested and (b) such information is sufficient for him to determine objectively whether to approve the Merger and enter into this Agreement.

3.6 Organization; Qualification; Subsidiaries. PRL is a corporation duly organized, validly existing and in good standing under the laws of the State of California, having all requisite corporate power and authority to own its property and to carry on its business as it is now being conducted. PRL is not qualified to do business as a foreign corporation in any other jurisdiction. PRL's non-qualification to do business as a foreign corporation in any jurisdiction has not had any material adverse effect with respect to PRL, its assets, business or financial condition and does not adversely affect PRL's ability to enforce any right that is material to PRL. PRL has no subsidiaries or equity interests in any other entity.

3.7 Capital Stock. The authorized capital stock of PRL consists of 100,000 shares of common capital stock, no par value per share, of which 94.5 shares are issued and outstanding and none are held in its treasury. All issued and outstanding shares of capital stock of PRL have been duly authorized and are validly issued, fully paid and non-assessable. There are no outstanding stock options or other rights to acquire any shares of the capital stock of PRL or any security convertible into such shares and PRL has no obligation or other commitment to issue, sell or deliver any of the foregoing or any shares of its capital stock. All shares of capital stock issued by PRL have been issued in compliance with all legal requirements and without violation of any pre-emptive or similar rights. Other than those shares of capital stock listed in the Disclosure Schedule, there are no shares of PRL capital stock issued or outstanding.

3.8 Corporate Authorization; Enforceability. Benjamin, Yankoff and Gencarella constitute the holders of all of the outstanding shares of capital stock of PRL and all of the directors of PRL. Their execution of this Agreement constitutes their written unanimous consent as shareholders and directors of PRL to the Merger and to the execution, delivery and performance by PRL of this Agreement. No further vote or consent of shareholders or directors of PRL and no further corporate acts or other corporate proceedings are required of PRL for the due and valid authorization, execution, delivery and performance of this Agreement and the Certificate of Merger and the consummation of the Merger. Subject to such filings as are required by law, this Agreement and the Certificate of Merger are legal, valid and binding obligations of PRL and are enforceable against PRL in

accordance with their terms, except that enforcement may be limited by bankruptcy, reorganization, insolvency and other similar laws and court decisions relating to or affecting the enforcement of creditors' rights generally and by general equitable principles.

3.9 No Conflict. Except as set forth in the Disclosure Schedule, neither the execution and the delivery of this Agreement by PRL, nor the consummation of the transactions contemplated hereby do or will (a) violate, conflict with, or result in a breach of any provisions of, (b) constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, (c) result in the termination of or accelerate the performance required by, (d) result in the creation of any lien, security interest, charge, claim, mortgage or encumbrance (collectively referred to hereafter as "Encumbrance") upon any of its properties or assets under any of the terms, conditions or provisions of its Articles of Incorporation or By-laws or any material note, bond, mortgage, indenture, deed of trust, lease, license, loan agreement or other instrument or obligation to or by which it or any of its assets is bound, or (e) violate any order, writ, injunction, decree, statute, rule or regulation of any Governmental Entity applicable to it or any of its assets, except for any such conflict, breach, termination, acceleration, default or Encumbrance which would not have a material adverse effect on (i) the business, assets or financial condition of PRL or (ii) PRL's ability to consummate any of the transactions contemplated hereby.

3.10 Consents and Approvals. Except as set forth on the Disclosure Schedule, no filing with or notice to, and no permit, authorization, consent or approval of, any federal, state, local or foreign court or tribunal or administrative, governmental or regulatory body, agency or authority (a "Governmental Entity") is necessary for the execution and delivery by PRL of this Agreement or the consummation by PRL of the transactions contemplated hereby.

3.11 Financial Statements. The "PRL Financial Statements" are, collectively, the balance sheet as of December 31, 1995 and related statements of income, stockholders' equity and cash flows of PRL for the year then ended. The Disclosure Schedule contains true and complete copies of the PRL Financial Statements. PRL knows of no facts the existence of which would require material modification to the PRL Financial Statements in order for them to be prepared in accordance with generally accepted accounting principles. The PRL Financial Statements do not contain any items of a special, extraordinary or nonrecurring nature, except as expressly noted in such statements and except as disclosed in the Disclosure Schedule. The balance sheet of PRL as of December 31, 1995 (the "Balance Sheet Date") is referred to herein as the "Balance Sheet."

3.12 Agreements with Shareholders. The Disclosure Schedule discloses and describes all agreements between PRL and any of the Shareholders, including, without limitation, any agreement pursuant to which any Shareholder is employed by or performs services for PRL (the "Current Employment Agreements"). PRL and each of the Shareholders is in compliance in all material respects with the provisions of each Current Employment Agreement. Except as provided in the Current Employment Agreements or as otherwise disclosed in the Disclosure Schedule, PRL has no obligations for the payment of money to any Shareholder and no Shareholder has any obligations for the payment of money to PRL.

3.13 Absence of Certain Changes. Since the Balance Sheet Date there has been no event or condition of any character that

has had, or can reasonably be expected to have, a material adverse effect on the financial condition, results of operations, cash flow, business or prospects of PRL. Except as specifically disclosed in the PRL Financial Statements or the Disclosure Schedule or as contemplated herein, PRL has not since the Balance Sheet Date:

3.13.1 made any material change in the conduct of its business and operations or failed to operate its business so as to preserve its business organization intact and to preserve the good will of its customers, suppliers and others with whom it has significant business relations;

3.13.2 entered into any agreement or transaction not in the ordinary course of business;

3.13.3 experienced any material adverse change in its financial condition, assets, business, operations or prospects;

3.13.4 incurred any obligation or liability, absolute or contingent, except trade or business obligations incurred in the ordinary course of business or sales, income, franchise, or ad valorem taxes accruing or becoming payable in the ordinary course of business;

3.13.5 declared or paid any dividend or other distribution with respect to any of its capital stock, other than the distributions described in Section 6.10, or purchased any of its capital stock;

3.13.6 acquired or disposed of any assets material to its business or operations;

3.13.7 subjected any of its assets to any Encumbrance other than Permitted Encumbrances (as defined in Section 3.14 below);

3.13.8 increased the rate of compensation (including bonuses, contingent severance payments, retirement, profit sharing, benefit or similar payments) payable or to become payable to any of its officers, directors or employees (collectively "Company Personnel");

3.13.9 adopted any employee welfare, pension, retirement, profit sharing or similar plan or made any material addition to or modification of existing plans;

3.13.10 experienced any labor trouble or any controversy or unsettled grievance involving any Company Personnel;

3.13.11 terminated or received notice of the termination of any contract, commitment or transaction that is material to it, or waived any right of material value to it;

3.13.12 made any material change in any accounting principle, procedure or practice followed by it;

3.13.13 issued any stock or merged or consolidated with any other business or agreed to do so;

3.13.14 made any capital expenditure or entered into any lease involving payments in excess of $25,000;

3.13.15 borrowed any money or guaranteed or assumed any indebtedness of others;

3.13.16 suffered any extraordinary losses or any material damage, destruction or casualty with respect to its assets, or experienced any events, conditions, losses or casualties which have resulted in or might result in claims under its insurance policies of an aggregate of $25,000 or more;

3.13.17 loaned any money to any person or entity;

3.13.18 experienced any loss of service of any Company Personnel, material to the conduct of its business;

3.13.19 defaulted under any note, loan, mortgage, guarantee or other instrument of indebtedness or any material contractual obligation.

3.13.20 received any notification, warning or inquiry from or given any notification to or had any communication with any Governmental Entity, including without limitation the United States Food and Drug Administration (the "FDA"), the United States Drug Enforcement Administration ("DEA"), the United States Environmental Protection Agency ("EPA"), California Environmental Protection Agency ("California EPA"), the California Board of Pharmacy, the California Food and Drug Administration or the United States Occupational Safety and Health Administration ("OSHA") with respect to any proposed remedial action or any violation or alleged or possible violation of any law, rule, regulation or order relating to or affecting its business, nor are any facts known to PRL that may reasonably be expected to give rise to any such notification, warning or inquiry;

3.13.21 transferred any asset, right or interest to, or entered into any transaction with any Shareholder or any affiliate of any Shareholder;

3.13.22 amended its Articles of Incorporation or Bylaws;

3.13.23 received notice or had knowledge or reason to believe that any substantial customer or supplier of PRL has terminated or intends to terminate its relationship with PRL;

3.13.24 waived any right in connection with any aspect of its business having a material effect on the business of PRL as a whole; or

3.13.25 made any agreement or commitment to do any of the foregoing.

3.14 Properties; Absence of Encumbrances.

(a) PRL has good title to all material properties and assets reflected on the Balance Sheet, free and clear of any Encumbrances, except those Encumbrances shown on the Disclosure Schedule (the "Permitted Encumbrances").

(b) The Disclosure Schedule sets forth a complete and correct list of all leases of real property to which PRL is a party (a "Lease"), all of which are valid and enforceable and in full force and effect. Complete and correct copies of each Lease have been furnished to Akorn. PRL is in full compliance with and has not received a notice of default under any Lease and PRL is not involved in any dispute under any Lease, the effect of which would have a material adverse effect on the business, assets or financial condition of PRL.

(c) PRL does not own, and has never owned, any real property other than as described in the Disclosure Schedule.

3.15 Permits; Compliance with Laws. To the best knowledge of each of the Shareholders PRL (a) has all necessary permits, licenses and governmental authorizations required for the lease, ownership, occupancy or operation of its properties and assets and the carrying on of its business, and (b) has conducted its business in substantial compliance with and is in substantial compliance with all applicable laws, regulations, orders, permits, judgments, ordinances or decrees of any Governmental Entity.

3.16 Material Contracts. The Disclosure Schedule lists and describes each agreement, lease, contract or other document to which PRL is a party, which (a) requires PRL or the other party to such contract to keep any information confidential or (b) involves payment by or to PRL of any amount in excess of or delivery by PRL of goods or services having a value exceeding $10,000 per annum (a "Material Contract"). A complete and correct copy of each Material Contract has been furnished to or made available to Akorn. Each Material Contract is valid, binding and enforceable, except to the extent that enforcement may be limited by bankruptcy, reorganization, insolvency and other similar laws and court decisions relating to or affecting the enforcement of creditors' rights generally and by equitable principles. Except as set forth in the Disclosure Schedule, PRL and each other party to each Material Contract are in compliance in all material respects with the provisions of such Material Contract.

3.17 Litigation. Except as disclosed on the Disclosure Schedule, (a) there are no outstanding orders, writs, judgments, injunctions, awards or decrees of any Governmental Entity ("Judgments") against or involving PRL; (b) there are no actions, suits, investigations, labor disputes or proceedings (collectively, "Suits"), pending or threatened against PRL which if decided adversely to PRL, in one case or in the aggregate, would have a material adverse effect on the business, assets or financial condition of PRL and; (c) to the best knowledge of each of the Shareholders there have been no events and there are no facts or circumstances that could result in any matters of the types described in the preceding clauses (a) and (b). PRL has delivered or made available complete copies of all pleadings related to the Judgments or Suits disclosed on the Disclosure Schedule.

3.18 Regulatory Matters. PRL has provided Akorn with access to (a) correct and complete copies of all communications (including, but not limited to, notes and memoranda of oral communications, if any) between PRL or any of its representatives and the FDA, the DEA, the California EPA, the California Board of Pharmacy, the California Food and Drug Administration, and any other Governmental Entity that administers laws similar to those administered by any such agency ("Regulator") that has occurred during the 36-month period preceding the date of this Agreement and (b) all of the following information that is related to PRL's business or to any product distributed by PRL and that is in PRL's possession or maintained on PRL's behalf by others: all information relating to inspections of any premises by a Regulator; all facilities master files; all standard operating procedures; all plant and equipment validation records; all formulations, stability data and batch records; all books, records, information and data related to any products that have been distributed by PRL during the 36-month period preceding the date of this Agreement; all other written information, data, records and materials (including, but not limited to, notes and memoranda of oral communications, if any) relating to or used or useful in complying with laws, regulations, orders, procedures, standards or processes administered, adopted, issued or required by any Regulator.

3.19 Environmental Matters. To the best knowledge of each of the Shareholders, (a) PRL is not in violation of any applicable laws or regulations relating to the environment and PRL is not a party to any proposed removal, remedy or remedial action nor has PRL received any material claim for compensation in connection with the foregoing matters contemplated by this sentence and (b) no Governmental Entity or third party has claimed that PRL is in material violation of any environmental permit, law or regulation. PRL has not received any notice that any investigation, administrative order, consent order and agreement, removal or remedial action, litigation or settlement with respect to any environmental permit, law or regulation is proposed, threatened, anticipated or in existence with respect to any of PRL's leased or owned properties. The properties currently and previously leased or owned by PRL are not and to the best knowledge of each of the Shareholders, have never been on or associated with any "national priorities" list or any equivalent state list or any federal or state "superlien" list. PRL has not received any notice of any complaint from any person relating to respiratory or other health problems or property damage attributable to any property currently or previously leased or owned by PRL. To the best knowledge of each of the Shareholders, the execution and delivery of this Agreement and the effectuation of the Merger and other transactions contemplated hereby are not subject to the consent, review or approval of, and do not and will not require any disclosure to or filings with, any Governmental Entity having power under or with respect to environmental laws.

3.20 ERISA and Related Matters.

3.20.1 Definitions:

(a) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

(b) "Benefit Arrangement" means any employment, severance or similar contract, or any other contract, plan, policy or arrangement (whether or not written) providing for compensation, bonus, profit-sharing, stock option or other stock related rights or other forms of incentive or deferred compensation, vacation benefits, insurance coverage (including any self-insured arrangement), health or medical benefits, disability benefits, severance benefits and post-employment or retirement benefits (including compensation, pension, health, medical or life insurance benefits) that (A) is subject to any provision of ERISA, (B) is maintained, administered or contributed to by the employer and (C) covers any employee or former employee of the employer.

(c) "Employee Plan" means a plan or arrangement as defined in Section 3(3) of ERISA, that (A) is subject to any provision of ERISA, (B) is maintained, administered or contributed to by the employer and (C) covers any employee or former employee of the employer.

(d) "Multiemployer Plan" means a plan or arrangement as defined in Section 4001(a)(3) and 3(37) of ERISA.

(e) "Title IV Plan" means an Employee Plan, other than any Multiemployer Plan, subject to Title IV of ERISA.

The Disclosure Schedule lists each Employee Plan that PRL maintains, administers, contributes to, or has any contingent liability with respect thereto. PRL has provided a true and complete copy of each such Plan, current summary plan

description, (and, if applicable, related trust documents) and all amendments thereto and written interpretations thereof together with (i) all annual reports, if any, that have been prepared in connection with each such Employee Plan; (ii) all material communications received from or sent to the Internal Revenue Service ("IRS") or the Department of Labor within the last two years (including a written description of any oral communications); and (iii) the most recent IRS determination letter with respect to each Employee Plan and the most recent application for a determination letter.

3.20.2 The Disclosure Schedule identifies each Benefit Arrangement that PRL maintains, or administers. Except as set forth in the Disclosure Schedule, PRL has made all contributions to and has no contingent liability with respect to any of its Benefit Arrangements. PRL has furnished to Akorn copies or descriptions of each Benefit Arrangement. To the knowledge of each of the Shareholders, each Benefit Arrangement has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Benefit Arrangement.

3.20.3 Benefits under any Employee Plan or Benefit Arrangement are as represented in said documents and have not been increased or modified (whether written or not written) subsequent to the dates of such documents. PRL has not communicated to any employee or former employee any intention or commitment to modify any Employee Plan or Benefit Arrangement or to establish or implement any other employee or retiree benefit or compensation arrangement.

3.20.4 PRL does not maintain, administer, or become obligated to contribute to or have any contingent liability with respect to any Multiemployer Plan or any Title IV Plan.

3.20.5 Each Employee Plan which is intended to be qualified under Section 401(a) of the Code is so qualified and has been so qualified during the period from its adoption to date, and, to the best knowledge of each of the Shareholders, no event has occurred since such adoption that would adversely affect such qualification and each trust created in connection with each such Employee Plan forming a part thereof is exempt from tax pursuant to Section 501(a) of the Code. To the best knowledge of each of the Shareholders, each Employee Plan has been maintained and administered in compliance with its terms and with the requirements prescribed by any and all applicable statutes, orders, rules and regulations, including but not limited to ERISA and the Code.

3.20.6 To the best knowledge of each of the Shareholders, full payment has been made of all amounts which PRL is or has been required to have paid as contributions to any Employee Plan or Benefit Arrangement under applicable law or under the terms of any such plan or any arrangement.

3.20.7 To the best knowledge of each of the Shareholders, neither PRL nor any of its shareholders, directors, officers or employers has engaged in any transaction with respect to an Employee Plan that could subject PRL to a tax, penalty or liability for a prohibited transaction, as defined in Section 406 of ERISA or Section 4975 of the Code. None of the assets of any Employee Plan are invested in employer securities.

3.20.8 To the best knowledge of each of the Shareholders, PRL has no current or projected liability in respect of post-retirement or post-employment welfare benefits for retired, current or former employees. No health, medical,

death or survivor benefits have been provided under any Benefit Arrangement to any person who is not an employee or former employee of PRL or a dependent thereof.

3.20.9 Except as disclosed in the Disclosure Schedule, there is no litigation, administrative or arbitration proceeding or other dispute pending or threatened that involves any Employee Plan or Benefit Arrangement which could reasonably be expected to result in a liability to PRL, any employees or directors of PRL, or any fiduciary (as defined in ERISA Section 3(21)) of such Employee Plan or Benefit Arrangement.

3.20.10 No employee or former employee of PRL will become entitled to any bonus, retirement, severance, job security or similar benefit or enhanced benefit (including acceleration of compensation, an award, vesting or exercise of an incentive award) or any fee or payment of any kind solely as a result of any of the transactions contemplated hereby.

3.20.11 PRL is not a party to any agreement, contract, arrangement or plan that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code (i.e., a golden parachute).

3.21 Taxes.

3.21.1 (a) For purposes of this Agreement the term "Taxes" shall mean all taxes, however denominated or described, including any interest, penalties or other additions to tax that may become payable in respect thereof, imposed by any federal, territorial, state, local or foreign government or any agency or political subdivision of any such government, which taxes shall include, without limiting the generality of the foregoing, all income or profits taxes, payroll or employee withholding taxes, unemployment insurance, social security taxes, sales and use taxes, ad valorem taxes, excise taxes, franchise taxes, gross receipts taxes, environmental taxes, transfer taxes, workers' compensation, Pension Benefit Guaranty Corporation premiums and other governmental charges, and other obligations of the same or of a similar nature to any of the foregoing, which PRL is required to pay, withhold or collect.

(b) For the purpose of this Agreement, the term "Returns" shall mean all reports, estimates, declarations of estimated tax, information statements and returns relating to, or required to be filed in connection with, any Taxes, including information returns or reports with respect to backup withholding and other payments to third parties.

3.21.2 Except as disclosed in the Disclosure Schedule:

(a) PRL and the Shareholders have made all elections necessary for PRL to be treated as a qualified small business corporation under Code Section 1361(a)(1).

(b) Neither PRL nor the Shareholders have taken, or will take prior to the Effective Time, any action that will terminate PRL's treatment as a small business corporation under the Code.

(c) All Returns required to be filed by or on behalf of PRL have been duly filed on a timely basis and such Returns (including all attached statements and schedules) are true, complete and correct. All Taxes shown to be payable on the Returns or on subsequent assessments with respect thereto have been paid in full on a timely basis, and no other Taxes are

payable by PRL with respect to items or periods covered by such Returns (whether or not shown on or reportable on such Returns) or with respect to any period prior to the Effective Date.

(d) PRL has withheld and paid over all Taxes required to have been withheld and paid over (including any estimated taxes), and has complied with all information reporting and backup withholding requirements, including maintenance of required records with respect thereto, in connection with amounts paid or owing to any employee, creditor, independent contractor, or other third party.

(e) There are no liens on any of the assets of PRL with respect to Taxes, other than liens for Taxes not yet due and payable or for Taxes that are being contested in good faith through appropriate proceedings and for which appropriate reserves have been established.

(f) PRL has furnished or made available to Akorn or AMI true and complete copies of: (i) all federal and state income and franchise tax returns of PRL for all periods beginning on or after January 1, 1993, and (ii) all tax audit reports, work papers statements of deficiencies, closing or other agreements received by PRL or on its behalf relating to Taxes.

3.21.3 Except as disclosed on the Disclosure Schedule or in documents provided to or made available to Akorn or AMI:

(a) The Returns of PRL have never been audited by a governmental or taxing authority, nor is any such audit in process, pending or threatened (formally or informally).

(b) No deficiencies exist or have been asserted (either formally or informally) or are expected to be asserted with respect to Taxes of PRL, and no notice (either formally or informally) has been received by PRL that it has not filed a Return or paid Taxes required to be filed or paid by it.

(c) PRL is not a party to any pending action or proceeding for assessment or collection of Taxes, nor has such action or proceeding been asserted or threatened (either formally or informally) against it or any of its assets.

(d) Except as reflected in the Returns or as disclosed on the Disclosure Schedule, no waiver or extension of any statute of limitations is in effect with respect to Taxes or Returns of PRL.

(e) No action has been taken that would have the effect of deferring any liability for Taxes for PRL from any period prior to the Effective Date to any period after the Effective Date.

(f) There are no requests for rulings, subpoenas or requests for information pending with respect to PRL.

(g) No power of attorney has been granted by PRL, with respect to any matter relating to Taxes.

(h) The amount of liability for unpaid Taxes of PRL for all periods ending on or before the Effective Date will not, in the aggregate, exceed the amount of the current liability accruals for Taxes, as such accruals are reflected on the balance sheet of PRL as of the Closing Date.

3.21.4 Except as disclosed on the Disclosure Schedule, or as described in documents furnished to or made

available to Akorn or AMI:

(a) PRL has not made an election, and is not required to treat any asset as owned by another person for federal income tax purposes or as tax-exempt bond financed property or tax-exempt use property within the meaning of section 168 of the Code.

(b) PRL has not issued or assumed any indebtedness that is subject to section 279(b) of the Code.

(c) PRL has not entered into any compensatory agreements with respect to the performance of services which payment thereunder would result in a nondeductible expense to Section 280G of the Code or an excise tax to the recipient of such payment pursuant to Section 4999 of the Code.

(d) No election has been made under Section 338 of the Code with respect to PRL and no action has been taken that would result in any income tax liability to PRL as a result of deemed election within the meaning of Section 338 of the Code.

(e) No consent under Section 341(f) of the Code has been filed with respect to PRL.

(f) PRL has not agreed, nor is it required to make, any adjustment under Code Section 481(a) by reason of change in accounting method or otherwise.

(g) PRL has not disposed of any property that has been accounted for under the installment method.

(h) PRL is not a party to any interest rate swap, currency swap or similar transaction.

(i) PRL is not a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code and Akorn is not required to withhold tax on the acquisition of the stock of PRL.

(j) PRL has not participated in any international boycott as defined in Code Section 999.

(k) PRL is not subject to any joint venture, partnership or other arrangement or contract that is treated as a partnership for federal income tax purposes.

(l) PRL has not made any of the foregoing elections and is not required to apply any of the foregoing rules under any comparable state or local income tax provisions.

(m) PRL does not have and has never had a permanent establishment in any foreign country, as defined in any applicable tax treaty or convention between the United States and such foreign country.

(n) The transactions contemplated herein are not subject to the tax withholding provisions of Section 3406 of the Code, or of Subchapter A of Chapter 3 of the Code, or of any other provision of law.

3.21.5 Set forth in the Disclosure Schedule or in documents furnished or made available to Akorn or AMI is accurate and complete information with respect to each of the following for all tax periods beginning January 1, 1993:

(a) All material tax elections in effect with respect to PRL;

(b) The current tax basis of the assets of PRL;

(c) The current and accumulated earnings and profits of PRL;

(d) The net operating losses of PRL by taxable year;

(e) The net capital losses of PRL;

(f) The tax credit carry overs of PRL; and

(g) The overall foreign losses of PRL under section 904(f) of the Code that is subject to recapture.

3.21.6 (a) The Shareholders and PRL have not taken or agreed to take any action that would prevent the Merger from constituting a reorganization qualifying under the provisions of section 368(a) of the Code.

(b) There is no plan or intention by any Shareholder to sell, exchange or otherwise dispose of a number of shares of Akorn Stock to be received in the Merger that would reduce the Shareholder's ownership of Akorn Stock to a number of shares having a value, as of the Effective Time, of less than 50 percent of the value of all of the PRL Stock (including shares of PRL Stock exchanged for cash in lieu of fractional shares of Akorn Stock) outstanding immediately prior to the Effective Time.

(c) Immediately following the Effective Time, AMI will hold at least 90 percent of the fair market value of the net assets of PRL and at least 70 percent of the fair market value of the gross assets of PRL held immediately prior thereto. For purposes of this representation, amounts used by PRL to pay Merger expenses and all redemptions and distributions made by PRL will be included as assets of PRL immediately prior to the Merger.

(d) The Shareholders and PRL will each pay their respective expenses, if any, incurred in connection with the Merger.

(e) There is no intercorporate indebtedness existing between PRL and Akorn or between PRL and AMI that was issued, acquired or will be settled at a discount.

(f) PRL is not an investment company as defined in Section 368(a)(3)(A) of the Code.

3.22 Transactions with Certain Persons. Except for employment relationships in the ordinary course of business and except as set forth in the Disclosure Schedule, no Company Personnel or any member of any such person's family is presently a party to any transaction with PRL involving payments in excess of $10,000 per annum, including without limitation any contract, agreement or other arrangement providing for the furnishing of services by or the rental of real or personal property from any such person or from any corporation, partnership, trust or other entity in which any such person has more than one percent equity interest or is an officer, director, trustee or general partner.

3.23 Intellectual Properties. The Disclosure Schedule lists all patents, trademarks, trade names, service marks, copyrights or other intellectual property rights, or any pending applications for any of the foregoing (collectively "Intellectual Property Rights"), used in PRL's business, identifying those owned by PRL and those owned by others. In the operation of its business as presently conducted, PRL is not in conflict with and

does not infringe any Intellectual Property Rights of others. PRL is not a party to any agreement relating to any Intellectual Property Rights, whether owned by PRL or others, and no person has a right to receive any royalty with respect to any Intellectual Property Rights used by PRL in its business.

3.24 Insurance. Akorn has been provided access to all insurance policies or binders which relate to PRL's business. To the best knowledge of each of the Shareholders, all premiums due under such policies and binders have been paid or accrued for on the Balance Sheet and all such policies and binders are in full force and effect. No notice of cancellation or nonrenewal of any such policy or binder has been received by PRL. No notice of disallowance of any claim under any insurance policy or binder, whether or not currently in effect, has been received by PRL. To the best knowledge of each of the Shareholders, PRL has no liability for or exposure to any premium expense for expired policies. To the best knowledge of each of the Shareholders, there are no current claims by PRL under any such policy or binder nor are there any insured losses for which claims have not been made. PRL owns no life insurance policies and does not maintain products liability insurance.

3.25 Labor Matters. There are no agreements with, or pending petitions for recognition of, a labor union or association as the exclusive bargaining agent for any of PRL's employees. No such petitions have been pending at any time within two years of the date of this Agreement and to the best knowledge of each of the Shareholders, there has not been any organizing effort by any union or other group seeking to represent any employees of PRL as their exclusive bargaining agent at any time within two years of the date of this Agreement. There are no labor strikes, work stoppages or other labor troubles, other than routine grievance matters, now pending or threatened against PRL, nor have there been any such labor strikes, work stoppages or other labor troubles, other than routine grievance matters, with respect to the business of PRL at any time within two years of the date of this Agreement.

3.26 Bank Accounts; Powers of Attorney. The Disclosure Schedule sets forth with respect to each bank account or cash account maintained at any brokerage or other financial firm, the name of the institution at which such account is maintained, the number of the account, and the names of the individuals having authority to withdraw funds from such account. PRL has no letter of credit or powers of attorney outstanding.

3.27 Minute Books and Stock Transfer Books. The minute books and stock transfer books of PRL are correct, complete and current in all material respects and have been made available to Akorn.

3.28 Customers and Suppliers. The Disclosure Schedule sets forth a list of (a) all customers of PRL during the period commencing January 1, 1995, and ending on the Balance Sheet Date which accounted for 10% or more of the revenues of PRL during such period and (b) the ten largest suppliers to PRL in terms of dollars invoiced. Except as disclosed on the Disclosure Schedule, none of such customers or suppliers has provided written notice to PRL of its intention to terminate its relationship with PRL or to reduce substantially the amount of business that it provides to PRL. To the best knowledge of each of the Shareholders, none of such customers or suppliers intends to terminate or to change significantly its relationship with PRL on or after the Closing Date.

3.29 Compensation Agreements. The Disclosure Schedule lists all written employment, commission, bonus or other compensation

and consulting agreements to which PRL is a party. Except as set forth on the Disclosure Schedule, PRL is not a party to any written or oral employment, commission, bonus or other compensation or consulting agreement which PRL may not terminate without any payment or penalty, at will, with or without cause, except to the extent that employment at will may be limited by applicable law. Except as set forth in the Disclosure Section, PRL is not in breach of any such agreement.

3.30 Conduct of Business. To the best knowledge of each of the Shareholders, upon consummation of the Merger in accordance with the terms hereof, the Surviving Corporation will be entitled to conduct, in all material respects, the business of PRL as it is now being conducted.

3.31 Residence. Each holder of shares of PRL capital stock is a resident of the State of California.

3.32 Director and Officer Indemnification. The directors and officers of PRL are not entitled to indemnification by PRL, except to the extent that indemnification rights are provided for generally in the California Law or in the Current Employment Agreements; there are no pending claims for indemnification by any director or officer of PRL.

3.33 Documents and Written Materials. Originals or true and complete copies of all documents or other written materials underlying items listed in the Schedules have been furnished or made available to Akorn in the form in which each of such documents is in effect, and will not be modified in any material respect prior to the Closing Date without Akorn's prior written consent. All agreements, contracts, instruments or documents furnished or made available to Akorn or AMI by PRL or any of the Shareholders (the "Furnished Documents") are identified on the Disclosure Schedule.

3.34 Effectiveness of Representations and Warranties. All of the representations and warranties of PRL in this Agreement shall be true in all material respects on the Closing Date and shall be deemed to have been made again by PRL on and as of the Closing Date.

3.35 Effectiveness of Representations and Warranties. All of the representations and warranties of the Shareholders in this Agreement shall be true in all material respects on the Closing Date and shall be deemed to have been made again by each Shareholder on and as of the Closing Date.

SECTION 4
REPRESENTATIONS AND WARRANTIES OF AKORN

Akorn represents and warrants to and agrees with PRL and the Shareholders as follows:

4.1 Organization. Akorn and AMI are corporations duly organized, validly existing and in good standing under the laws of Louisiana and Illinois, respectively, and have all requisite corporate power and authority to own their properties and carry on their businesses as now being conducted.

4.2 Capitalization. As of the date of this Agreement, the authorized capital stock of (a) Akorn consists of 20,000,000 shares of common stock, no par value, approximately 15,115,000 of which are validly issued and outstanding and approximately 36,000 of which are held as treasury shares and (b) AMI consists of 100,000 shares of common stock, no par value per share, 100 of which are validly issued and outstanding. Akorn holds of record all of the issued and outstanding shares of AMI capital stock.

True and correct information as to all outstanding options and other rights to purchase shares of Akorn Stock and as to all current plans and agreements (the "Stock Purchase Plans") pursuant to which options and other rights to purchase shares of Akorn Stock (the "Purchase Rights") have been and may be issued is set forth in Notes I and J to the financial statements included in Akorn's Annual Report to Shareholders for its fiscal year ended June 30, 1995. Excepting the Purchase Rights, Akorn has no outstanding exchangeable or convertible securities or options or other rights to purchase shares of Akorn Stock.

4.3 Authority; Enforceability. Each of Akorn and AMI has the requisite corporate power and authority to execute and deliver this Agreement and to carry out its obligations hereunder. The execution, delivery and performance of this Agreement and the consummation of the Merger and of the other transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Akorn and AMI and no other corporate proceedings on the part of Akorn or AMI are necessary to authorize this Agreement or to consummate the transactions so contemplated. This Agreement has been duly executed and delivered by each of Akorn and AMI and constitutes a valid and binding obligation of each of Akorn and AMI, enforceable against them in accordance with its terms, except as may be limited by or subject to any bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally, and subject to general principals of equity and public policy considerations.

4.4 Consents and Approvals; Conflicts. No filing with or notice to, and no permit, authorization, consent or approval of, any Governmental Entity is necessary for the execution and delivery by Akorn and AMI of this Agreement or the consummation by Akorn and AMI of the transactions contemplated hereby, except where the failure to obtain such permits, authorizations, consents or approvals or to make such filings or give such notice would not have a material adverse effect on (a) the business, assets or financial condition of Akorn or AMI or (b) either Akorn's or AMI's ability to consummate any of the transactions contemplated hereby. Neither the execution and delivery of this Agreement by Akorn and AMI, nor the consummation of the transactions contemplated hereby, will violate any of the provisions of the Articles of Incorporation or Bylaws of either Akorn or AMI; or conflict with or result in a breach of, or give rise to a right of termination of, or accelerate the performance required by, any terms of any court order, consent decrees, note, bond, mortgage, indenture, deed of trust, or any license or agreement binding on either Akorn or AMI or to which either Akorn or AMI is subject or a party, or constitute a default thereunder, or result in the creation of any Encumbrance upon any of the assets or result in the creation of any Encumbrance upon any of the assets of Akorn or AMI, except for any such conflict, breach, termination, acceleration, default or Encumbrance which would not have a material adverse effect on (a) the business, assets or financial condition of Akorn or AMI or (b) either Akorn's or AMI's ability to consummate any of the transactions contemplated hereby.

4.5 Akorn Stock. All shares of Akorn Stock which are to be issued pursuant to the Merger will be, when issued, duly authorized, validly issued, fully paid and nonassessable and free of any Encumbrances or preemptive rights.

4.6 Akorn Disclosure. The Akorn Disclosure Documents do not include any misstatement of any fact material to the assets, business, operations, financial condition and prospects of Akorn, taken as a whole, or omit to state such a material fact necessary in order to make the statements, in the light of the

circumstances under which they are made, not misleading. Akorn is current in the filing of all reports, schedules, forms, statements and other documents required to be filed by it with the Securities and Exchange Commission under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

4.7 Litigation. Akorn is not a party to any litigation excepting various products liability claims in which Akorn's defense has been undertaken by insurers and in which any liability of Akorn is not expected by Akorn to exceed insurance coverage limits.

4.8 Effectiveness of Representations and Warranties. All of the representations and warranties of Akorn in this Agreement shall be true in all material respects on the Closing Date and shall be deemed to have been made again by Akorn on and as of the Closing Date.

SECTION 5
PRE-CLOSING COVENANTS

5.1 Access to Properties and Records. Until the Effective Time, PRL and the Shareholders shall allow Akorn and AMI and their authorized representatives full access, during normal business hours and on reasonable notice, to all of PRL's plants, properties, offices, vehicles, equipment, inventory and other assets, documents, files, books and records, in order to allow Akorn and AMI a full opportunity to make such investigation and inspection as they desire of PRL's business and assets. PRL and the Shareholders shall further use their best efforts to cause the employees, counsel and regular independent certified public accountants of PRL to be available upon reasonable notice to answer questions of Akorn's representatives concerning the business and affairs of PRL, and shall further use their best efforts to cause them to make available all relevant books and records in connection with such inspection and examination, including without limitation work papers for all audits and reviews of financial statements of PRL.

5.2 Conduct of Business. From and after the date of this Agreement and until the Closing Date, PRL, on the one hand, and Akorn and AMI, on the other hand, shall conduct their respective businesses in the ordinary course and consistently with past practice, except as expressly required or otherwise permitted by this Agreement, and shall not take or permit any action which would cause any of their representations made in Section 3 and Section 4, respectively, not to be true and correct on the Closing Date.

5.3 Employment Agreements. At the Closing, the following Shareholders will execute and deliver to Akorn an employment agreement substantially in the form of the employment agreement drafted in such shareholder's name and attached hereto as Exhibit 5.3: Floyd Benjamin, Tom Yankoff and David Gencarella.

5.4 Corporate Name. After the Effective time, the Surviving Corporation shall have the right to use the corporate name "Pasadena Research Labs, Inc." and any derivatives or combinations thereof and no Shareholder shall use or attempt to use such name or any derivative or combination thereof as the corporate name of a corporation, partnership or other entity, an assumed name, a trade name or in any other manner.

5.5 Public Statements. Prior to the Effective Time, none of the parties to this Agreement shall, and each party shall use its best efforts so that none of its advisors, officers,

directors or employees shall, except with the prior written consent of the other parties, publicize, announce or describe to any third person, except their respective advisors and employees, the execution or terms of this Agreement, the parties hereto or the transactions contemplated hereby, except as required by law or as required pursuant to this Agreement to obtain the consent of such third person; provided, in any case, that Akorn may make such disclosures and announcements as may be necessary or advisable under applicable securities laws.

5.6 No Solicitation. The Shareholders and PRL will not, prior to the Effective Time or the termination of this Agreement pursuant to Section 8.1, (nor will they permit any of their affiliates or any of PRL's officers, directors or agents to) directly or indirectly solicit or participate or engage in or initiate any negotiations or discussions, or enter into or authorize any agreement or agreements in principle, or announce any intention to do any of the foregoing, with respect to any offer or proposal to acquire all or any significant part of PRL's business and properties or any of its capital stock whether by merger, purchase of assets, purchase of stock or otherwise. The Shareholders and PRL will notify Akorn promptly upon receipt of any inquiry, offer or other communication from any third party regarding any such activities.

5.7 No stock splits or dividends. Akorn shall not declare or pay any dividend on or permit any reclassification or recapitalization with respect to shares of Akorn Stock, or the establishment of a record date for any of the foregoing, to occur during the period between the date of this Agreement and the Effective Time.

5.8 Notification as to Representations. Akorn and AMI, on the one hand, and PRL and the Shareholders, on the other hand, will promptly disclose in writing to the other any information contained in its representations and warranties or on the Disclosure Schedule that, because of an event occurring after the date hereof, is incomplete or no longer correct. Such disclosure will be deemed to modify the representations and warranties of such party or the Disclosure Schedule, as the case may be.

5.9 Akorn Disclosure Documents. Akorn will furnish to PRL and the Shareholders a copy of each quarterly report on Form 10-Q and any other report to or filing with the SEC made by Akorn containing information that is material to Akorn and that is filed prior to the Closing Date.

SECTION 6
ADDITIONAL AGREEMENTS

6.1 Legal Requirements to Merger. Subject to the conditions set forth in Section 7 and to the other terms and provisions of this Agreement, each of the parties to this Agreement agrees to take, or cause to be taken, all reasonable actions necessary to comply promptly with all legal requirements applicable to it with respect to the Merger and will promptly cooperate with and furnish information to each other in connection with any such requirements imposed upon any of them in connection with the Merger. Each of PRL, Akorn, AMI and the Shareholders will take all reasonable actions necessary to obtain, and will cooperate with each other in obtaining, any consent, authorization, order or approval of, or any exemption by, any Governmental Entity or other public or private party, required to be obtained or made by it in connection with the Merger or the taking or any action contemplated by this Agreement.

6.2 Further Assurances. After the Effective Time, the Shareholders, Akorn and AMI will, at the expense of Akorn or AMI, take all appropriate action and execute all documents, instruments or conveyances which may be reasonably necessary to carry out the provisions of this Agreement.

6.3 Expenses. Except as otherwise provided herein, each party will pay all costs and expenses incurred by it in connection with this Agreement and the transactions contemplated hereby.

6.4 Confidentiality. Until the Effective Time and subsequent to the termination of this Agreement pursuant to Section 8.1, each of Akorn and AMI will keep confidential and will not disclose to any third party any information obtained by it from PRL or PRL's representatives in connection with this Agreement except (a) that information may be disclosed by Akorn and AMI to their advisors in connection with the negotiation of and the activities conducted pursuant to this Agreement, (b) to the extent that such information is or becomes generally available to the public through no act or omission of Akorn or AMI in violation of this Agreement and (c) to the extent permitted by Section 5.5.

6.5 Termination of PRL Profit-Sharing and Retirement Plan. Akorn will cause PRL's Profit-Sharing and Retirement Plan (the "Plan") to be terminated by the Surviving Corporation in due course after the Closing Date, but no later than 30 days thereafter. Akorn will not cause the trustee or any member of the administrative committee of the Plan to be removed. To the extent permitted by law, the Surviving Corporation will amend the Plan to provide that all participants in such Plan as of the Closing Date will be 100% vested. The Surviving Corporation will also amend such Plan to comply with law, if necessary, and will request the Internal Revenue Service to approve the termination of the Plan. The employees of the Surviving Corporation will be entitled to participate in Akorn's defined contribution plan in accordance with and to the extent permitted by such plan's eligibility requirements and other terms and conditions. PRL employees who continue employment with the Surviving Corporation will be given credit in the Akorn defined contribution plan for hours of service with PRL to the extent PRL provides payroll or other records to support the stated hours of service.

6.6 Piggy-Back Registration Rights.

6.6.1 If Akorn shall at any time prior to the third anniversary of the Closing Date propose an underwritten public offering of any shares of Akorn common stock to be offered and sold by Akorn exclusively for cash pursuant to a registration statement under the Securities Act of 1933 on Form S-1, S-2 or S-3 and not in connection with an acquisition or an employee benefit plan, Akorn shall give written notice to each of the Shareholders who is at such time a record holder of Conversion Shares. Upon the written request of any such Shareholder, received by Akorn no later than the tenth business day after the giving of such notice by Akorn, to register, on the same terms and conditions as the shares of Akorn common stock otherwise being sold pursuant to such registration, all of the Conversion Shares held by such Shareholder, Akorn will use its best reasonable efforts to cause such Conversion Shares (the "Registrable Shares") to be included in the securities to be covered by the registration statement proposed to be filed by Akorn. Notwithstanding the foregoing, Akorn shall not be obligated to include such Registrable Shares in such offering if Akorn is advised in writing by its managing underwriter or underwriters that the inclusion of the Registrable Shares in such offering would in its or their opinion adversely affect the

marketing of the securities to be sold therein by Akorn or by John N. Kapoor or his affiliate pursuant to an agreement with respect to the registration of shares of Akorn Stock; provided, however, that Akorn shall in any case be obligated to include such number of amount of Registrable Shares in such offering as such managing underwriter or underwriters shall determine will not adversely affect such marketing; provided, further, that such number of Registrable Shares shall not be reduced unless the shares to be included in such offering for the account of any other shareholder (not including Akorn or John N. Kapoor or his affiliate) are also reduced on a pro rata basis. Akorn may at any time prior to the effectiveness of any such registration statement, in its sole discretion and without the consent of any Shareholder, abandon the offering to be made pursuant to such registration statement.

6.6.2 Each Shareholder participating in any such public offering shall (i) pay the underwriting discounts and selling commissions applicable to the Conversion Shares sold by him in the offering and shall pay his pro-rata share of all filing fees and blue sky expenses, and (ii) enter into such agreements with Akorn and with the underwriters with respect to procedures to be followed in connection with the registration and the offer and sale of the securities, indemnification, the providing of information and other similar matters as Akorn or any underwriter may reasonably request and which are comparable to similar agreements, if any, with any other persons (not including Akorn) whose shares are included in the offering.

6.7 Furnished Documents. Within ten days of the execution of this Agreement, PRL will furnish to Akorn and AMI the original or a copy of each of the Furnished Documents, except as otherwise agreed by Akorn or AMI.

6.8 Tax Returns. AMI shall cause the accounting firm of Wright, Ford, Browning & Young to prepare tax returns for PRL with respect to the tax period beginning January 1, 1996 and ending as of the Effective Time (the "1996 Tax Returns").

6.9 Personal Guarantees. Akorn, AMI and the Shareholders shall cooperate with each other in seeking to cause the release of the Shareholders from any guarantees by the Shareholders of debt and other contractual obligations of PRL (the "Guaranteed Obligations"), provided that the Guaranteed Obligations are identified as such, and the amount thereof disclosed, in the Disclosure Schedule and provided that each Guaranteed Obligation that is material to PRL is reflected in the Balance Sheet.

6.10 Accumulated Adjustment Account Distribution. It is acknowledged and agreed that the accumulated adjustment account of PRL as of December 31, 1995, in the amount of approximately $27,000.00, will not be paid to the Shareholders. Any increase in the accumulated adjustment account of PRL during the period beginning January 1, 1996 and ending at the Effective Time (the "1996 AAA") shall be paid by AMI on or before the seventy-fifth day following the Effective Time. The 1996 AAA shall include the net profit of PRL that is attributable and taxable to the shareholders with respect to such period and shall reflect, without limitation, (a) the "CBL Expense" as described in the Disclosure Schedule, in the amount of $140,000, which was deducted by PRL for tax purposes in the income tax return filed by PRL with respect to the year ended December 31, 1995, but treated as an expense for financial statement purposes during the year beginning January 1, 1996 and (b) the compensation expense in the aggregate amount of $100,000 to be paid to Yankoff and Gencarella prior to the Effective Time, as disclosed in paragraph 12 of the Disclosure Schedule, and be treated as an expense for both tax and financial statement purposes during the year

beginning January 1, 1996.

6.11 Steris Rebate. It is understood and agreed that the rebate in the form of inventory received during calendar 1995 from Steris in an amount not exceeding $133,320 will be treated in the 1996 Tax Returns as a reduction of cost of goods sold and thereby increase taxable income of PRL by the same amount during the period beginning January 1, 1996 and ending at the Effective Time.

6.12 Extent of Personal Liability. In the event that, after the Effective Time, any Shareholder is personally liable to Akorn or AMI for or with respect to a claim made by a party other than Akorn or AMI, which claim constitutes a breach by the Shareholder of any of his representations, warranties or agreements hereunder, such liability on the part of the Shareholder shall be reduced by the amount of any insurance proceeds paid to Akorn or AMI with respect thereto.

6.13 Shareholder Indemnification. After the Effective Time, Akorn will indemnify and hold harmless each Shareholder from and against any claims made against him (other than claims made by any person who is or was a shareholder of PRL) by reason of the fact that, prior to the Effective Time, he was a shareholder or served as an officer or director of PRL; provided, however that no such indemnity shall be paid with respect to any such claim arising out of action or inaction by the Shareholder which constitutes, or the existence of which constitutes, a breach by any Shareholder of his representations, warranties or agreements hereunder.

6.14 Termination of Shareholder's Agreement. At the Effective Time, by reason of the Merger, all rights and obligations under the Shareholder's Agreement entered between PRL and the Shareholders as referred to in the Disclosure Schedule shall automatically terminate.

SECTION 7
CONDITIONS

7.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the satisfaction or, where permissible, waiver by such party of the following conditions at or prior to the Effective Time:

7.1.1 No statute, rule, regulation, executive order, decree, preliminary or permanent injunction or restraining order shall have been enacted, entered, promulgated or enforced by any court of competent jurisdiction or other Governmental Entity which prohibits or restricts the consummation of the Merger and no action, suit, claim or proceeding by a state or federal Governmental Entity before any court or other Governmental Entity shall have been commenced and be pending which seeks to prohibit or restrict the consummation of the Merger, other than actions, suits, claims and proceedings which, in the reasonable opinion of counsel to the parties hereto, are unlikely to result in an adverse judgment; provided, however, that before any determination is made to the effect that this condition has not been satisfied, PRL and Akorn shall each use all reasonable efforts and take such actions as may be reasonably necessary, at its own expense, to have such order, stay, judgment or decree lifted or dismissed and any such suit, action or proceeding dismissed or terminated.

7.1.2 All filings with and notices to and all consents and waivers from all the Governmental Entities and third parties

listed in the Disclosure Schedule under Sections 4.4 shall have been made, and all waiting periods thereunder with respect to the transactions contemplated by this Agreement shall have expired or been terminated.

7.1.3 Akorn and PRL shall have received an opinion of Jones, Walker, Waechter, Poitevent, Carrere & Denegre L.L.P. substantially to the effect that the Merger constitutes a reorganization within the meaning of Sections 368(a)(1)(A) and 368(a)(2)(D) of the Code, that the Shareholders will recognize no gain or loss for federal income tax purposes with respect to the Conversion Shares received by them in connection with the Merger, and that no gain or loss for federal income tax purposes will be recognized by Akorn, AMI or PRL as a result of the Merger.

7.1.4 It shall be a condition to the obligations of Akorn and AMI and of each Shareholder that Akorn and such Shareholder shall have entered into an Employment Agreement in the form attached hereto as Exhibit 5.3.

7.1.5 Akorn's Board of Directors shall have taken such action as is necessary to appoint Floyd Benjamin as a director of Akorn with a term expiring at the annual meeting of Akorn stockholders that next follows the Closing Date.

7.2 Conditions to Obligations of Akorn and AMI. The obligations of Akorn and AMI to effect the Merger are subject to the satisfaction of the following conditions unless waived by Akorn and AMI:

7.2.1 The representations and warranties of PRL and the Shareholders set forth in this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date, except as otherwise contemplated by this Agreement, and PRL and the Shareholders shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date.

7.2.2 All consents and approvals of Governmental Entities or third parties necessary for consummation of the Merger by the parties shall have been obtained, other than those which, if not obtained, would not in Akorn's judgment have a material adverse effect on any party's ability to consummate any of the transactions contemplated hereby or on the business and properties of PRL. PRL shall have used its best efforts to obtain all necessary permits, authorizations, consents and approvals required by such Governmental Entities prior to the Closing Date.

7.2.3 PRL shall have obtained the consent of Faulding Pharmaceutical Company ("Faulding") to assign to AMI all of PRL's rights under and interests in that certain contract entered between PRL and Faulding on January 5, 1996 providing for, among other things, sharing of profits on Faulding's distribution of certain of PRL's products.

7.2.4 Akorn and AMI shall have received the opinion of Walsworth, Franklin, Bevins & McCall, counsel to PRL and, with respect to the matters set forth in such opinion, to the Shareholders, dated the Effective Time, which will be substantially to the effect that:

(a) PRL is a corporation duly organized, validly existing and in good standing under the laws of the State of California.

(b) PRL has the corporate power to enter into

this Agreement and to consummate the transactions contemplated hereby, and the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action taken on the part of PRL.

(c) This Agreement has been duly executed and delivered by PRL and the Shareholders, and is a valid and binding obligation of each enforceable against each in accordance with its terms, except (i) as enforceability may be limited by any bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights; (ii) such enforceability is subject to general principles of equity; and (iii) no opinion need be expressed regarding the enforcement of the choice of law provision of Section 9.5.

(d) The Merger has been approved by PRL Shareholders in accordance with the California Law and, assuming proper corporate action on the part of AMI and compliance with the Illinois Law, the Merger will be effective under the California Law upon proper filing of the Certificate of Merger in the State of California.

(e) To such counsel's knowledge, based upon review of PRL's Articles of Incorporation, Bylaws, corporate minute book and certificates representing PRL Stock, PRL's stock records and certificates of officers of PRL, as of the date hereof, the authorized capital stock of PRL consists of 100,000 shares of PRL Stock, 94.5 of which are validly issued and outstanding.

(f) Neither the execution and the delivery of this Agreement by PRL, nor the consummation of the transactions contemplated hereby, will (i) violate any of the provisions of the Articles of Incorporation or Bylaws of PRL; or (ii) to such counsel's knowledge, except as disclosed in an Exhibit or Schedule to or set forth in this Agreement, conflict with or result in a breach of, or give rise to a right of termination of, or accelerate the performance required by, any terms of any court order, consent decree, note, bond, mortgage, indenture, deed of trust, or any license or agreement, or any other instrument or obligation binding on PRL or constitute a default thereunder, or result in the creation of any Encumbrance upon any of the assets of any of PRL.

As to any matter in such opinion which involves matters of fact or matters relating to laws other than United States federal, or California law, such counsel may rely, without independent investigation, upon the certificates of officers and directors of PRL and of public officials, reasonably acceptable to Akorn. Such counsel need not render any opinion with respect to any federal or state securities laws.

7.2.5 Akorn and AMI shall have had a full opportunity to conduct inspections of the operating assets and books and records of PRL.

7.2.6 PRL shall have provided Akorn certified copies of its Articles of Incorporation and Bylaws and certificates of existence, good standing and qualification to do business as a foreign corporation, certified by the appropriate state authorities in PRL's state of incorporation.

7.2.7 Akorn shall have received a certificate of a duly authorized officer of PRL, dated the Closing Date, certifying as to the incumbency of any person executing this Agreement or any certificate or other document delivered in connection with this

Agreement and certifying as to such other matter as Akorn or AMI shall reasonably request.

7.2.8 Akorn will be reasonably satisfied, and shall receive a certificate of each of the Shareholders and of the chief executive officer of PRL that the condition specified in Section 7.2.1 has been fulfilled.

7.2.9 Akorn will be reasonably satisfied that the Merger will be treated as a pooling of interests for financial reporting purposes.

7.2.10 After completing its due diligence review, Akorn shall be satisfied that (a) the net sales of PRL for the 12-month period ended March 31, 1996 is not less than the net sales of PRL for the 12-month period ended December 31, 1995, as shown in the PRL Financial Statements; and (b) total shareholders' equity of PRL as of March 31, 1996 is not less than total shareholders' equity of PRL as of December 31, 1995, as shown in the PRL Financial Statements.

7.2.11 Any and all changes made to the Disclosure Schedule or to the representations and warranties of PRL and the Shareholders as a result of any disclosures made by them under Section 5.8 shall be satisfactory in all respects to Akorn and AMI.

7.2.12 The Shareholder Notes of Yankoff and Gencarella disclosed in paragraph 12 of the Disclosure Schedule shall have been repaid in full.

7.3 Conditions to Obligations of PRL and Shareholders. The obligations of PRL and the Shareholders to effect the Merger are subject to the satisfaction for the following conditions, unless waived by PRL and all of the Shareholders:

7.3.1 The representations and warranties of Akorn and AMI set forth in this Agreement shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date, except as otherwise contemplated by this Agreement, and Akorn and AMI shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date.

7.3.2 All consents and approvals of Governmental Entities or third parties necessary for consummation of the Merger by the parties, shall have been obtained, other than those which, if not obtained, would not have a material adverse effect on any party's ability to consummate any of the transactions contemplated hereby. Akorn shall have used its best efforts to obtain all necessary permits, authorizations, consents and approvals required by such Governmental Entities prior to the Closing Date.

7.3.3 PRL and the Shareholders shall have received the opinion of Jones, Walker, Waechter, Poitevent, Carrere & Denegre L.L.P., counsel to Akorn and AMI, dated the Effective Time, in form reasonably satisfactory to PRL and the Shareholders, substantially to the effect that:

(a) Akorn is a corporation duly organized, validly existing and in good standing under the laws of the State of Louisiana. AMI is a corporation duly organized, validly existing and in good standing under the laws of the State of Illinois.

(b) Akorn and AMI each has the corporate power to enter into this Agreement and to consummate the transactions

contemplated hereby, and the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action taken on the part of Akorn and AMI, respectively.

(c) This Agreement has been duly executed and delivered by each of Akorn and AMI and is a valid and binding obligation of Akorn and AMI enforceable against each of Akorn and AMI in accordance with its terms, except (i) as enforceability may be limited by any bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights; (ii) as such enforceability is subject to general principles of equity; and (iii) no opinion need be expressed regarding the enforcement of the choice of law provision of 9.5.

(d) The Merger has been approved by Akorn (as shareholder of AMI) in accordance with the Illinois Law and, assuming the proper corporate action on the part of PRL and compliance with the California Law, the Merger will be effective under the Illinois Law upon proper filing of the Certificate of Merger in the State of Illinois.

(e) The shares of Akorn Stock to be issued in connection with the transactions contemplated by this Agreement are duly authorized and reserved for issuance and, when issued as contemplated by this Agreement, will be validly issued, fully paid and nonassessable.

(f) Neither the execution and delivery of this Agreement by Akorn and by AMI, nor the consummation of the transactions contemplated hereby, will violate any of the provisions of the Articles of Incorporation or Bylaws of Akorn or AMI.

As to any matter in such opinion which involves matters of fact or matters relating to laws other than United States federal or Louisiana law, such counsel may rely, without independent investigation, upon the certificates of officers and directors of Akorn and AMI and of public officials, reasonably acceptable to PRL. Such counsel need not render any opinion with respect to federal or state securities laws.

7.3.4 PRL and the Shareholders shall have received a certificate of a duly authorized officer of Akorn and AMI, dated the Closing Date, and certifying as to the incumbency of any person executing this Agreement or any certificate or other document delivered in connection with this Agreement and certifying such other matters as PRL or the Shareholders shall reasonably request.

7.3.5 PRL and the Shareholders shall be reasonably satisfied, and shall have received a certificate of the chief executive officer of Akorn, that the conditions specified in Section 7.3.1 have been fulfilled.

7.3.6 Any and all changes made to the representations and warranties of Akorn and AMI as a result of any disclosures made by them under Section 5.8 shall be satisfactory in all respects to PRL and the Shareholders.

SECTION 8
TERMINATION AND AMENDMENT

8.1 Termination. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time:

8.1.1 by mutual consent of Akorn and PRL;

8.1.2 by Akorn or PRL, if (a) there shall have been a material breach of any representation, warranty, covenant or agreement on the part of PRL or the Shareholders or on the part of Akorn or AMI, as the case maybe, which breach shall not have been cured prior to the earlier of (i) 10 days following notice of such breach and (ii) the Closing Date; or (b) any permanent injunction or other order of a court or other competent Governmental Entity preventing the consummation of the Merger shall have become final and nonappealable; or

8.1.3 by Akorn, PRL or any Shareholder if the Merger shall not have been consummated on or before June 30, 1996; provided, that the right to terminate this Agreement under this Section 8.1.3 shall not be available to any party whose breach of its representations and warranties in this Agreement or whose failure to perform any of its covenants and agreements under this Agreement has resulted in the failure of the Merger to occur on or before such date.

8.2 Effect of Termination. In the event of a termination of this Agreement by either PRL or Akorn as provided in Section 8.1, this Agreement shall forthwith become void and there shall be no liability or obligation under any provisions hereof on the part of Akorn, AMI or PRL or their respective officers, directors or stockholders, except (a) pursuant to the covenants and agreements contained in Section 6.3 and Section 6.4 and this Section 8.2 and (b) to the extent that such termination results from the willful material breach by a party hereto of any of its representations, warranties, covenants or agreements set forth in this Agreement, in which case the non-breaching party shall have a right to recover its damages caused thereby.

8.3 Amendment. This Agreement may not be amended except by an instrument in writing signed by each of the parties hereto.

8.4 Extension; Waiver. At any time prior to the Effective Time, the parties hereto may, in their respective sole discretion and to the extent legally allowed, (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto; (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant thereto; and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed by or on behalf of such party.

SECTION 9
MISCELLANEOUS

9.1 Survival of Representations, Warranties and Agreements. The representations, warranties, covenants and agreements in this Agreement (or in any Exhibit or Schedule hereto) or in any instrument delivered pursuant to this Agreement shall survive the Closing and shall not be limited or affected by any investigation by or on behalf of any party hereto.

9.2 Notices. All notices hereunder must be in writing and shall be deemed to have given upon receipt of delivery by: (a) personal delivery to the designated individual, (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) facsimile transmission with confirmation of receipt. All such notices must be addressed as follows or such other address as to which any party hereto may have notified

the other in writing:

If to Akorn or AMI, to:

100 Akorn Drive
Abita Springs, Louisiana 70420
Attention: Mr. Barry D. LeBlanc, President
Facsimile transmission No. 504-893-1257

with a copy to:

Jones, Walker, Waechter, Poitevent, Carrere & Denegre L.L.P.
201 St. Charles Avenue
New Orleans, Louisiana 70170-5100
Attention: Mr. Carl C. Hanemann
Facsimile transmission No. 504-582-8012

if to PRL, to:

942 Calle Negocio
Suite 150
San Clemente, CA 92673
Attention: Mr. Floyd Benjamin
Facsimile transmission No. 714-498-3613

or if to the Shareholders, to:

Floyd Benjamin
8 Greystone Way
Laguna, Miguel CA 92677
Facsimile transmission No. 714-498-3613

Tom Yankoff
31181 Casa Grande
San Juan Capistrano, CA 92675
Facsimile transmission No. 714-498-3613

David Gencarella
P. O. Box 4308
San Clemente, CA 92674
Facsimile transmission No. 714-498-3613
in each case, with a copy to:

Walsworth, Franklin, Bevins & McCall
1 City Boulevard West
Suite 308
Orange, California 92668-3604
Attention: Mr. Wayne Allen
Facsimile Transmission No. 714-634-0686

9.3 Headings; Gender. When a reference is made in this Agreement to a section, exhibit or schedule, such reference shall be to a section, exhibit or schedule of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All personal pronouns used in this Agreement shall include the other genders, whether used in the masculine, feminine or neuter gender, and the singular shall include the plural and vice versa, whenever and as often as may be appropriate.

9.4 Entire Agreement; No Third Party Beneficiaries. This Agreement (including the documents, exhibits and instruments referred to herein) (a) constitutes the entire agreement and supersedes all prior agreements, and understandings and communications, both written and oral, among the parties with respect to the subject matter hereof, and (b) is not intended to

confer upon any person other than the parties hereto any rights or remedies hereunder.

9.5 Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Louisiana, without regard to any applicable principles of conflicts of law.

9.6 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other parties, except that AMI may assign any or all of AMI's rights, interests and obligations hereunder to Akorn or to any wholly owned subsidiary of Akorn. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

9.7 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by reason of any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any adverse manner to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible, and in any case such term or provision shall be deemed amended to the extent necessary to make it no longer invalid, illegal or unenforceable.

9.8 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same document.

9.9 Exhibits and Schedules; Section Numbers. All exhibits and schedules to this Agreement are an integral part of this Agreement. All schedules attached to this Agreement are initialed by the presidents of Akorn and PRL. Any schedule not attached to this Agreement upon the execution hereof by the parties will be initialed by the president of PRL and delivered by PRL to Akorn promptly after the date hereof. If such schedule is reasonably satisfactory to Akorn, the president of Akorn will initial such schedule and deliver it to the other parties for attachment hereto. If such schedule is not reasonably satisfactory to Akorn, a material breach of an agreement on the part of PRL shall be deemed to exist for purposes of Section 8.1.2.

IN WITNESS WHEREOF, Akorn, AMI and PRL and the Shareholders have caused this Agreement to be signed themselves or by their respective duly authorized officers as of the date first written above.

PASADENA RESEARCH LABS, INC. AKORN, INC.

By: /s/ Floyd Benjamin By: /s/ Barry D. LeBlanc

Name: Floyd Benjamin Name: Barry D. LeBlanc
Title: President Title: President

SHAREHOLDERS: AKORN MANUFACTURING, INC.

/s/ Floyd Benjamin
Floyd Benjamin

/s/ Tom Yankoff
Tom Yankoff

/s/ David Gencarella
David Gencarella

By: /s/ Eric M. Wingerter
Name: Eric M. Wingerter
Title: Secretary and Treasurer

CERTIFICATE OF SECRETARIES

I hereby certify that I am the duly elected Assistant Secretary of Akorn Manufacturing, Inc., an Illinois corporation, presently serving in such capacity, and that the foregoing Agreement was, in the manner required by law, duly approved, without alteration or amendment, by the holder of all of the shares of capital stock of such corporation having voting rights with respect thereto, such number of shares having more than the minimum number of votes necessary to adopt such Agreement.

Dated: _____, 1996.

_____
Assistant Secretary

I hereby certify that I am the duly elected Secretary of Pasadena Research Labs, Inc., a California corporation, presently serving in such capacity, and that the foregoing Agreement was, in the manner required by law, duly approved, without alteration or amendment, by the holders of 100% of the outstanding shares of capital stock of such corporation having voting rights with respect thereto, such shares having more than the minimum number of votes necessary to adopt such Agreement.

Dated: _____, 1996.

_____
Secretary

EXECUTION BY CORPORATIONS

Pursuant to the Illinois Business Corporation Act and the California Business Corporation Act, the foregoing Agreement is hereby executed by the undersigned corporations, each acting through their respective officers, this _____ day of _____, 1996.

AKORN MANUFACTURING, INC.

By: /s/ Eric M. Wingerter
Eric M. Wingerter
Secretary and Treasurer

PASADENA RESEARCH LABS, INC.

By: /s/ Floyd Benjamin
Floyd Benjamin, President

ACKNOWLEDGEMENT

STATE OF LOUISIANA
PARISH OF ORLEANS

BEFORE ME, the undersigned authority, personally came and appeared Eric M. Wingerter, who, being duly sworn, declared and acknowledged before me to be the Secretary and Treasurer of Akorn Manufacturing, Inc., an Illinois corporation, and that in such capacity he was duly authorized to and did execute the foregoing Agreement on behalf of such corporation, for the purposes therein expressed, and as his and such corporation's free act and deed.

/s/ Eric M. Wingerter
Eric M. Wingerter

Sworn to and subscribed before me
this _____ day of _____, 1996.

_____
Notary Public

ACKNOWLEDGEMENT

STATE OF CALIFORNIA
COUNTY OF _____

BEFORE ME, the undersigned authority, personally came and appeared Floyd Benjamin, who, being duly sworn, declared and acknowledged before me to be the President of Pasadena Research Labs, Inc., a California corporation, and that in such capacity he was duly authorized to and did execute the foregoing Agreement on behalf of such corporation, for the purposes therein expressed, and as his and such corporation's free act and deed.

/s/ Floyd Benjamin
Floyd Benjamin

Sworn to and subscribed before me
this _____ day of _____, 1996.

_____
Notary Public

BY-LAWS
of
AKORN, INC.

(COMPOSITE, AS AMENDED THROUGH MAY 3, 1996)

ARTICLE I

SHAREHOLDERS

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

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

Section 3 - Voting.

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

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

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

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

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

Section 7 - Notice of Shareholders' Meetings. Written or printed notice, stating the place and time of any meeting, and, if a special meeting, the general nature of the business to be considered, shall be given to each shareholder entitled to vote

thereat, at his last known address, at least ten days before the meeting in the case of an annual meeting, and fifteen days before the meeting in the case of a special meeting. Any irregularity in the notice of an annual meeting held at the corporation's principal business office at the time prescribed in Section 2 of this Article I, shall not affect the validity of the meeting or any action taken thereat.

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

ARTICLE II

DIRECTORS

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

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

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

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

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

Section 5 - Special Directors' Meetings: How Called. Special meetings of the directors may be called by the Chairman of the Board or by the President on notice as provided in Section 6. Special meetings shall be called on like notice by the Chairman of the Board, the President, or the Secretary on the request of a majority of the directors or a majority of the members of the Executive Committee and, if any such officer fails, refuses or is unable to call a special meeting within 24 hours of such request, any director or Executive Committee member requesting such a meeting may call the meeting on notice as provided in Section 6.

Section 6 - Notice of Special Directors' Meetings. Special meetings of the directors (and of the first meeting of the newly elected board, if held on notice) may be given on notice of no less than two days or, in the case of meetings called at the request of a majority of the members of the Executive Committee,

no less than eight hours, given to each director. Notice of two days or more may be given either personally or by telephone, mail, or facsimile transmission. Notice of less than two days may be given either personally or by telephone or facsimile transmission. Notice given by telephone shall be effective when given either directly to the director or to a person believed by the person calling the meeting to be an employee or relative of the director or a person able to deliver a message to the director promptly. Notice given by facsimile transmission shall be effective when transmitted to a facsimile receiver at an office or a residence of the director. Except as otherwise required by law or by these by-laws, the notice need not state the purpose or purposes of the meeting.

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

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

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

Section 10 - Powers of Directors. The board of directors is charged with the management of the business of the corporation, and subject to any restrictions imposed by law, the articles or these by-laws, may exercise all the powers of the corporation. Without prejudice to such general powers, the directors have the following specific powers:

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

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

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

held by this corporation.

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

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

ARTICLE III

COMMITTEES

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

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

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

ARTICLE IV

OFFICERS

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

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

Section 3 - President. The president is the chief executive officer and has the power to make contracts in the ordinary course of business. He shall see that all orders and resolutions of the board are carried into effect, and direct the other officers in the performance of their duties. He shall have power

to execute all instruments, and shall generally perform all acts incident to the office of president, or which are authorized or required by law, or which are incumbent upon him under the provisions of the articles and these by-laws. The president shall preside at meetings of the directors and shareholders in the absence of the chairman of the board or in the event that the chairman has not designated another director to do so.

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

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

Section 6 - Secretary. The secretary shall give, or cause to be given, notice of all meetings of shareholders, directors and committees, and all other notices required by law or by these by-laws, and in case of his absence or refusal or neglect so to do, any such notice may be given by the shareholders or directors upon whose request the meeting is called as provided in these by-laws. He shall record all the proceedings of the meetings of the shareholders, of the directors, and of committees in a book to be kept for that purpose. Except as otherwise determined by the directors, he shall have charge of the original stock book, transfer books and stock ledgers, and shall act as transfer agent in respect of the stock and other securities issued by the corporation. He shall have custody of the seal of the corporation, and shall affix it to all instruments requiring it; and he shall perform such other duties as may be assigned to him by the directors of the president.

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

ARTICLE V

INDEMNIFICATION

Section 1 - General. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (including any action by or in right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another business, foreign or non-profit corporation, partnership, joint venture or other

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

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

Section 3 - Determination by Directors. The indemnification hereunder (unless ordered by the court) shall be made by the corporation only as authorized in a specific case upon a determination that the applicable standard of conduct has been met. Such determination shall be made (a) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (b) if such quorum is not obtainable or a quorum of disinterested directors so directs, by independent legal counsel, or (c) by the shareholders.

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

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

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

ARTICLE VI

CAPITAL STOCK

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

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

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

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

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

corporation, or any of its directors, officers or agents, may have to the contrary.

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

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

Section 8 - Transfer Agent, Registrar. The board may appoint and remove transfer agents and registrars for any class of stock. If this action is taken, the transfer agents shall effect original issuances of stock certificates and transfers of shares, record and advise the corporation and one another of such issuances and transfers, countersign and deliver stock certificates, and keep the stock, transfer and other pertinent records; and the registrars shall prevent over-issues by registering and counter-signing any stock certificates issued. A transfer agent and registrar may be identical. The transfer agents and registrars, when covered with the company as obligees by an indemnity bond substantially in a form, and issued by a surety company, approved by the corporation's general counsel and providing indemnity unlimited to stated amount, or in form and amount and signed by a surety approved by the board, and upon receipt of an appropriate affidavit and indemnity agreement, may (a) countersign, register and deliver, in place of any stock certificate alleged to have been lost, stolen, destroyed or mutilated, or to have been mailed and not received, a replacement certificate for the same number of shares, and make any payment, credit, transfer, issuance, conversion or exchange to which the holder may be entitled in respect to such replaced certificate, without surrender thereof for cancellation, and (b) effect transfers of shares from the names of deceased persons whose estates (not exceeding $20,000 gross asset value and not containing any immovable property) are not administered.

ARTICLE VII

MISCELLANEOUS PROVISIONS

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

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

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

Section 4 - Notice. Whenever any notice is required by these by-laws to be given, personal notice is not meant unless expressly so stated. Any notice is sufficient if given by depositing it in the United States mail or by delivering it to a commercial courier service for next day delivery, with postage or

delivery service charges prepaid and addressed to the person entitled thereto at his last known address as it appears in the records of the corporation; and such notice is deemed to have been given on the day of such deposit in the mail or delivery to the courier service.

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

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

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

ARTICLE VIII

AMENDMENTS

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

EMPLOYMENT AGREEMENT--FLOYD BENJAMIN

This Employment Agreement ("Agreement") by and between, on the one hand, Akorn, Inc., a Louisiana corporation ("Akorn"), and its wholly owned subsidiary, Akorn Manufacturing, Inc., a Louisiana corporation (the "Company"), and, on the other, Floyd Benjamin (the "Employee") is dated as of May 31 , 1996 (the "Agreement Date").

WHEREAS, Akorn, the Company and the Employee are parties to that certain Agreement and Plan of Merger dated May 7, 1996 pursuant to which Pasadena Research Laboratories, Inc. ("PRL") merged with and into the Company (the "Merger Agreement");

WHEREAS, Employee was a shareholder of PRL and, in connection with such merger, received consideration for his PRL shares;

WHEREAS, the Employee was previously employed by PRL under the terms of an employment agreement entered into between PRL and Employee (the "PRL Employment Agreement");

WHEREAS, in connection with the Merger Agreement, Employee and the Company desire to supersede the PRL Employment Agreement, the Company desires to retain the services of Employee pursuant to the terms of this Agreement and Employee desires to continue in the service of the Company on such terms;

NOW, THEREFORE, for and in consideration of the consummation of the transactions contemplated by the Merger Agreement, the cancellation of the obligations and rights under the PRL Employment Agreement, the continued employment of Employee by the Company and the payment of wages, salary and other compensation to Employee by the Company, the parties hereto agree as follows:

Section 1.Employment Capacity and Term

1.1 Capacity and Duties of Employee. The Employee is employed by the Company to render services on behalf of the Company as President, and is employed by Akorn to render services to Akorn as Executive Vice President. In such capacity, the Employee shall perform such duties as are assigned to the individual holding such title by the Company's Bylaws and such other duties as may be prescribed from time to time by the Board of Directors of the Company (the "Board").

1.2 Employment Term. The term of this Agreement (the "Employment Term") shall commence on the Agreement Date and shall continue until and terminate upon the third anniversary of such date; provided, however, that Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement; and provided, further, that the Employment Term may be extended by mutual written agreement of the parties.

1.3 Devotion to Responsibilities. During the Employment Term, the Employee shall devote all of his business time to the business of the Company and its subsidiaries and affiliated companies, shall use his reasonable best efforts to perform faithfully and efficiently his duties under this Agreement, and shall not engage in or be employed by any other business; provided, however, that nothing contained herein shall prohibit the Employee from (a) serving as a member of the board of directors, board of trustees or the like of any for-profit or non-profit entity that does not compete with the Company, or performing services of any type for any civic or community entity, whether or not the Employee receives compensation therefor, (b) investing his assets in such form or manner as

shall require no more than nominal services on the part of the Employee in the operation of the business of or property in which such investment is made, or (c) serving in various capacities with, and attending meetings of, industry or trade groups and associations, as long as the Employee's engaging in any activities permitted by virtue of clauses (a), (b) and (c) above does not materially interfere with the ability of the Employee to perform the services and discharge the responsibilities required of him under this Agreement. Notwithstanding clause (b) above, during the Employment Term, the Employee shall not perform any services for and shall not beneficially own more than 2% of the equity interests of a business organization that competes with the Company or its affiliates. For purposes of this paragraph, "beneficially own" shall have the meaning given to that term in Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act").

Section 2.Compensation and Benefits

During the Employment Term, the Company shall provide the Employee with the compensation and benefits described below:

2.1 Salary. Employee shall receive a salary ("Base Salary") at the rate of $200,000 per year. Employee's Base Salary shall be payable to the Employee at such intervals as the salaries of other salaried employees of the Company are paid. Any increase in Employee's Base Salary shall take effect for the payroll period next following the date on which the condition to such increase is met.

2.2 Bonus. (a) Employee will receive bonuses in the following amounts: (i) for the fiscal year ending June 30, 1997, 10% of the amount by which the Company's pre-tax earnings during such fiscal year exceed $1,487,735 and, if Akorn's consolidated sales and pre-tax earnings during the fiscal year ending June 30, 1997 are at least 90% and 75% of their budgeted amounts, respectively, 0.5% of Akorn's consolidated pre-tax earnings during such fiscal year; (ii) for the fiscal year ending June 30, 1998, 7.5% of the increase in the Company's pre-tax earnings for such fiscal year compared to the pre-tax earnings of the Company during the fiscal year ended June 30, 1997 and, if Akorn's consolidated sales and pre-tax earnings for such fiscal year are at least 90% and 75% of their budgeted amounts, respectively, 0.5% of Akorn's consolidated pre-tax earnings; and (iii) if both the Company's and Akorn's consolidated sales and pre-tax earnings for the fiscal year ended June 30, 1999 are at least 75% and 90% of their budgeted amounts, respectively, 1% of the Company's pre-tax earnings and 0.5% of Akorn's consolidated pre-tax earnings during such fiscal year.

(b) Up to 50% of any bonuses paid to Employee under the terms of this Section may be paid in options to purchase Akorn common stock, with such options being valued at twenty-five percent of the market price for such stock at time of issuance of the option, as determined under Akorn's Incentive Compensation Plan. Any such option shall be fully exercisable upon issuance; the other terms of such option will be determined by the Compensation Committee of Akorn's Board of Directors and consistent with other options contemporaneously granted to similarly situated employees of Akorn and the Company.

2.3 Benefits. The Employee will be eligible to participate in the receipt of options to purchase shares of Akorn common stock under Akorn's Incentive Compensation Plan in a manner consistent with similarly situated employees of Akorn and the Company. The Company shall provide the Employee and, if applicable, his family members all such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs and (iii)

paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other employees of the Company and its affiliated companies as each such plan or benefit listed in (i), (ii) and (iii) of this Section 2.3 is described in the Company's employee manual. To the extent not inconsistent with such plans, practices, policies and programs, Employee will be credited with time served as an employee of PRL.

Section 3.Termination of Employment

3.1 Death. The Employee's status as an employee shall terminate immediately and automatically upon the Employee's death during the Employment Term.

3.2 Disability. The Employee's status as an employee may be terminated for "Disability" as follows:

(a) The Employee's status as an employee shall terminate if the Employee has a disability that would entitle him to receive benefits under the Company's long-term disability insurance policy in effect at the time of such disability either because he is Totally Disabled or Partially Disabled, as such terms are defined in the Company's policy in effect as of the Agreement Date or as similar terms are defined in any successor policy. Any such termination shall become effective on the first day on which the Employee is eligible to receive payments under such policy (or on the first day that he would be so eligible, if he had applied timely for such payments).

(b) In the event that the Company has no long-term disability plan in effect, if (i) the Employee is rendered incapable because of physical or mental illness of satisfactorily discharging his duties and responsibilities under this Agreement for a period of 90 consecutive days and (ii) a duly qualified physician chosen by the Company so certifies in writing, the Board shall have the power to determine that the Employee has become disabled. If the Board makes such a determination, the Company shall have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of Employee as an employee. Any such termination shall become effective 30 days after such notice of termination is given, unless within such 30-day period, the Employee becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Company so certifies in writing) and the Employee in fact resumes such services.

(c) The "Disability Effective Date" shall mean the date on which termination of employment becomes effective due to Disability.

3.3 Cause. The Company may terminate the Employee's status as an employee for Cause. As used herein, termination by the Company of the Employee's status as an employee for "Cause" shall mean termination as a result of (a) the Employee's breach of any of the provisions of this Agreement, or (b) the willful engaging by the Employee in misconduct injurious to the Company.

3.4 Voluntary Termination by the Parties. Either the Company or the Employee may terminate the Employee's status as an employee during the Employment Term for reasons other than death, Disability or Cause, subject to compliance by the Company with Section 4.2 and by the Employee with Section 4.3.

3.5 Notice of Termination. Any termination by the Company for Disability or Cause shall be communicated by notice of termination to the other party hereto given in accordance with

Section 6.2 ("Notice of Termination").

3.6 Date of Termination. "Date of Termination" means (a) if Employee's employment is terminated by reason of his death or Disability, the date of death of Employee or the Disability Effective Date, as the case may be, (b) if Employee's employment is terminated by the Company for Cause the date of delivery of the Notice of Termination or any later date specified therein, (which date shall not be more than 30 days after the giving of such notice) as the case may be, (c) if the Employee's employment is terminated by the Company prior to the end of the Employment Term for reasons other than death, Disability or Cause, the date on which the Company notifies the Employee of such termination and (d) if the Employee's employment is terminated by the Employee prior to the end of the Employment Term, the date on which the Employee notifies the Company of such termination or any later date specified therein, (which date shall not be more than 30 days after the giving of such notice).

Section 4.Obligations Upon Termination

4.1 Death or Disability. If Employee's status as an employee is terminated by reason of Employee's death or Disability, this Agreement shall terminate without further obligations on the part of the Company to Employee and his legal representatives under this Agreement, other than the obligation to make any payments due pursuant to employee benefit plans maintained by the Company or its subsidiaries.

4.2 Termination for Cause or at End of Employment Term. This Agreement shall terminate without further obligation to the Employee other than obligations imposed by law and obligations imposed pursuant to any employee benefit plan maintained by the Company or its subsidiaries (a) at the end of the Employment Term; (b) if the Employee's status as an employee is terminated by the Company for Cause or (c) if the Employee terminates his status as an employee; provided, however, that nothing in this Section 4.2 shall relieve Employee from the obligations, limitations and restrictions contained in Section 5 hereof.

4.3 Termination by Company for Reasons other than Death, Disability or Cause. If the Company terminates the Employee's status as an employee prior to the end of the Employment Term for reasons other than death, Disability or Cause, then:

(a) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal to the Employee's Base Salary through the end of the Employment Term had the Notice of Termination been given as of the Date of Termination; and

(b) within 90 days of the end of the fiscal year in which the Date of Termination occurs and within 90 days of the end of each subsequent fiscal year, the Company shall pay the Employee any bonus to which Employee would have been entitled under the provisions of Section 2.2 if his status as an Employee had not been terminated; and

(c) the Employee shall remain subject to the obligations, limitations and restrictions contained in Section 5 hereof.

4.4 Accrued Obligations and Other Benefits. Subject to the provisions of Section 5.3 hereof, upon termination of employment for any reason the Employee shall be entitled to receive promptly, and in addition to any other benefits specifically provided, (a) the Employee's Base Salary through the Date of Termination to the extent not theretofore paid, (b) any accrued

vacation pay, to the extent not theretofore paid, (c) any other vested benefits the Employee is entitled to receive under any plan or agreement of the Company and (d) any bonus not theretofore paid which is attributable to a full fiscal year during which Employee was employed by the Company, whether or not Employee shall be employed as of the date of the scheduled payment of such bonus.

4.5 Resignation as a Director. If Employee is a director of the Company or of Akorn and his employment is terminated for any reason other than death, the Employee shall, if requested by the Company or Akorn, immediately resign as a director of the Company and Akorn. If such resignation is not received when so requested, the Employee shall forfeit any right to receive any payments pursuant to this Agreement.

Section 5.Confidentiality and Non-Competition Agreement.

5.1 Non-disclosure of Confidential Information. Employee acknowledges that both prior to and during the term of this Agreement he may develop, acquire or be furnished by others confidential proprietary information, ideas, concepts, discoveries, marketing information or customer information (all such information referred to hereinafter as "Confidential Information") relating to the business interests of the Company, Akorn, their predecessor companies, subsidiaries and affiliates (collectively referred to hereinafter as the "Akorn Entities"). Employee recognizes that the protection of the Confidential Information against unauthorized use and disclosure is of critical importance to the Akorn Entities and, therefore, in addition to other duties and obligations that may be imposed by law, agrees:

(a) During the term of this Agreement and thereafter Employee shall hold in a fiduciary capacity for the benefit of the Akorn Entities all Confidential Information which shall have been obtained by Employee during Employee's employment and shall use such Confidential Information solely within the scope of his employment with and for the exclusive benefit of the Akorn Entities.

(b) During the term of this Agreement and thereafter Employee shall not communicate, divulge or make available to any person or entity (other than the Akorn Entities and their authorized representatives) any such Confidential Information, except upon the prior written authorization of the Akorn Entities or as may be required by law or legal process, and

(c) Upon termination of this Agreement, Employee shall deliver promptly to the Company any Confidential Information in his possession, including any duplicates thereof and any notes or other records Employee has prepared with respect thereto. In the event that the provisions of any applicable law or the order of any court would require Employee to disclose or otherwise make available any Confidential Information, Employee shall give the Akorn Entities prompt prior written notice of such required disclosure and an opportunity to contest the requirement of such disclosure or apply for a protective order with respect to such Confidential Information by appropriate proceedings.

5.2. Covenant Not to Compete. (a) During the Employment Term and until termination of Employee's obligations under this Section 5.2 as provided in Section 5.5(b), Employee agrees that, with respect to each State of the United States or other jurisdiction, or specified portions thereof, in which the Employee regularly (a) makes contact with customers of the Akorn Entities (b) conducts the business of the Akorn Entities or (c) supervises the activities of other employees of the Akorn

Entities, as identified in Appendix A attached hereto and forming a part of this Agreement, and in which any one of the Akorn Entities engages in business on the Date of Termination (collectively, the "Subject Areas"), Employee will not:

(i) Directly or indirectly, for himself or others, own, manage, operate, control, be employed in an executive, managerial or supervisory capacity by, or otherwise engage or participate in or allow his skill, knowledge, experience or reputation to be used in connection with, the ownership, management, operation or control of, any company or other business enterprise which is competitive to the business of the Akorn Entities; provided, however, that nothing contained herein shall prohibit Employee from making passive investments as long as Employee does not beneficially own more than 2% of the equity interests of a business enterprise which is competitive with the Akorn Entities within any of the Subject Areas. For purposes of this paragraph, "beneficially own" shall have the same meaning given to that term in Rule 13d-3 under the Exchange Act.

(ii) Call upon any customer of the Akorn Entities for the purpose of soliciting, diverting or enticing away the business of such person or entity, or otherwise disrupting any previously established relationship existing between such person or entity and the Akorn Entities;

(iii) Solicit, induce, influence or attempt to influence any supplier, lessor, licensor, potential acquiree or any other person who has a business relationship with the Akorn Entities, or who on the day this Agreement terminates is engaged in discussions or negotiations to enter into a business relationship with the Akorn Entities, to discontinue or reduce the extent of such relationship with the Akorn Entities;

(iv) Make contact with any of the employees of the Akorn Entities with whom he had contact during the course of his employment with the Akorn Entities for the purpose of soliciting such employee for hire, whether as an employee or independent contractor, or otherwise disrupting such employee's relationship with the Akorn Entities; and

(v) For a period of one year from and after this Agreement terminates, hire, on behalf of himself or any company which is competitive with the Akorn Entities any employee of the Akorn Entities as an employee or independent contractor, whether or not such engagement is solicited by Employee.

(b) Employee agrees that he will from time to time upon the request of the Akorn Entities promptly execute any supplement, amendment, restatement or other modification of Appendix A as may be necessary or appropriate to correctly reflect the jurisdictions which, at the time of such modification, should be covered by Appendix A and this Section 5. Furthermore, Employee agrees that all references to Appendix A in this Agreement shall be deemed to refer to Appendix A as so supplemented, amended, restated or otherwise modified from time to time.

5.3. Injunctive Relief; Other Remedies.

Employee acknowledges that a breach by Employee of any provision of this Section 5 would cause immediate and irreparable harm to the Akorn Entities for which an adequate monetary remedy does not exist; hence, Employee agrees that, in the event of a breach or threatened breach by Employee of the provisions of this Section 5 during or after the term of this Agreement, the Akorn Entities shall be entitled to injunctive relief restraining

Employee from such violation without the necessity of proof of actual damage or the posting of any bond, except as required by non-waivable, applicable law. Nothing herein, however, shall be construed as prohibiting the Akorn Entities from pursuing any other remedy at law or in equity to which the Akorn Entities may be entitled under applicable law in the event of a breach or threatened breach of this Agreement by Employee, including without limitation the recovery of damages and/or costs and expenses, such as reasonable attorneys' fees, incurred by the Akorn Entities as a result of any such breach. In addition to the exercise of the foregoing remedies, the Akorn Entities shall have the right upon the occurrence of any such breach to cancel any unpaid compensation outstanding at the time of such termination. In particular, Employee acknowledges that the payments provided under Section 2 are conditioned upon Employee fulfilling any noncompetition and nondisclosure agreements contained in this Section 5. In the event Employee shall at any time materially breach any noncompetition or nondisclosure agreements contained in this Agreement, the Akorn Entities may suspend or eliminate payments under Section 2 during the period of such breach. Employee acknowledges that any such suspension or elimination of payments would be an exercise of the Akorn Entities' right to suspend or terminate its performance hereunder upon Employee's breach of this Agreement; such suspension or elimination of payments would not constitute, and should not be characterized as, the imposition of liquidated damages.

5.4. Governing Law of this Section; Consent to Jurisdiction.

Any dispute regarding the reasonableness of the covenants and agreements set forth in this Section 5, or the territorial scope or duration thereof, or the remedies available to the Akorn Entities upon any breach of such covenants and agreements, shall be governed by and interpreted in accordance with the laws of the State of the United States or other jurisdiction in which the alleged prohibited competing activity or disclosure occurs, and, with respect to each such dispute, the Akorn Entities and Employee each hereby irrevocably consent to the exclusive jurisdiction of the state and federal courts sitting in the relevant State for resolution of such dispute, and agree to be irrevocably bound by any judgment rendered thereby in connection with such dispute, and further agree that service of process may be made upon him or it in any legal proceeding relating to this Section and/or Appendix A by any means allowed under the laws of such jurisdiction. Each party irrevocably waives any objection he or it may have as to the venue of any such suit, action or proceeding brought in such a court or that such a court is an inconvenient forum.

5.5. Term of Confidentiality and Non-Competition Agreements.

(a) Confidentiality Agreement. Employee acknowledges that the provisions of Section 5.1 hereof shall be binding upon Employee subsequent to the termination of the Akorn Entities' obligations under this Agreement and shall remain effective until such time as the Akorn Entities provide Employee with written consent to the contrary.

(b) Non-Competition Agreement. Employee acknowledges that his obligations under Section 5.2 hereof (the "Obligations") shall be binding upon Employee subsequent to the termination of the Akorn Entities' obligations under this Agreement and shall terminate as follows:

(i) If Employee's status as an employee of the Company is terminated for Cause by the Company or by the Employee for reasons other than Disability, the Obligations shall terminate on the later to occur of (A) the first anniversary of

the Date of Termination or (B) the sooner to occur of the end of the Employment Term or the second anniversary of the Date of Termination.

(ii) If Employee's status as an employee is terminated by the Company prior to the third anniversary of this Agreement for reasons other than by reason of Employee's Disability or Cause, the Obligations shall terminate on the Date of Termination.

(iii) If Employee's status as an employee of PRL is terminated on the third anniversary of this Agreement and is not renewed, the Obligations of Employee shall continue for a period of up to one year from the end of his Employment Term if the Company has within 15 days of the end of the Employment Term paid to Employee in a lump sum an amount equal to the amount of salary to which Employee would have been entitled under Section 2.1 if his employment hereunder had continued during the period that his Obligations are to continue.

Section 6.Miscellaneous

6.1 Binding Effect.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Employee and shall not be assignable by the Employee without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Employee. In the event of any such assignment or succession, the term "Company" as used in this Agreement shall refer also to such successor or assign.

(d) The Company shall require all entities that control, or that after any change of control will control, directly or indirectly, any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such agreement to be set forth in writing reasonably satisfactory to the Employee.

6.2 Notices. All notices hereunder must be in writing and shall be deemed to have given upon receipt of delivery by: (a) personal delivery to the designated individual, (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service with confirmation of receipt or (d) facsimile transmission with confirmation of receipt. All such notices must be addressed as follows or such other address as to which any party hereto may have notified the other in writing:

If to the Company or Akorn, to:

100 Akorn Drive

Abita Springs, Louisiana 70420
Attention: Barry D. LeBlanc, President
Facsimile transmission No. 504-893-1257

If to the Employee, to:

Floyd Benjamin
8 Greystone Way
Laguna Miguel, CA 92677
Facsimile transmission No. 714-498-3613

6.3 Entire Agreement. This Agreement constitutes the entire understanding and agreement between the parties hereto with respect to Employee's employment by the Company and supersedes all prior agreements, whether or not written including, without limitation, the PRL Employment Agreement.

6.4 Governing Law. Except as provided in Section 5.4 hereof, this Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Louisiana.

6.5 Withholding. The Employee agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

6.6 Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, Employee and the Company intend for any court construing this Agreement to modify or limit such provision temporally, spatially or otherwise so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

6.7 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

6.8 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

6.9 Company's Reservation of Rights. Employee acknowledges and understands that the Employee serves at the pleasure of the Board and that the Company has the right at any time to terminate Employee's status as an employee of the Company, or to change or diminish his status during the Employment Term, subject to the rights of the Employee to claim the benefits conferred by this Agreement.

6.10 Survival. Following the Date of Termination, each party shall have the right to enforce all rights, and shall be bound by all obligations, of such party that are continuing rights and obligations under this Agreement.

6.11 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

6.12 Arbitration. Any controversy arising under, out of, in connection with, or relating to, this Agreement, and any amendment hereof, or the breach hereof or thereof, shall be determined and settled by arbitration in San Clemente, California or Chicago, Illinois, by an arbitrator or arbitrators mutually agreed upon by the Company and Akorn, on the one hand and the Employee, on the other or, if the Company, Akorn and the Employee shall fail or be unable to so agree within ten business days after the written request therefor, by such arbitrator or arbitrators as may be selected in accordance with the rules of the American Arbitration Association. Any award rendered therein shall specify the findings of fact of the arbitrator or arbitrators and the reasons for such award, with reference to and reliance on relevant law. In making awards under this Section, the arbitrator shall have the authority, in his sole discretion, to cause the reasonable attorney's fees and costs of one party to be assessed against and paid by the other party. Any awards under this Section shall be final and binding on each and all of the parties thereto and their personal representatives, and judgment may be entered thereon in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the Company and the Employee have caused this Agreement to be executed as of the Agreement Date.

AKORN MANUFACTURING, INC.

By: /s/ Eric M. Wingerter
Eric M. Wingerter,
Secretary and Treasurer

AKORN, INC.

By: /s/ Barry D. LeBlanc
Barry D. LeBlanc, President

EMPLOYEE:

/s/ Floyd Benjamin
Floyd Benjamin

EMPLOYMENT AGREEMENT--BARRY D. LEBLANC

This Employment Agreement ("Agreement") between Akorn, Inc., a Louisiana corporation (the "Company"), and Barry D. LeBlanc (the "Employee") is dated as of January 1, 1996 (the "Agreement Date").

WHEREAS, Employee currently is employed by the Company;

WHEREAS, the Company desires to retain the services of Employee pursuant to the terms of this Agreement and Employee desires to continue in the service of the Company on such terms;

NOW, THEREFORE, for and in consideration of the continued employment of Employee by the Company and the payment of wages, salary and other compensation to Employee by the Company, the parties hereto agree as follows:

Section 1.Employment Capacity and Term

1.1 Capacity and Duties of Employee. The Employee is employed by the Company to render services on behalf of the Company as President and Chief Executive Officer. As the President and Chief Executive Officer, the Employee shall perform such duties as are assigned to the individual holding such title by the Company's Bylaws and such other duties, consistent with the Employee's job title, as may be prescribed from time to time by the Board of Directors of the Company (the "Board").

1.2 Employment Term. The term of this Agreement (the "Employment Term") shall commence on the Agreement Date and shall continue until and terminate one year after either the Company or the Employee has notified the other of such termination of the Employment Term; and provided, further, that the Employment Term is subject to extension as provided in Section 5.2 and Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement.

1.3 Devotion to Responsibilities. During the Employment Term, the Employee shall devote all of his business time to the business of the Company and its subsidiaries and affiliated companies, shall use his reasonable best efforts to perform faithfully and efficiently his duties under this Agreement, and shall not engage in or be employed by any other business; provided, however, that nothing contained herein shall prohibit the Employee from (a) serving as a member of the board of directors, board of trustees or the like of any for-profit or non-profit entity that does not compete with the Company, or performing services of any type for any civic or community entity, whether or not the Employee receives compensation therefor, (b) investing his assets in such form or manner as shall require no more than nominal services on the part of the Employee in the operation of the business of or property in which such investment is made, or (c) serving in various capacities with, and attending meetings of, industry or trade groups and associations, as long as the Employee's engaging in any activities permitted by virtue of clauses (a), (b) and (c) above does not materially interfere with the ability of the Employee to perform the services and discharge the responsibilities required of him under this Agreement. Notwithstanding clause (b) above, during the Employment Term, the Employee shall not perform any services for and shall not beneficially own more than 2% of the equity interests of a business organization that competes with the Company or its affiliates. For purposes of this paragraph, "beneficially own" shall have the meaning given to that term in Rule 13d-3 under the Securities Exchange Act of 1934 (the

"Exchange Act").

Section 2.Compensation and Benefits

During the Employment Term, the Company shall provide the Employee with the compensation and benefits described below:

2.1 Salary. A salary ("Base Salary") at the rate of $210,000 per year; provided, however, that Employee's Base Salary shall increase to $225,000 per year if the closing price at which the Company's common stock is traded on the Nasdaq National Market or other exchange on which such stock may be designated for trading, equals or exceeds $4.00 per share for ten or more consecutive trading days and shall increase to $250,000 if such price equals or exceeds $5.50 per share for ten consecutive trading days; and provided, further, that Employee's Base Salary shall increase as of each anniversary of the Agreement Date by a factor equal to the increase in the Consumer Price Index maintained by the United States Department of Labor. Employee's Base Salary shall be payable to the Employee at such intervals as the salaries of other salaried employees of the Company are paid. Any increase in Employee's Base Salary shall take effect for the payroll period next following the date on which the condition to such increase is met.

2.2 Bonus. Employee shall be eligible to receive such bonuses and supplementary compensation as the Board may determine.

2.3 Benefits. The Company shall provide the Employee and, if applicable, his family members, with the following benefits and perquisites:

(a) The Company will continue to provide for Employee's use a new Oldsmobile Ninety-Eight or other equivalent new automobile of his choice, such automobile to be replaced every other year, and to provide or reimburse Employee for all gasoline, maintenance, repairs and insurance for such automobile.

(b) All such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, employee life, group life, accident health and travel accident insurance plans and programs) and (iii) paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other peer employees of the Company and its affiliated companies.

2.4 Office and Support Staff. Employee shall be entitled to an office or offices of the size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the those provided to him on the Agreement Date.

2.5 Expenses. The Employee shall be reimbursed for reasonable out-of-pocket expenses incurred from time to time on behalf of the Company or any subsidiary in the performance of his duties under this Agreement, upon the presentation of such supporting invoices, documents and forms as the Company reasonably requests.

Section 3.Termination of Employment

3.1 Death. The Employee's status as an employee shall terminate immediately and automatically upon the Employee's death during the Employment Term.

3.2 Disability. The Employee's status as an employee may be terminated for "Disability" as follows:

(a) The Employee's status as an employee shall terminate if the Employee has a disability that would entitle him to receive benefits under the Company's long-term disability insurance policy in effect at the time either because he is Totally Disabled or Partially Disabled, as such terms are defined in the Company's policy in effect as of the Agreement Date or as similar terms are defined in any successor policy. Any such termination shall become effective on the first day on which the Employee is eligible to receive payments under such policy (or on the first day that he would be so eligible, if he had applied timely for such payments).

(b) If the Company has no long-term disability plan in effect, the Employee's status as an employee shall terminate if (i) the Employee is rendered incapable because of physical or mental illness of satisfactorily discharging his duties and responsibilities under this Agreement for a period of 90 consecutive days and (ii) a duly qualified physician chosen by the Company and acceptable to the Employee or his legal representative so certifies in writing, the Board shall have the power to determine that the Employee has become disabled. If the Board makes such a determination, the Company shall have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of Employee as an employee. Any such termination shall become effective 30 days after such notice of termination is given, unless within such 30-day period, the Employee becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Company and acceptable to the Employee or his legal representative so certifies in writing) and the Employee in fact resumes such services.

(c) The "Disability Effective Date" shall mean the date on which termination of employment becomes effective due to Disability.

3.3 Cause. The Company may terminate the Employee's status as an employee for Cause. As used herein, termination by the Company of the Employee's status as an employee for "Cause" shall mean termination as a result of (a) the Employee's breach of this Agreement, or (b) the willful engaging by the Employee in gross misconduct injurious to the Company, which in either case is not remedied within 10 days after the Company provides written notice to the Employee of such breach or willful misconduct.

3.4 Good Reason. The Employee may terminate his status as an employee for Good Reason. As used herein, the term "Good Reason" shall mean:

(a) The occurrence of any of the following during the Employment Term:

(i) the assignment by the Board or by any authorized person to the Employee of any duties or responsibilities that are inconsistent with the Employee's status, title and position as President and Chief Executive Officer;

(ii) any removal of the Employee from, or any failure to reappoint or reelect the Employee to, the position of President and Chief Executive Officer of the Company, except in connection with a termination of Employee's status as an employee as permitted by this Agreement;

(iii) the Company's requiring the Employee to be based anywhere other than at or within 50 miles of the Company's headquarters in Abita Springs, Louisiana, except for required travel in the ordinary course of the Company's business;

(b) any breach of this Agreement by the Company that continues for a period of 10 days after written notice thereof is given by the Employee to the Company;

(c) the failure by the Company to obtain the assumption of its obligations under this Agreement by any successor or assignee as contemplated by Section 6.1(c); or

(d) any purported termination by the Company of the Employee's status as an employee for Cause that is not effected pursuant to a Notice of Termination satisfying the requirements of this Agreement.

3.5 Voluntary Termination by the Company. Subject to the terms and conditions provided herein, the Company may terminate the Employee's status as an employee during the Employment Term for reasons other than death, Disability or Cause.

3.6 Voluntary Termination by the Employee. Subject to the terms and conditions provided herein, the Employee may terminate the Employee's status as an employee during the Employment Term for reasons other than Good Reason.

3.7 Notice of Termination. Any termination by the Company for Disability or Cause, or by the Employee for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 6.2. For purposes of this Agreement, a "Notice of Termination" means a written notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provisions so indicated and (c) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Employee or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason, Disability or Cause shall not negate the effect of the notice nor waive any right of the Employee or the Company, respectively, hereunder or preclude the Employee or the Company, respectively, from asserting such fact or circumstance in enforcing the Employee's or the Company's rights hereunder.

3.8 Date of Termination. "Date of Termination" means (a) if Employee's employment is terminated by reason of his death or Disability, the Date of Termination shall be the date of death of Employee or the Disability Effective Date, as the case may be, (b) if Employee's employment is terminated by the Company for Cause, or by Employee for Good Reason, the date of delivery of the Notice of Termination or any later date specified therein, (which date shall not be more than 30 days after the giving of such notice) as the case may be, (c) if the Employee's employment is terminated by the Company prior to the end of the Employment Term for reasons other than death, Disability or Cause, the Date of Termination shall be the date on which the Company notifies the Employee of such termination, (d) if the Employee's employment is terminated by the Employee prior to the end of the Employment Term for reasons other than Good Reason, the Date of Termination shall be the date on which the Employee notifies the Company of such termination, and (e) if the Employment Term terminates upon notice by the Company or the Employee as provided for in Section 1.2 or Section 5.2, the Date of Termination shall

be the date on which the Employment Term ends.

Section 4.Obligations Upon Termination

4.1 Death. If Employee's status as an employee is terminated by reason of Employee's death, this Agreement shall terminate without further obligations to Employee's legal representatives under this Agreement, other than the obligation to make any payments due pursuant to employee benefit plans maintained by the Company or its subsidiaries.

4.2 Disability. If Employee's status as an employee is terminated by reason of Employee's Disability, this Agreement shall terminate without further obligation to Employee, other than the obligation to make any payments due pursuant to employee benefit plans maintained by the Company or its subsidiaries.

4.3 Termination by Company for Reasons other than Death, Disability or Cause; Termination by Employee for Good Reason. If the Company terminates the Employee's status as an employee prior to the end of the Employment Term for reasons other than death, Disability or Cause, or the Employee terminates his employment prior to the end of the Employment Term for Good Reason, then

(a) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal to the Employee's Base Salary through the end of the Employment Term had the notice contemplated by Section 1.2 been given as of the Date of Termination; and

(b) the amount of any performance-based bonus or options granted to the Employee shall be deemed to be the amount to which the Employee would have been entitled if the budgeted goals or other performance goals applicable thereto had been met but not exceeded and, whether or not the performance goals have been met as of the Date of Termination, such bonus shall be payable within 30 days of the Date of Termination and such options (if not already exercisable) shall become exercisable as of the Date of Termination and shall expire on the date of expiration of the options as provided in the applicable option agreement.

4.4 Termination for Cause, Without Good Reason or at End of Employment Term. This Agreement shall terminate without further obligation to the Employee other than obligations imposed by law and obligations imposed pursuant to any employee benefit plan maintained by the Company or its subsidiaries (a) if the Employee's status as an Employee is terminated by the Company for Cause or by the Employee for reasons other than Good Reason or (b), except as otherwise provided in Section 5.2, at the end of the Employment Term. If the Company or the Employee gives notice of termination of the Employment Term as provided for in Section 1.2, the Company may, at its option, terminate Employee's status as an employee, in which case such termination shall be deemed a termination by the Company without Cause for purposes of all provisions of this Agreement.

4.5 Resignation as Director. If Employee is a director of the Company and his employment is terminated for any reason other than death, the Employee shall, if requested by the Company, immediately resign as a director of the Company. If such resignation is not received when so requested, the Employee shall forfeit any right to receive any payments pursuant to this Agreement.

4.6 Accrued Obligations and Other Benefits. Upon termination of employment for any reason the Employee shall be entitled to receive promptly, and in addition to any other

benefits specifically provided, (a) the Employee's Base Salary through the Date of Termination to the extent not theretofore paid, (b) any accrued vacation pay, to the extent not theretofore paid, and (c) any other amounts or benefits required to be paid or provided or which the Employee is entitled to receive under any plan, program, policy practice or agreement of the Company.

4.7 Stock Options. The foregoing benefits are intended to be in addition to the value of any options to acquire Common Stock of the Company the exercisability of which may be accelerated pursuant to the terms of any stock option, incentive or other similar plan heretofore or hereafter adopted by the Company.

Section 5.Change of Control

5.1 Definitions. For purposes of this Section 5, the following terms shall have the meanings indicated below.

(a) Company. In the event of any assignment or succession as described in Section 6.1(c), the term "Company" as used in this Agreement shall refer also to such successor or assignee.

(b) Change of Control. A Change of Control shall mean the occurrence of any of the following events:

(i) the acquisition by any individual, entity or "person" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership of more than 30% of the outstanding shares of the Company's common stock, no par value per share (the "Common Stock"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control:

(A) any acquisition of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or

(D) any acquisition of Common Stock by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection (b)(iii) of this Section 5.1; or

(ii) individuals who, as of the Agreement Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Incumbent Board; or

(iii) the consummation of a reorganization, merger or consolidation, or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in any such case, unless, following such Business Combination,

(A) all or substantially all of the individuals and entities who were the direct or indirect beneficial owners of the Company's outstanding common stock and the Company's voting securities entitled to vote generally in the election of directors immediately prior to such Business Combination have direct or indirect beneficial ownership, respectively, of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the corporation resulting from such Business Combination (which, for purposes of this paragraph (A) and paragraphs (B) and (C), shall include a corporation which as a result of such transaction controls the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), and

(B) except to the extent that such ownership existed prior to the Business Combination, no person (excluding any corporation resulting from such Business Combination or any employee benefit plan or related trust of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or 20% or more of the combined voting power of the then outstanding voting securities of such corporation, and

(C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the board of directors of the Company at the time of the initial action of the Board providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(c) Affiliate. The term "affiliate" or "affiliated companies" shall mean any company or other entity controlled by, controlling, or under common control with, the Company.

(d) Cause. After a Change of Control, "Cause," as used in this Agreement, shall have the following meaning and not the meaning given in Section 3.3:

(i) the willful and continued failure of the Employee to perform substantially the Employee's duties hereunder (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Employee by the Board of the Company which specifically identifies the manner in which the Board believes that the Employee has not substantially performed the Employee's duties, or

(ii) the willful engaging by the Employee in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company or its affiliates.

For purposes of this provision, no act or failure to act, on the part of the Employee, shall be considered "willful" unless it is done, or omitted to be done, by the Employee in bad faith or without reasonable belief that the Employee's action or omission was in the best interests of the Company or its affiliates. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of a senior officer of the Company or based upon the advice of counsel for the Company or its affiliates shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Company or its affiliates. The cessation of employment of the Employee shall

not be deemed to be for Cause unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Employee and the Employee is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Employee has engaged in the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(e) Good Reason. After a Change of Control, "Good Reason," as used in this Agreement, shall have the following meaning and not the meaning given in Section 3.4:

(i) Any failure of the Company or its affiliates to provide the Employee with the position, authority, duties and responsibilities at least equivalent in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control;

(ii) The assignment to the Employee of any duties inconsistent in any respect with Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 1.1, or any other action that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied within 10 days after receipt of written notice thereof from the Employee to the Company;

(iii) Any failure by the Company or its affiliates to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith that is remedied within 10 days after receipt of written notice thereof from the Employee to the Company;

(iv) The Company or its affiliates requiring the Employee to be based at any office or location other than as provided in Section 3.4(a)(iii) hereof or requiring the Employee to travel on business to a substantially greater extent than required immediately prior to the Change of Control;

(v) Any purported termination of the Employee's employment otherwise than as expressly permitted by this Agreement; or

(vi) Any failure by the Company to comply with and satisfy Sections 6.1(c) and (d) of this Agreement.

For purposes of this Section 5, any good faith determination of "Good Reason" made by the Employee shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Employee for any reason during the 30-day period immediately following the first anniversary of the Change of Control shall be deemed to be a termination for Good Reason.

(f) Beneficial Ownership. The terms "beneficial ownership," "beneficial owner," "beneficially owns," and similar terms shall have the meanings set forth in Rule 13d-3 under the Exchange Act.

5.2 Employment Capacity and Term after Change of Control. (a) If a Change of Control occurs during the Employment Term, the Employee's Employment Term (the "Modified Employment Term") shall be extended until and terminate at the close of business on the

later to occur of the second anniversary of the Change of Control; or the date one year after the date on which either the Company or the Employee has notified the other of such termination; and provided, further, that Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement.

(b) After a Change of Control and during the Modified Employment Term, (i) the Employee's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities in and with respect to the Company shall be at least equivalent in all material respects to the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control and (ii) the Employee's service shall be performed at the location where the Employee was employed immediately preceding the Change of Control or any office or location less than 50 miles from such location.

5.3 Compensation and Benefits. During the Modified Employment Term, in addition to the compensation and benefits described in Section 2, the Employee shall be entitled to the following compensation and benefits:

(a) Salary. During the Modified Employment Term, Employee's Base Salary shall be as provided for in Section 2.1.

(b) Benefit Plans. During the Modified Employment Term, the Employee and his family, if any, shall be entitled to participate in and receive applicable benefits under all such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental health and travel accident insurance plans and programs) and (iii) paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other peer employees of the Company and its affiliated companies in effect generally after the Change of Control or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

(c) Expenses. During the Modified Employment Term, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Employee in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect generally after the Change of Control with respect to other peer employees of the Company and its affiliated companies or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

(d) Office and Support Staff. During the Modified Employment Term, the Employee shall be entitled to an office or offices of a size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided generally after the Change of Control with respect to other peer employees of the Company and its affiliated companies or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

5.4 Termination of Employment after a Change of Control. After a Change of Control and during the Modified Employment Term, the Employee's status as an employee shall terminate or may be terminated as provided in Section 3 of this Agreement; provided, however, that after a Change of Control and during the Modified Employment Term the terms "Cause" and "Good Reason," as

used in Section 3 and elsewhere in this Agreement, shall have the meanings given to them in this Section 5 and not the meanings given to them in Section 3.

5.5 Obligations of the Company upon Termination after a Change of Control. (a) If, after a Change of Control and prior to the end of the Modified Employment Term, the Company terminates the Employee's employment other than for Cause, death or Disability, or the Employee terminates employment for Good Reason, then

(i) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal to the Employee's Base Salary through the end of the Modified Employment Term had such termination not occurred; and

(ii) Employee shall be entitled to the benefits provided in Section 4.3(b) and the amounts, if any, contemplated by Sections 4.6 and 4.7.

(b) If, after a Change of Control and prior to the end of the Modified Employment Term, the Employee's employment is terminated (i) for death, (ii) for Disability or (iii) for Cause (as defined in this Section 5), by the Employee for reasons other than Good Reason (as defined in this Section 5) or at the end of the Modified Employment Term, then the Employee shall be entitled to the benefits described in Section 4.1, Section 4.2 or Section 4.4, as the case may be, and shall be entitled to the benefits described in Sections 4.6 and 4.7. If the Company or the Employee gives notice of termination of the Modified Employment Term as provided for in Section 5.2, the Company may, at its option, terminate Employee's status as an Employee, in which case such termination shall be deemed a termination without Cause for purposes of all provisions of this Agreement.

(c) The rights and obligations of the Company and Employee contained in Section 4.5 ("Resignation as Director") shall continue to apply after a Change of Control.

5.6 Certain Additional Payments. If after a Change of Control Employee is subjected to an excise tax as a result of the "excess parachute payment" provisions of section 4999 of the Internal Revenue Code of 1986, as amended, whether by virtue of the benefits of this Agreement or by virtue of any other benefits provided to Employee in connection with a Change of Control pursuant to Company plans, policies or agreements (including the value of any options to acquire Common Stock of the Company the exercisability of which is accelerated pursuant to the terms of any stock option, incentive or similar plan heretofore or hereafter adopted by the Company), the Company shall pay to Employee (whether or not his employment has terminated) such amounts as are necessary to place Employee in the same position after payment of federal income and excise taxes and state and local income taxes as he would have been if such provisions had not been applicable to him.

Section 6.Miscellaneous

6.1 Binding Effect.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Employee and shall not be assignable by the Employee without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Employee. In the event of any such assignment or succession, the term "Company" as used in this Agreement shall refer also to such successor or assign.

(d) The Company shall require all entities that control, or that after the Change of Control will control, directly or indirectly, any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such agreement to be set forth in writing reasonably satisfactory to the Employee.

6.2 Notices. All notices hereunder must be in writing and shall be deemed to have given upon receipt of delivery by: (a) personal delivery to the designated individual, (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) facsimile transmission with confirmation of receipt. All such notices must be addressed as follows or such other address as to which any party hereto may have notified the other in writing:

If to the Company, to:

Akorn, Inc.
100 Akorn Drive
Abita Springs, Louisiana 70420
Attn: Chairman of the Board
Facsimile transmission No. (504) 893-1257

If to the Employee, to:

Barry D. LeBlanc
15 Neron Place
New Orleans, Louisiana 70118
Facsimile transmission No. (504) 861-9649

6.3 Governing Law. This Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Louisiana.

6.4 Withholding. The Employee agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

6.5 Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, Employee and the Company intend for any court construing this Agreement to modify or limit such provision temporally, spatially or otherwise so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application

of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

6.6 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

6.7 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

6.8 Company's Reservation of Rights. Employee acknowledges and understands that the Employee serves at the pleasure of the Board and that the Company has the right at any time to terminate Employee's status as an employee of the Company, or to change or diminish his status during the Employment Term, subject to the rights of the Employee to claim the benefits conferred by this Agreement.

6.9 Survival. Following the Date of Termination, each party shall have the right to enforce all rights, and shall be bound by all obligations, of such party that are continuing rights and obligations under this Agreement.

6.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Employee have caused this Agreement to be executed as of the Agreement Date.

AKORN, INC.

By: /s/ George S. Ellis, M.D.
George S. Ellis, M.D.
Compensation Committee Chairman

EMPLOYEE:

/s/ Barry D. LeBlanc
Barry D. LeBlanc

SEPARATION AGREEMENT

THIS SEPARATION AGREEMENT (the "Agreement") is made and entered into as of July 3, 1996 by and between Akorn Incorporated, a Louisiana corporation ("Akorn") and Barry D. LeBlanc, an individual residing at 15 Neron Place, New Orleans, LA 70118 (referred to herein as "Executive").

W I T N E S S E T H:

WHEREAS, the Executive has served as President and Chief Executive Officer and a Director of Akorn; and

WHEREAS, Akorn and Executive have determined that it is in their mutual best interest that Executive discontinue his service as President, Chief Executive Officer and a Director of Akorn; and

WHEREAS, Executive has agreed to resign from his positions as President, Chief Executive Officer and a Director of Akorn effective July 3, 1996; and

WHEREAS, Executive and Akorn have each agreed to release the other from any liability, including, but not limited to, liability arising out of Executive's employment with Akorn and Executive's resignation from his present positions with Akorn,

NOW, THEREFORE, it is agreed by and between Akorn and Executive as follows:

1. Resignation. Executive hereby resigns as President, Chief Executive Officer and a Director of Akorn all effective as of July 3, 1996.

2. Compensation.

(a) Akorn will, in consideration for Executive's resignation and execution of the releases contained in this Agreement, pay to Executive Two Hundred Thirteen Thousand Forty-Five and 00/100 Dollars ($213,045) (the "Separation Payment"), payable in four equal installments of Fifty-Three Thousand Two Hundred Sixty-One and 25/100 Dollars ($53,261.25) with the first such payment being made eight (8) days after execution of this Agreement, with two subsequent payments on October 3, 1996 and January 3, 1997 and a final payment on April 3, 1997.

(b) The amount of the Separation Payment which remains unpaid from time to time shall bear interest until paid at a rate equal to the "prime rate" as published and/or announced, from time to time, by the Northern Trust Company (the "Bank") as its "prime rate" of interest, which is not necessarily the lowest rate of interest offered by the Bank to its customers, such rate of interest fluctuating from time to time concurrently with and in an amount equal to each change in said prime rate published and/or announced by the Bank; provided, however, that at the election of the Executive, the amount of interest that would be payable on the Separation Payment (which amount, as calculated in Exhibit A which is attached hereto, equals $6,713.14) may be applied by Executive as a credit toward the purchase of the 1996 Ford Explorer automobile which the Executive has been provided with by Akorn and which automobile will be offered to Executive for purchase eight (8) days after execution of this Agreement at a price of $23,000.00.

(c) In addition to the Separation Payment, Akorn will

also make a lump sum payment to Executive of Twenty-Three Thousand Four Hundred Twenty-Two and 72/100 Dollars ($23,422.72) representing accrued but unpaid vacation and sick pay (the "Accrued Compensation"), such payment to be made eight (8) days after execution of this Agreement.

3. Confidentiality.

(a) Executive agrees that the "Confidential Information" (as herein defined) obtained or developed by him during the course of his employment with Akorn is confidential and, accordingly, agrees that he will not disclose to any person or use for his own account, or for the account of others, directly or indirectly, any of the Confidential Information without the prior written consent of Akorn, unless and then only to the extent that, such matters may be otherwise generally available for use by the public and not as a result of his acts or omissions to act.

As used herein, "Confidential Information" means any and all information in the possession of the Executive (i) that pertains or belongs to Akorn or its customers and is not generally available to the public, including, but not limited to, personnel information, customer lists, supplier lists, product specifications and names, the nature and scope of research activities, product composition and formulas, trade secrets, drawings and schematics, manufacturing processes, know how, computer and any other processed or collated data, computer programs, pricing, marketing and advertising data; or (ii) that is related to product development plans or distribution and marketing plans.

(b) Executive agrees to keep the terms of this Agreement confidential except that the source and amount of his income may be revealed as necessary for tax, loan purposes and the like.

(c) Executive agrees that money damages cannot adequately compensate Akorn in case of a breach or threatened breach of this promise of confidentiality and that, accordingly, Akorn would be entitled to injunctive relief upon such breach. Executive understands that it is Akorn's intent to have this promise of confidentiality enforced to its fullest extent. Accordingly, Executive and Akorn agree that, if any portion of this promise of confidentiality is unenforceable, the court should still construe and enforce this promise of confidentiality to the fullest extent permitted by law.

4. Non-Derogation. Executive covenants and agrees with Akorn to refrain, and to use his good faith efforts to cause family members and business associates to refrain, from making any written or oral statements to any third party which are of a derogatory nature with respect to Akorn, its officers, directors, shareholders, business, products or services.

5. Mutual Assent and Release.

(a) Akorn agrees that it has entered into this agreement on a purely voluntary basis and, in consideration of the benefits provided to Akorn herein, Akorn further agrees to release and discharge Executive, his heirs, agents, attorneys and representatives (the "Released Parties"), from any and all claims, actions, causes of actions, grievances, charges, lawsuits, damages and/or liabilities whatsoever that it ever had, or now has, whether fixed or contingent, liquidated or unliquidated and whether

arising in tort, contract, statute or equity, before any federal, state, local or private court, agency, arbitrator, mediator, or other entity, regardless of the relief or remedy. It is agreed that this paragraph shall survive termination of this Agreement. Without limitation, Akorn expressly acknowledges and agrees that, by entering into this Agreement, Akorn is waiving and releasing any and all rights or claims that it may have against any of the Released Parties arising out of the negotiation, execution and implementation of any employment contracts by and between Akorn and its executive employees, including, but not limited to, the Executive.

(b) Executive agrees that he has entered into this Agreement on a purely voluntary basis and, in consideration of the benefits provided to Executive herein, Executive further agrees to release and discharge Akorn, its shareholders, directors, officers, managers, supervisors, agents, attorneys, representatives and employees (the "Released Parties"), from any and all claims, actions, causes of action, grievances, charges, lawsuits, damages and/or liabilities whatsoever that he ever had, or now has, whether fixed or contingent, liquidated or unliquidated and whether arising in tort, contract, statute or equity, before any federal, state, local or private court, agency, arbitrator, mediator, or other entity, regardless of the relief or remedy. It is agreed that this paragraph shall survive termination of this Agreement. Without limitation, Executive expressly acknowledges and agrees that, by entering into this Agreement, Executive is waiving and releasing any and all rights or claims that he may have against any of the Released Parties arising under the Age Discrimination and Employment Act of 1967, as amended; Title VII of the Civil Rights Act of 1964, as amended; the Rehabilitation Act of 1973, as amended; the Employee Retirement Income Security Act of 1974, as amended; the Civil Rights Act of 1991; the Americans with Disabilities Act; the Family and Medical Leave Act; or, any acts or statutes of Louisiana or the common law providing remedies for wrongful discharge, defamation or invasion of privacy. Executive further expressly acknowledges and agrees that:

(i) In return for this Agreement, Executive will receive consideration beyond that which he was already entitled to receive before entering into this Agreement;

(ii) Executive has been advised by Akorn to consult with an attorney before signing this Agreement;

(iii) Executive was given a copy of this Agreement on June 28, 1996, and informed that he had up to twenty-one (21) days within which to review and consider this Agreement.

(iv) Executive was informed that Executive had seven (7) days following execution of this Agreement in which to revoke the Agreement. After seven (7) days this Agreement will become effective, enforceable and irrevocable unless written revocation is received by the undersigned from Executive on or before the close of business on the seventh day after Executive executed this Agreement. If Executive attempts to revoke this Agreement it shall not be effective or enforceable and Executive will not receive the compensation or benefits described in this Agreement.

6. Non-Assignability; Assignment in the Event of

Acquisition or Merger. This Agreement, and the benefits hereunder are not assignable or transferrable by Executive and the rights and obligations of Akorn under this Agreement will automatically be deemed to be assigned by Akorn to any corporation or entity acquiring all or substantially all of the assets of Akorn or to any corporation or entity into which Akorn may be merged or consolidated; provided, however, that in the event of Executive's death, Akorn shall make such payments as may then be due and owing to the Executive, if any, to the Executive's estate.

7. Miscellaneous.

(a) Entire Agreement; Amendment. This Agreement, and all documents delivered herewith, constitute the entire Agreement and understanding among the parties with respect to the matters contained herein, shall supersede all prior oral or written agreements or covenants of the parties, and shall be binding upon and inure to the benefit of the parties and their respective heirs, predecessors, personal representatives, successors and assigns, present or future. This Agreement shall not be modified or changed except by instrument in writing signed by or on behalf of each of the parties hereto.

(b) Counterparts. This Agreement and all documents delivered pursuant hereto may be executed in one or more counterparts and each and every fully executed counterpart may be deemed to be an original hereof.

(c) Headings. The descriptive headings in this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

(d) Waiver. The failure of any party hereto to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision, nor in any way to effect the validity of this Agreement or any provision, it being agreed that each provision hereof is, material, significant and essential to each of the parties agreements and undertakings hereunder. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach.

(e) Notice. Any notice, request, instruction or instrument to be given by any party to the other party shall be in writing and shall be deemed to have been given if sent by Federal Express (or similar overnight delivery service) or by registered or certified mail, return receipt requested,

(i) if to Executive at: 15 Neron Place
New Orleans, LA 70118

(ii) if to Akorn at: 100 Akorn Drive
Abita Springs, LA 70420

(f) Invalidity. If any provision of this Agreement, or the application thereof to any person or circumstance, shall be construed for any reason and to any extent to be invalid or unenforceable, but the extent of the invalidity or unenforceability does not destroy the basis of the bargain between the parties contained herein, the remainder of this Agreement, and the application of such provision to other persons or circumstances, shall not be effected thereby, but shall be enforced to the greatest extent permitted by law.

(g) Expenses. Each of the parties hereto shall pay its own expenses, including, but not limited to, the fees of its separate counsel, in connection with this Agreement.

(h) Choice of Law. This Agreement shall be construed in accordance with the laws of the State of Delaware, and the rights and obligations of the parties hereunder shall be construed and enforced in accordance with, and governed by the laws of the State of Delaware, without regard to principals of conflict of laws.

Akorn and Executive, having read and understood this Agreement, and having consulted with advisors as appropriate, hereby each agree to be bound by its terms.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and date first above written.

AKORN INCORPORATED

By:
Its:

Barry D. LeBlanc

EXHIBIT A

INTEREST PAYABLE ON QUARTERLY INSTALLMENTS OF SEPARATION PAYMENT

Installment Number	Amount	Payment Date	Interest Rate	Days from 7/3/96 Until Payment	Interest Amount
1	$ 53,261.25	*	8.25%	0	$ -
2	53,261.25	10/3/96	8.25%	92	1,122.92
3	53,261.25	1/3/96	8.25%	184	2,245.85
4	53,261.25	4/3/97	8.25%	274	3,344.36
	$213,045.00				$6,713.14

* Eight (8) days after execution of the Agreement.

EMPLOYMENT AGREEMENT--ERIC M. WINGERTER

This Employment Agreement ("Agreement") between Akorn, Inc., a Louisiana corporation (the "Company"), and Eric M. Wingerter (the "Employee") is dated as of January 1, 1996 (the "Agreement Date").

WHEREAS, Employee currently is employed by the Company;

WHEREAS, the Company desires to retain the services of Employee pursuant to the terms of this Agreement and Employee desires to continue in the service of the Company on such terms;

NOW, THEREFORE, for and in consideration of the continued employment of Employee by the Company and the payment of wages, salary and other compensation to Employee by the Company, the parties hereto agree as follows:

Section 1.Employment Capacity and Term

1.1 Capacity and Duties of Employee. The Employee is employed by the Company to render services on behalf of the Company as Vice President - Finance & Administration and Chief Financial Officer. In that capacity the Employee shall perform such duties as are assigned to the individual holding any such title by the Company's Bylaws and such other duties, consistent with the Employee's job title, as may be prescribed from time to time by the Board of Directors of the Company (the "Board").

1.2 Employment Term. The term of this Agreement (the "Employment Term") shall commence on the Agreement Date and shall continue until and terminate one year after either the Company or the Employee has notified the other of such termination of the Employment Term; and provided, further, that the Employment Term is subject to extension as provided in Section 5.2 and Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement.

1.3 Devotion to Responsibilities. During the Employment Term, the Employee shall devote all of his business time to the business of the Company and its subsidiaries and affiliated companies, shall use his reasonable best efforts to perform faithfully and efficiently his duties under this Agreement, and shall not engage in or be employed by any other business; provided, however, that nothing contained herein shall prohibit the Employee from (a) serving as a member of the board of directors, board of trustees or the like of any for-profit or non-profit entity that does not compete with the Company, or performing services of any type for any civic or community entity, whether or not the Employee receives compensation therefor, (b) investing his assets in such form or manner as shall require no more than nominal services on the part of the Employee in the operation of the business of or property in which such investment is made, or (c) serving in various capacities with, and attending meetings of, industry or trade groups and associations, as long as the Employee's engaging in any activities permitted by virtue of clauses (a), (b) and (c) above does not materially interfere with the ability of the Employee to perform the services and discharge the responsibilities required of him under this Agreement. Notwithstanding clause (b) above, during the Employment Term, the Employee shall not perform any services for and shall not beneficially own more than 2% of the equity interests of a business organization that competes with the Company or its affiliates. For purposes of this paragraph, "beneficially own" shall have the meaning given to that term in Rule 13d-3 under the Securities Exchange Act of 1934 (the

"Exchange Act").

Section 2. Compensation and Benefits

During the Employment Term, the Company shall provide the Employee with the compensation and benefits described below:

2.1 Salary. A salary ("Base Salary") at the rate of $90,000 per year; provided, however, that Employee's Base Salary shall increase as of each anniversary of the Agreement Date by a factor equal to the increase in the Consumer Price Index maintained by the United States Department of Labor. Employee's Base Salary shall be payable to the Employee at such intervals as the salaries of other salaried employees of the Company are paid. Any increase in Employee's Base Salary shall take effect for the payroll period next following the date on which the condition to such increase is met.

2.2 Bonus. Employee shall be eligible to receive such bonuses and supplementary compensation as the Board may determine.

2.3 Benefits. The Company shall provide the Employee and, if applicable, his family members, with all such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, employee life, group life, accident health and travel accident insurance plans and programs) and (iii) paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other peer employees of the Company and its affiliated companies.

2.4 Office and Support Staff. Employee shall be entitled to an office or offices of the size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the those provided to him on the Agreement Date.

2.5 Expenses. The Employee shall be reimbursed for reasonable out-of-pocket expenses incurred from time to time on behalf of the Company or any subsidiary in the performance of his duties under this Agreement, upon the presentation of such supporting invoices, documents and forms as the Company reasonably requests.

Section 3. Termination of Employment

3.1 Death. The Employee's status as an employee shall terminate immediately and automatically upon the Employee's death during the Employment Term.

3.2 Disability. The Employee's status as an employee may be terminated for "Disability" as follows:

(a) The Employee's status as an employee shall terminate if the Employee has a disability that would entitle him to receive benefits under the Company's long-term disability insurance policy in effect at the time either because he is Totally Disabled or Partially Disabled, as such terms are defined in the Company's policy in effect as of the Agreement Date or as similar terms are defined in any successor policy. Any such termination shall become effective on the first day on which the Employee is eligible to receive payments under such policy (or on the first day that he would be so eligible, if he had applied timely for such payments).

(b) If the Company has no long-term disability plan in

effect, the Employee's status as an employee shall terminate if (i) the Employee is rendered incapable because of physical or mental illness of satisfactorily discharging his duties and responsibilities under this Agreement for a period of 90 consecutive days and (ii) a duly qualified physician chosen by the Company and acceptable to the Employee or his legal representative so certifies in writing, the Board shall have the power to determine that the Employee has become disabled. If the Board makes such a determination, the Company shall have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of Employee as an employee. Any such termination shall become effective 30 days after such notice of termination is given, unless within such 30-day period, the Employee becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Company and acceptable to the Employee or his legal representative so certifies in writing) and the Employee in fact resumes such services.

(c) The "Disability Effective Date" shall mean the date on which termination of employment becomes effective due to Disability.

3.3 Cause. The Company may terminate the Employee's status as an employee for Cause. As used herein, termination by the Company of the Employee's status as an employee for "Cause" shall mean termination as a result of (a) the Employee's breach of this Agreement, or (b) the willful engaging by the Employee in gross misconduct injurious to the Company, which in either case is not remedied within 10 days after the Company provides written notice to the Employee of such breach or willful misconduct.

3.4 Good Reason. The Employee may terminate his status as an employee for Good Reason. As used herein, the term "Good Reason" shall mean:

(a) The occurrence of any of the following during the Employment Term:

(i) the assignment by the Board or by any authorized person to the Employee of any duties or responsibilities that are inconsistent with the Employee's status, title and position as Vice President - Finance & Administration and Chief Financial Officer;

(ii) any removal of the Employee from, or any failure to reappoint or reelect the Employee to, the position of Vice President - Finance & Administration and Chief Financial Officer of the Company, except in connection with a termination of Employee's status as an employee as permitted by this Agreement;

(iii) the Company's requiring the Employee to be based anywhere other than at or within 50 miles of the Company's headquarters in Abita Springs, Louisiana, except for required travel in the ordinary course of the Company's business;

(b) any breach of this Agreement by the Company that continues for a period of 10 days after written notice thereof is given by the Employee to the Company;

(c) the failure by the Company to obtain the assumption of its obligations under this Agreement by any successor or assignee as contemplated by Section 6.1(c); or

(d) any purported termination by the Company of the Employee's status as an employee for Cause that is not effected pursuant to a Notice of Termination satisfying the requirements

of this Agreement.

3.5 Voluntary Termination by the Company. Subject to the terms and conditions provided herein, the Company may terminate the Employee's status as an employee during the Employment Term for reasons other than death, Disability or Cause.

3.6 Voluntary Termination by the Employee. Subject to the terms and conditions provided herein, the Employee may terminate the Employee's status as an employee during the Employment Term for reasons other than Good Reason.

3.7 Notice of Termination. Any termination by the Company for Disability or Cause, or by the Employee for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 6.2. For purposes of this Agreement, a "Notice of Termination" means a written notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provisions so indicated and (c) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Employee or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason, Disability or Cause shall not negate the effect of the notice nor waive any right of the Employee or the Company, respectively, hereunder or preclude the Employee or the Company, respectively, from asserting such fact or circumstance in enforcing the Employee's or the Company's rights hereunder.

3.8 Date of Termination. "Date of Termination" means (a) if Employee's employment is terminated by reason of his death or Disability, the Date of Termination shall be the date of death of Employee or the Disability Effective Date, as the case may be, (b) if Employee's employment is terminated by the Company for Cause, or by Employee for Good Reason, the date of delivery of the Notice of Termination or any later date specified therein, (which date shall not be more than 30 days after the giving of such notice) as the case may be, (c) if the Employee's employment is terminated by the Company prior to the end of the Employment Term for reasons other than death, Disability or Cause, the Date of Termination shall be the date on which the Company notifies the Employee of such termination, (d) if the Employee's employment is terminated by the Employee prior to the end of the Employment Term for reasons other than Good Reason, the Date of Termination shall be the date on which the Employee notifies the Company of such termination, and (e) if the Employment Term terminates upon notice by the Company or the Employee as provided for in Section 1.2 or Section 5.2, the Date of Termination shall be the date on which the Employment Term ends.

Section 4. Obligations Upon Termination

4.1 Death. If Employee's status as an employee is terminated by reason of Employee's death, this Agreement shall terminate without further obligations to Employee's legal representatives under this Agreement, other than the obligation to make any payments due pursuant to employee benefit plans maintained by the Company or its subsidiaries.

4.2 Disability. If Employee's status as an employee is terminated by reason of Employee's Disability, this Agreement shall terminate without further obligation to Employee, other than the obligation to make any payments due pursuant to employee benefit plans maintained by the Company or its subsidiaries.

4.3 Termination by Company for Reasons other than Death, Disability or Cause; Termination by Employee for Good Reason. If the Company terminates the Employee's status as an employee prior to the end of the Employment Term for reasons other than death, Disability or Cause, or the Employee terminates his employment prior to the end of the Employment Term for Good Reason, then

(a) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal to the Employee's Base Salary through the end of the Employment Term had the notice contemplated by Section 1.2 been given as of the Date of Termination; and

(b) the amount of any performance-based bonus or options granted to the Employee shall be deemed to be the amount to which the Employee would have been entitled if the budgeted goals or other performance goals applicable thereto had been met but not exceeded and, whether or not the performance goals have been met as of the Date of Termination, such bonus shall be payable within 30 days of the Date of Termination and such options (if not already exercisable) shall become exercisable as of the Date of Termination and shall expire on the date of expiration of the options as provided in the applicable option agreement.

4.4 Termination for Cause, Without Good Reason or at End of Employment Term. This Agreement shall terminate without further obligation to the Employee other than obligations imposed by law and obligations imposed pursuant to any employee benefit plan maintained by the Company or its subsidiaries (a) if the Employee's status as an Employee is terminated by the Company for Cause or by the Employee for reasons other than Good Reason or (b), except as otherwise provided in Section 5.2, at the end of the Employment Term. If the Company or the Employee gives notice of termination of the Employment Term as provided for in Section 1.2, the Company may, at its option, terminate Employee's status as an employee, in which case such termination shall be deemed a termination by the Company without Cause for purposes of all provisions of this Agreement.

4.5 Resignation as Director. If Employee is a director of the Company and his employment is terminated for any reason other than death, the Employee shall, if requested by the Company, immediately resign as a director of the Company. If such resignation is not received when so requested, the Employee shall forfeit any right to receive any payments pursuant to this Agreement.

4.6 Accrued Obligations and Other Benefits. Upon termination of employment for any reason the Employee shall be entitled to receive promptly, and in addition to any other benefits specifically provided, (a) the Employee's Base Salary through the Date of Termination to the extent not theretofore paid, (b) any accrued vacation pay, to the extent not theretofore paid, and (c) any other amounts or benefits required to be paid or provided or which the Employee is entitled to receive under any plan, program, policy practice or agreement of the Company.

4.7 Stock Options. The foregoing benefits are intended to be in addition to the value of any options to acquire Common Stock of the Company the exercisability of which may be accelerated pursuant to the terms of any stock option, incentive or other similar plan heretofore or hereafter adopted by the Company.

Section 5. Change of Control

5.1 Definitions. For purposes of this Section 5, the following terms shall have the meanings indicated below.

(a) Company. In the event of any assignment or succession as described in Section 6.1(c), the term "Company" as used in this Agreement shall refer also to such successor or assignee.

(b) Change of Control. A Change of Control shall mean the occurrence of any of the following events:

(i) the acquisition by any individual, entity or "person" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership of more than 30% of the outstanding shares of the Company's common stock, no par value per share (the "Common Stock"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control:

(A) any acquisition of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or

(D) any acquisition of Common Stock by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection (b)(iii) of this Section 5.1; or

(ii) individuals who, as of the Agreement Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Incumbent Board; or

(iii) the consummation of a reorganization, merger or consolidation, or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in any such case, unless, following such Business Combination,

(A) all or substantially all of the individuals and entities who were the direct or indirect beneficial owners of the Company's outstanding common stock and the Company's voting securities entitled to vote generally in the election of directors immediately prior to such Business Combination have direct or indirect beneficial ownership, respectively, of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the corporation resulting from such Business Combination (which, for purposes of this paragraph (A) and paragraphs (B) and (C), shall include a corporation which as a result of such transaction controls the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), and

(B) except to the extent that such ownership existed prior to the Business Combination, no person (excluding any corporation resulting from such Business Combination or any employee benefit plan or related trust of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or 20% or more of the combined voting power of the then outstanding voting securities of such corporation, and

(C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the board of directors of the Company at the time of the initial action of the Board providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(c) Affiliate. The term "affiliate" or "affiliated companies" shall mean any company or other entity controlled by, controlling, or under common control with, the Company.

(d) Cause. After a Change of Control, "Cause," as used in this Agreement, shall have the following meaning and not the meaning given in Section 3.3:

(i) the willful and continued failure of the Employee to perform substantially the Employee's duties hereunder (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Employee by the Board of the Company which specifically identifies the manner in which the Board believes that the Employee has not substantially performed the Employee's duties, or

(ii) the willful engaging by the Employee in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company or its affiliates.

For purposes of this provision, no act or failure to act, on the part of the Employee, shall be considered "willful" unless it is done, or omitted to be done, by the Employee in bad faith or without reasonable belief that the Employee's action or omission was in the best interests of the Company or its affiliates. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of a senior officer of the Company or based upon the advice of counsel for the Company or its affiliates shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Company or its affiliates. The cessation of employment of the Employee shall not be deemed to be for Cause unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Employee and the Employee is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Employee has engaged in the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(e) Good Reason. After a Change of Control, "Good Reason," as used in this Agreement, shall have the following meaning and not the meaning given in Section 3.4:

(i) Any failure of the Company or its affiliates to provide the Employee with the position, authority, duties and responsibilities at least equivalent in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control;

(ii) The assignment to the Employee of any duties inconsistent in any respect with Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 1.1, or any other action that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied within 10 days after receipt of written notice thereof from the Employee to the Company;

(iii) Any failure by the Company or its affiliates to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith that is remedied within 10 days after receipt of written notice thereof from the Employee to the Company;

(iv) The Company or its affiliates requiring the Employee to be based at any office or location other than as provided in Section 3.4(a)(iii) hereof or requiring the Employee to travel on business to a substantially greater extent than required immediately prior to the Change of Control;

(v) Any purported termination of the Employee's employment otherwise than as expressly permitted by this Agreement; or

(vi) Any failure by the Company to comply with and satisfy Sections 6.1(c) and (d) of this Agreement.

For purposes of this Section 5, any good faith determination of "Good Reason" made by the Employee shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Employee for any reason during the 30-day period immediately following the first anniversary of the Change of Control shall be deemed to be a termination for Good Reason.

(f) Beneficial Ownership. The terms "beneficial ownership," "beneficial owner," "beneficially owns," and similar terms shall have the meanings set forth in Rule 13d-3 under the Exchange Act.

5.2 Employment Capacity and Term after Change of Control. (a) If a Change of Control occurs during the Employment Term, the Employee's Employment Term (the "Modified Employment Term") shall be extended until and terminate at the close of business on the later to occur of the second anniversary of the Change of Control; or the date one year after the date on which either the Company or the Employee has notified the other of such termination; and provided, further, that Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement.

(b) After a Change of Control and during the Modified Employment Term, (i) the Employee's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities in and with respect to the Company shall be at least equivalent in all material respects to the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of

Control and (ii) the Employee's service shall be performed at the location where the Employee was employed immediately preceding the Change of Control or any office or location less than 50 miles from such location.

5.3 Compensation and Benefits. During the Modified Employment Term, in addition to the compensation and benefits described in Section 2, the Employee shall be entitled to the following compensation and benefits:

(a) Salary. During the Modified Employment Term, Employee's Base Salary shall be as provided for in Section 2.1.

(b) Benefit Plans. During the Modified Employment Term, the Employee and his family, if any, shall be entitled to participate in and receive applicable benefits under all such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental health and travel accident insurance plans and programs) and (iii) paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other peer employees of the Company and its affiliated companies in effect generally after the Change of Control or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

(c) Expenses. During the Modified Employment Term, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Employee in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect generally after the Change of Control with respect to other peer employees of the Company and its affiliated companies or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

(d) Office and Support Staff. During the Modified Employment Term, the Employee shall be entitled to an office or offices of a size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided generally after the Change of Control with respect to other peer employees of the Company and its affiliated companies or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

5.4 Termination of Employment after a Change of Control. After a Change of Control and during the Modified Employment Term, the Employee's status as an employee shall terminate or may be terminated as provided in Section 3 of this Agreement; provided, however, that after a Change of Control and during the Modified Employment Term the terms "Cause" and "Good Reason," as used in Section 3 and elsewhere in this Agreement, shall have the meanings given to them in this Section 5 and not the meanings given to them in Section 3.

5.5 Obligations of the Company upon Termination after a Change of Control. (a) If, after a Change of Control and prior to the end of the Modified Employment Term, the Company terminates the Employee's employment other than for Cause, death or Disability, or the Employee terminates employment for Good Reason, then

(i) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal

to the Employee's Base Salary through the end of the Modified Employment Term had such termination not occurred; and

(ii) Employee shall be entitled to the benefits provided in Section 4.3(b) and the amounts, if any, contemplated by Sections 4.6 and 4.7.

(b) If, after a Change of Control and prior to the end of the Modified Employment Term, the Employee's employment is terminated (i) for death, (ii) for Disability or (iii) for Cause (as defined in this Section 5), by the Employee for reasons other than Good Reason (as defined in this Section 5) or at the end of the Modified Employment Term, then the Employee shall be entitled to the benefits described in Section 4.1, Section 4.2 or Section 4.4, as the case may be, and shall be entitled to the benefits described in Sections 4.6 and 4.7. If the Company or the Employee gives notice of termination of the Modified Employment Term as provided for in Section 5.2, the Company may, at its option, terminate Employee's status as an Employee, in which case such termination shall be deemed a termination without Cause for purposes of all provisions of this Agreement.

(c) The rights and obligations of the Company and Employee contained in Section 4.5 ("Resignation as Director") shall continue to apply after a Change of Control.

5.6 Certain Additional Payments. If after a Change of Control Employee is subjected to an excise tax as a result of the "excess parachute payment" provisions of section 4999 of the Internal Revenue Code of 1986, as amended, whether by virtue of the benefits of this Agreement or by virtue of any other benefits provided to Employee in connection with a Change of Control pursuant to Company plans, policies or agreements (including the value of any options to acquire Common Stock of the Company the exercisability of which is accelerated pursuant to the terms of any stock option, incentive or similar plan heretofore or hereafter adopted by the Company), the Company shall pay to Employee (whether or not his employment has terminated) such amounts as are necessary to place Employee in the same position after payment of federal income and excise taxes and state and local income taxes as he would have been if such provisions had not been applicable to him.

Section 6. Miscellaneous

6.1 Binding Effect.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Employee and shall not be assignable by the Employee without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Employee. In the event of any such assignment or succession, the term "Company" as used in this Agreement shall refer also to such successor or assign.

(d) The Company shall require all entities that control, or that after the Change of Control will control, directly or indirectly, any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such agreement to be set forth in writing reasonably satisfactory to the Employee.

6.2 Notices. All notices hereunder must be in writing and shall be deemed to have given upon receipt of delivery by: (a) personal delivery to the designated individual, (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) facsimile transmission with confirmation of receipt. All such notices must be addressed as follows or such other address as to which any party hereto may have notified the other in writing:

If to the Company, to:

Akorn, Inc.
100 Akorn Drive
Abita Springs, Louisiana 70420
Attn: President
Facsimile transmission No. (504) 893-1257

If to the Employee, to:

Eric M. Wingerter
104 Barnwood Street
Pearl River, Louisiana 70452
Facsimile transmission No. (504) 863-3315

6.3 Governing Law. This Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Louisiana.

6.4 Withholding. The Employee agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

6.5 Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, Employee and the Company intend for any court construing this Agreement to modify or limit such provision temporally, spatially or otherwise so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

6.6 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

6.7 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies

provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

6.8 Company's Reservation of Rights. Employee acknowledges and understands that the Employee serves at the pleasure of the Board and that the Company has the right at any time to terminate Employee's status as an employee of the Company, or to change or diminish his status during the Employment Term, subject to the rights of the Employee to claim the benefits conferred by this Agreement.

6.9 Survival. Following the Date of Termination, each party shall have the right to enforce all rights, and shall be bound by all obligations, of such party that are continuing rights and obligations under this Agreement.

6.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Employee have caused this Agreement to be executed as of the Agreement Date.

AKORN, INC.

By: /s/ J. Ed Campbell, M.D.
J. Ed Campbell, M.D.
Compensation Committee Chairman

EMPLOYEE:
/s/ Eric M. Wingerter
Eric M. Wingerter

EMPLOYMENT AGREEMENT--HAROLD O. KOCH

This Employment Agreement ("Agreement") between Akorn, Inc., a Louisiana corporation (the "Company"), and Harold O. Koch (the "Employee") is dated as of January 1, 1996 (the "Agreement Date").

WHEREAS, Employee currently is employed by the Company;

WHEREAS, the Company desires to retain the services of Employee pursuant to the terms of this Agreement and Employee desires to continue in the service of the Company on such terms;

NOW, THEREFORE, for and in consideration of the continued employment of Employee by the Company and the payment of wages, salary and other compensation to Employee by the Company, the parties hereto agree as follows:

Section 1.Employment Capacity and Term

1.1 Capacity and Duties of Employee. The Employee is employed by the Company to render services on behalf of the Company as Senior Vice President. In that capacity the Employee shall perform such duties as are assigned to the individual holding any such title by the Company's Bylaws and such other duties, consistent with the Employee's job title, as may be prescribed from time to time by the Board of Directors of the Company (the "Board").

1.2 Employment Term. The term of this Agreement (the "Employment Term") shall commence on the Agreement Date and shall continue until and terminate one year after either the Company or the Employee has notified the other of such termination of the Employment Term; and provided, further, that the Employment Term is subject to extension as provided in Section 5.2 and Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement.

1.3 Devotion to Responsibilities. During the Employment Term, the Employee shall devote all of his business time to the business of the Company and its subsidiaries and affiliated companies, shall use his reasonable best efforts to perform faithfully and efficiently his duties under this Agreement, and shall not engage in or be employed by any other business; provided, however, that nothing contained herein shall prohibit the Employee from (a) serving as a member of the board of directors, board of trustees or the like of any for-profit or non-profit entity that does not compete with the Company, or performing services of any type for any civic or community entity, whether or not the Employee receives compensation therefor, (b) investing his assets in such form or manner as shall require no more than nominal services on the part of the Employee in the operation of the business of or property in which such investment is made, or (c) serving in various capacities with, and attending meetings of, industry or trade groups and associations, as long as the Employee's engaging in any activities permitted by virtue of clauses (a), (b) and (c) above does not materially interfere with the ability of the Employee to perform the services and discharge the responsibilities required of him under this Agreement. Notwithstanding clause (b) above, during the Employment Term, the Employee shall not perform any services for and shall not beneficially own more than 2% of the equity interests of a business organization that competes with the Company or its affiliates. For purposes of this paragraph, "beneficially own" shall have the meaning given to that term in Rule 13d-3 under the Securities Exchange Act of 1934 (the

"Exchange Act").

Section 2.Compensation and Benefits

During the Employment Term, the Company shall provide the Employee with the compensation and benefits described below:

2.1 Salary. A salary ("Base Salary") at the rate of $125,000 per year; provided, however, that Employee's Base Salary shall increase as of each anniversary of the Agreement Date by a factor equal to the increase in the Consumer Price Index maintained by the United States Department of Labor. Employee's Base Salary shall be payable to the Employee at such intervals as the salaries of other salaried employees of the Company are paid. Any increase in Employee's Base Salary shall take effect for the payroll period next following the date on which the condition to such increase is met.

2.2 Bonus. Employee shall be eligible to receive such bonuses and supplementary compensation as the Board may determine.

2.3 Benefits. The Company shall provide the Employee and, if applicable, his family members, with the following benefits and perquisites:

(a) The Company will continue to provide for Employee's use a new Oldsmobile Ninety-Eight or other equivalent new automobile of his choice, such automobile to be replaced every third year, and to provide or reimburse Employee for all gasoline, maintenance, repairs and insurance for such automobile.

(b) All such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, employee life, group life, accident health and travel accident insurance plans and programs) and (iii) paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other peer employees of the Company and its affiliated companies.

2.4 Office and Support Staff. Employee shall be entitled to an office or offices of the size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the those provided to him on the Agreement Date.

2.5 Expenses. The Employee shall be reimbursed for reasonable out-of-pocket expenses incurred from time to time on behalf of the Company or any subsidiary in the performance of his duties under this Agreement, upon the presentation of such supporting invoices, documents and forms as the Company reasonably requests.

Section 3.Termination of Employment

3.1 Death. The Employee's status as an employee shall terminate immediately and automatically upon the Employee's death during the Employment Term.

3.2 Disability. The Employee's status as an employee may be terminated for "Disability" as follows:

(a) The Employee's status as an employee shall terminate if the Employee has a disability that would entitle him to receive benefits under the Company's long-term disability insurance policy in effect at the time either because he is

Totally Disabled or Partially Disabled, as such terms are defined in the Company's policy in effect as of the Agreement Date or as similar terms are defined in any successor policy. Any such termination shall become effective on the first day on which the Employee is eligible to receive payments under such policy (or on the first day that he would be so eligible, if he had applied timely for such payments).

(b) If the Company has no long-term disability plan in effect, the Employee's status as an employee shall terminate if (i) the Employee is rendered incapable because of physical or mental illness of satisfactorily discharging his duties and responsibilities under this Agreement for a period of 90 consecutive days and (ii) a duly qualified physician chosen by the Company and acceptable to the Employee or his legal representative so certifies in writing, the Board shall have the power to determine that the Employee has become disabled. If the Board makes such a determination, the Company shall have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of Employee as an employee. Any such termination shall become effective 30 days after such notice of termination is given, unless within such 30-day period, the Employee becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Company and acceptable to the Employee or his legal representative so certifies in writing) and the Employee in fact resumes such services.

(c) The "Disability Effective Date" shall mean the date on which termination of employment becomes effective due to Disability.

3.3 Cause. The Company may terminate the Employee's status as an employee for Cause. As used herein, termination by the Company of the Employee's status as an employee for "Cause" shall mean termination as a result of (a) the Employee's breach of this Agreement, or (b) the willful engaging by the Employee in gross misconduct injurious to the Company, which in either case is not remedied within 10 days after the Company provides written notice to the Employee of such breach or willful misconduct.

3.4 Good Reason. The Employee may terminate his status as an employee for Good Reason. As used herein, the term "Good Reason" shall mean:

(a) The occurrence of any of the following during the Employment Term:

(i) the assignment by the Board or by any authorized person to the Employee of any duties or responsibilities that are inconsistent with the Employee's status, title and position as Senior Vice President;

(ii) any removal of the Employee from, or any failure to reappoint or reelect the Employee to, the position of Senior Vice President of the Company, except in connection with a termination of Employee's status as an employee as permitted by this Agreement;

(iii) the Company's requiring the Employee to be based anywhere other than at or within 50 miles of the Company's headquarters in Abita Springs, Louisiana, except for required travel in the ordinary course of the Company's business;

(b) any breach of this Agreement by the Company that continues for a period of 10 days after written notice thereof is given by the Employee to the Company;

(c) the failure by the Company to obtain the assumption of its obligations under this Agreement by any successor or assignee as contemplated by Section 6.1(c); or

(d) any purported termination by the Company of the Employee's status as an employee for Cause that is not effected pursuant to a Notice of Termination satisfying the requirements of this Agreement.

3.5 Voluntary Termination by the Company. Subject to the terms and conditions provided herein, the Company may terminate the Employee's status as an employee during the Employment Term for reasons other than death, Disability or Cause.

3.6 Voluntary Termination by the Employee. Subject to the terms and conditions provided herein, the Employee may terminate the Employee's status as an employee during the Employment Term for reasons other than Good Reason.

3.7 Notice of Termination. Any termination by the Company for Disability or Cause, or by the Employee for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 6.2. For purposes of this Agreement, a "Notice of Termination" means a written notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provisions so indicated and (c) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Employee or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason, Disability or Cause shall not negate the effect of the notice nor waive any right of the Employee or the Company, respectively, hereunder or preclude the Employee or the Company, respectively, from asserting such fact or circumstance in enforcing the Employee's or the Company's rights hereunder.

3.8 Date of Termination. "Date of Termination" means (a) if Employee's employment is terminated by reason of his death or Disability, the Date of Termination shall be the date of death of Employee or the Disability Effective Date, as the case may be, (b) if Employee's employment is terminated by the Company for Cause, or by Employee for Good Reason, the date of delivery of the Notice of Termination or any later date specified therein, (which date shall not be more than 30 days after the giving of such notice) as the case may be, (c) if the Employee's employment is terminated by the Company prior to the end of the Employment Term for reasons other than death, Disability or Cause, the Date of Termination shall be the date on which the Company notifies the Employee of such termination, (d) if the Employee's employment is terminated by the Employee prior to the end of the Employment Term for reasons other than Good Reason, the Date of Termination shall be the date on which the Employee notifies the Company of such termination, and (e) if the Employment Term terminates upon notice by the Company or the Employee as provided for in Section 1.2 or Section 5.2, the Date of Termination shall be the date on which the Employment Term ends.

Section 4.Obligations Upon Termination

4.1 Death. If Employee's status as an employee is terminated by reason of Employee's death, this Agreement shall terminate without further obligations to Employee's legal representatives under this Agreement, other than the obligation to make any payments due pursuant to employee benefit plans

maintained by the Company or its subsidiaries.

4.2 Disability. If Employee's status as an employee is terminated by reason of Employee's Disability, this Agreement shall terminate without further obligation to Employee, other than the obligation to make any payments due pursuant to employee benefit plans maintained by the Company or its subsidiaries.

4.3 Termination by Company for Reasons other than Death, Disability or Cause; Termination by Employee for Good Reason. If the Company terminates the Employee's status as an employee prior to the end of the Employment Term for reasons other than death, Disability or Cause, or the Employee terminates his employment prior to the end of the Employment Term for Good Reason, then

(a) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal to the Employee's Base Salary through the end of the Employment Term had the notice contemplated by Section 1.2 been given as of the Date of Termination; and

(b) the amount of any performance-based bonus or options granted to the Employee shall be deemed to be the amount to which the Employee would have been entitled if the budgeted goals or other performance goals applicable thereto had been met but not exceeded and, whether or not the performance goals have been met as of the Date of Termination, such bonus shall be payable within 30 days of the Date of Termination and such options (if not already exercisable) shall become exercisable as of the Date of Termination and shall expire on the date of expiration of the options as provided in the applicable option agreement.

4.4 Termination for Cause, Without Good Reason or at End of Employment Term. This Agreement shall terminate without further obligation to the Employee other than obligations imposed by law and obligations imposed pursuant to any employee benefit plan maintained by the Company or its subsidiaries (a) if the Employee's status as an Employee is terminated by the Company for Cause or by the Employee for reasons other than Good Reason or (b), except as otherwise provided in Section 5.2, at the end of the Employment Term. If the Company or the Employee gives notice of termination of the Employment Term as provided for in Section 1.2, the Company may, at its option, terminate Employee's status as an employee, in which case such termination shall be deemed a termination by the Company without Cause for purposes of all provisions of this Agreement.

4.5 Resignation as Director. If Employee is a director of the Company and his employment is terminated for any reason other than death, the Employee shall, if requested by the Company, immediately resign as a director of the Company. If such resignation is not received when so requested, the Employee shall forfeit any right to receive any payments pursuant to this Agreement.

4.6 Accrued Obligations and Other Benefits. Upon termination of employment for any reason the Employee shall be entitled to receive promptly, and in addition to any other benefits specifically provided, (a) the Employee's Base Salary through the Date of Termination to the extent not theretofore paid, (b) any accrued vacation pay, to the extent not theretofore paid, and (c) any other amounts or benefits required to be paid or provided or which the Employee is entitled to receive under any plan, program, policy practice or agreement of the Company.

4.7 Stock Options. The foregoing benefits are intended to be in addition to the value of any options to acquire Common Stock of the Company the exercisability of which may be

accelerated pursuant to the terms of any stock option, incentive or other similar plan heretofore or hereafter adopted by the Company.

Section 5.Change of Control

5.1 Definitions. For purposes of this Section 5, the following terms shall have the meanings indicated below.

(a) Company. In the event of any assignment or succession as described in Section 6.1(c), the term "Company" as used in this Agreement shall refer also to such successor or assignee.

(b) Change of Control. A Change of Control shall mean the occurrence of any of the following events:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership of more than 30% of the outstanding shares of the Company's common stock, no par value per share (the "Common Stock"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control:

(A) any acquisition of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or

(D) any acquisition of Common Stock by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection (b)(iii) of this Section 5.1; or

(ii) individuals who, as of the Agreement Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Incumbent Board; or

(iii) the consummation of a reorganization, merger or consolidation, or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in any such case, unless, following such Business Combination,

(A) all or substantially all of the individuals and entities who were the direct or indirect beneficial owners of the Company's outstanding common stock and voting securities entitled to vote generally in the election of directors immediately prior to such Business Combination have direct or indirect beneficial ownership, respectively, of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of

directors, of the corporation resulting from such Business Combination (which, for purposes of this paragraph (A) and paragraphs (B) and (C), shall include a corporation which as a result of such transaction controls the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), and

(B) except to the extent that such ownership existed prior to the Business Combination, no person (excluding any corporation resulting from such Business Combination or any employee benefit plan or related trust of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or 20% or more of the combined voting power of the then outstanding voting securities of such corporation, and

(C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the board of directors of the Company at the time of the initial action of the Board providing for such Business Combination; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(c) Affiliate. The term "affiliate" or "affiliated companies" shall mean any company or other entity controlled by, controlling, or under common control with, the Company.

(d) Cause. After a Change of Control, "Cause," as used in this Agreement, shall have the following meaning and not the meaning given in Section 3.3:

(i) the willful and continued failure of the Employee to perform substantially the Employee's duties hereunder (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Employee by the Board of the Company which specifically identifies the manner in which the Board believes that the Employee has not substantially performed the Employee's duties, or

(ii) the willful engaging by the Employee in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company or its affiliates.

For purposes of this provision, no act or failure to act, on the part of the Employee, shall be considered "willful" unless it is done, or omitted to be done, by the Employee in bad faith or without reasonable belief that the Employee's action or omission was in the best interests of the Company or its affiliates. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of a senior officer of the Company or based upon the advice of counsel for the Company or its affiliates shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Company or its affiliates. The cessation of employment of the Employee shall not be deemed to be for Cause unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Employee and the Employee is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the

Employee has engaged in the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(e) Good Reason. After a Change of Control, "Good Reason," as used in this Agreement, shall have the following meaning and not the meaning given in Section 3.4:

(i) Any failure of the Company or its affiliates to provide the Employee with the position, authority, duties and responsibilities at least equivalent in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control;

(ii) The assignment to the Employee of any duties inconsistent in any respect with Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 1.1, or any other action that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied within 10 days after receipt of written notice thereof from the Employee to the Company;

(iii) Any failure by the Company or its affiliates to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith that is remedied within 10 days after receipt of written notice thereof from the Employee to the Company;

(iv) The Company or its affiliates requiring the Employee to be based at any office or location other than as provided in Section 3.4(a)(iii) hereof or requiring the Employee to travel on business to a substantially greater extent than required immediately prior to the Change of Control;

(v) Any purported termination of the Employee's employment otherwise than as expressly permitted by this Agreement; or

(vi) Any failure by the Company to comply with and satisfy Sections 6.1(c) and (d) of this Agreement.

For purposes of this Section 5, any good faith determination of "Good Reason" made by the Employee shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Employee for any reason during the 30-day period immediately following the first anniversary of the Change of Control shall be deemed to be a termination for Good Reason.

(f) Beneficial Ownership. The terms "beneficial ownership," "beneficial owner," "beneficially owns," and similar terms shall have the meanings set forth in Rule 13d-3 under the Exchange Act.

5.2 Employment Capacity and Term after Change of Control. (a) If a Change of Control occurs during the Employment Term, the Employee's Employment Term (the "Modified Employment Term") shall be extended until and terminate at the close of business on the later to occur of the second anniversary of the Change of Control; or the date one year after the date on which either the Company or the Employee has notified the other of such termination; and provided, further, that Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement.

(b) After a Change of Control and during the Modified Employment Term, (i) the Employee's position (including status,

offices, titles and reporting requirements), authority, duties and responsibilities in and with respect to the Company shall be at least equivalent in all material respects to the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control and (ii) the Employee's service shall be performed at the location where the Employee was employed immediately preceding the Change of Control or any office or location less than 50 miles from such location.

5.3 Compensation and Benefits. During the Modified Employment Term, in addition to the compensation and benefits described in Section 2, the Employee shall be entitled to the following compensation and benefits:

(a) Salary. During the Modified Employment Term, Employee's Base Salary shall be as provided for in Section 2.1.

(b) Benefit Plans. During the Modified Employment Term, the Employee and his family, if any, shall be entitled to participate in and receive applicable benefits under all such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental health and travel accident insurance plans and programs) and (iii) paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other peer employees of the Company and its affiliated companies in effect generally after the Change of Control or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

(c) Expenses. During the Modified Employment Term, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Employee in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect generally after the Change of Control with respect to other peer employees of the Company and its affiliated companies or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

(d) Office and Support Staff. During the Modified Employment Term, the Employee shall be entitled to an office or offices of a size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided generally after the Change of Control with respect to other peer employees of the Company and its affiliated companies or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

5.4 Termination of Employment after a Change of Control. After a Change of Control and during the Modified Employment Term, the Employee's status as an employee shall terminate or may be terminated as provided in Section 3 of this Agreement; provided, however, that after a Change of Control and during the Modified Employment Term the terms "Cause" and "Good Reason," as used in Section 3 and elsewhere in this Agreement, shall have the meanings given to them in this Section 5 and not the meanings given to them in Section 3.

5.5 Obligations of the Company upon Termination after a Change of Control. (a) If, after a Change of Control and prior to the end of the Modified Employment Term, the Company terminates the Employee's employment other than for Cause, death

or Disability, or the Employee terminates employment for Good Reason, then

(i) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal to the Employee's Base Salary through the end of the Modified Employment Term had such termination not occurred; and

(ii) Employee shall be entitled to the benefits provided in Section 4.3(b) and the amounts, if any, contemplated by Sections 4.6 and 4.7.

(b) If, after a Change of Control and prior to the end of the Modified Employment Term, the Employee's employment is terminated (i) for death, (ii) for Disability or (iii) for Cause (as defined in this Section 5), by the Employee for reasons other than Good Reason (as defined in this Section 5) or at the end of the Modified Employment Term, then the Employee shall be entitled to the benefits described in Section 4.1, Section 4.2 or Section 4.4, as the case may be, and shall be entitled to the benefits described in Sections 4.6 and 4.7. If the Company or the Employee gives notice of termination of the Modified Employment Term as provided for in Section 5.2, the Company may, at its option, terminate Employee's status as an Employee, in which case such termination shall be deemed a termination without Cause for purposes of all provisions of this Agreement.

(c) The rights and obligations of the Company and Employee contained in Section 4.5 ("Resignation as Director") shall continue to apply after a Change of Control.

5.6 Certain Additional Payments. If after a Change of Control Employee is subjected to an excise tax as a result of the "excess parachute payment" provisions of section 4999 of the Internal Revenue Code of 1986, as amended, whether by virtue of the benefits of this Agreement or by virtue of any other benefits provided to Employee in connection with a Change of Control pursuant to Company plans, policies or agreements (including the value of any options to acquire Common Stock of the Company the exercisability of which is accelerated pursuant to the terms of any stock option, incentive or similar plan heretofore or hereafter adopted by the Company), the Company shall pay to Employee (whether or not his employment has terminated) such amounts as are necessary to place Employee in the same position after payment of federal income and excise taxes and state and local income taxes as he would have been if such provisions had not been applicable to him.

Section 6.Miscellaneous

6.1 Binding Effect.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Employee and shall not be assignable by the Employee without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no

assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Employee. In the event of any such assignment or succession, the term "Company" as used in this Agreement shall refer also to such successor or assign.

(d) The Company shall require all entities that control, or that after the Change of Control will control, directly or indirectly, any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such agreement to be set forth in writing reasonably satisfactory to the Employee.

6.2 Notices. All notices hereunder must be in writing and shall be deemed to have given upon receipt of delivery by: (a) personal delivery to the designated individual, (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) facsimile transmission with confirmation of receipt. All such notices must be addressed as follows or such other address as to which any party hereto may have notified the other in writing:

If to the Company, to:

Akorn, Inc.
100 Akorn Drive
Abita Springs, Louisiana 70420
Attn: President
Facsimile: (504) 893-1257

If to the Employee, to:

Harold O. Koch
106 Riverdale
Covington, Louisiana 70433
Facsimile: (504) _____

6.3 Governing Law. This Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Louisiana.

6.4 Withholding. The Employee agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

6.5 Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, Employee and the Company intend for any court construing this Agreement to modify or limit such provision temporally, spatially or otherwise so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

6.6 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be

construed as a waiver of any subsequent breach thereof.

6.7 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

6.8 Company's Reservation of Rights. Employee acknowledges and understands that the Employee serves at the pleasure of the Board and that the Company has the right at any time to terminate Employee's status as an employee of the Company, or to change or diminish his status during the Employment Term, subject to the rights of the Employee to claim the benefits conferred by this Agreement.

6.9 Survival. Following the Date of Termination, each party shall have the right to enforce all rights, and shall be bound by all obligations, of such party that are continuing rights and obligations under this Agreement.

6.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Employee have caused this Agreement to be executed as of the Agreement Date.

AKORN, INC.

By: /s/ George S. Ellis, M.D.
George S. Ellis, M.D.
Compensation Committee Chairman

EMPLOYEE:

/s/ Harold O. Koch
Harold O. Koch

EMPLOYMENT AGREEMENT--TIM J. TONEY

This Employment Agreement ("Agreement") between Akorn Manufacturing, Inc., an Illinois corporation (the "Company"), and Tim J. Toney (the "Employee") is dated as of January 1, 1996 (the "Agreement Date").

WHEREAS, Employee currently is employed by the Company;

WHEREAS, the Company desires to retain the services of Employee pursuant to the terms of this Agreement and Employee desires to continue in the service of the Company on such terms;

NOW, THEREFORE, for and in consideration of the continued employment of Employee by the Company and the payment of wages, salary and other compensation to Employee by the Company, the parties hereto agree as follows:

Section 1. Employment Capacity and Term

1.1 Capacity and Duties of Employee. The Employee is employed by the Company to render services on behalf of the Company as Vice President Manufacturing Operations. In that capacity the Employee shall perform such duties as are assigned to the individual holding any such title by the Company's Bylaws and such other duties, consistent with the Employee's job title, as may be prescribed from time to time by the Board of Directors of the Company (the "Board").

1.2 Employment Term. The term of this Agreement (the "Employment Term") shall commence on the Agreement Date and shall continue until and terminate one year after either the Company or the Employee has notified the other of such termination of the Employment Term; and provided, further, that the Employment Term is subject to extension as provided in Section 5.2 and Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement.

1.3 Devotion to Responsibilities. During the Employment Term, the Employee shall devote all of his business time to the business of the Company and its subsidiaries and affiliated companies, shall use his reasonable best efforts to perform faithfully and efficiently his duties under this Agreement, and shall not engage in or be employed by any other business; provided, however, that nothing contained herein shall prohibit the Employee from (a) serving as a member of the board of directors, board of trustees or the like of any for-profit or non-profit entity that does not compete with the Company, or performing services of any type for any civic or community entity, whether or not the Employee receives compensation therefor, (b) investing his assets in such form or manner as shall require no more than nominal services on the part of the Employee in the operation of the business of or property in which such investment is made, or (c) serving in various capacities with, and attending meetings of, industry or trade groups and associations, as long as the Employee's engaging in any activities permitted by virtue of clauses (a), (b) and (c) above does not materially interfere with the ability of the Employee to perform the services and discharge the responsibilities required of him under this Agreement. Notwithstanding clause (b) above, during the Employment Term, the Employee shall not perform any services for and shall not beneficially own more than 2% of the equity interests of a business organization that competes with the Company or its affiliates. For purposes of this paragraph, "beneficially own" shall have the meaning given to that term in Rule 13d-3 under the Securities Exchange Act of 1934 (the

"Exchange Act").

Section 2. Compensation and Benefits

During the Employment Term, the Company shall provide the Employee with the compensation and benefits described below:

2.1 Salary. A salary ("Base Salary") at the rate of $120,000 per year; provided, however, that Employee's Base Salary shall increase as of each anniversary of the Agreement Date by a factor equal to the increase in the Consumer Price Index maintained by the United States Department of Labor. Employee's Base Salary shall be payable to the Employee at such intervals as the salaries of other salaried employees of the Company are paid. Any increase in Employee's Base Salary shall take effect for the payroll period next following the date on which the condition to such increase is met.

2.2 Bonus. Employee shall be eligible to receive such bonuses and supplementary compensation as the Board may determine.

2.3 Benefits. The Company shall provide the Employee and, if applicable, his family members, with all such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, employee life, group life, accident health and travel accident insurance plans and programs) and (iii) paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other peer employees of the Company.

2.4 Office and Support Staff. Employee shall be entitled to an office or offices of the size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the those provided to him on the Agreement Date.

2.5 Expenses. The Employee shall be reimbursed for reasonable out-of-pocket expenses incurred from time to time on behalf of the Company or any affiliate in the performance of his duties under this Agreement, upon the presentation of such supporting invoices, documents and forms as the Company reasonably requests.

Section 3. Termination of Employment

3.1 Death. The Employee's status as an employee shall terminate immediately and automatically upon the Employee's death during the Employment Term.

3.2 Disability. The Employee's status as an employee may be terminated for "Disability" as follows:

(a) The Employee's status as an employee shall terminate if the Employee has a disability that would entitle him to receive benefits under the Company's long-term disability insurance policy in effect at the time either because he is Totally Disabled or Partially Disabled, as such terms are defined in the Company's policy in effect as of the Agreement Date or as similar terms are defined in any successor policy. Any such termination shall become effective on the first day on which the Employee is eligible to receive payments under such policy (or on the first day that he would be so eligible, if he had applied timely for such payments).

(b) If the Company has no long-term disability plan in

effect, the Employee's status as an employee shall terminate if (i) the Employee is rendered incapable because of physical or mental illness of satisfactorily discharging his duties and responsibilities under this Agreement for a period of 90 consecutive days and (ii) a duly qualified physician chosen by the Company and acceptable to the Employee or his legal representative so certifies in writing, the Board shall have the power to determine that the Employee has become disabled. If the Board makes such a determination, the Company shall have the continuing right and option, during the period that such disability continues, and by notice given in the manner provided in this Agreement, to terminate the status of Employee as an employee. Any such termination shall become effective 30 days after such notice of termination is given, unless within such 30-day period, the Employee becomes capable of rendering services of the character contemplated hereby (and a physician chosen by the Company and acceptable to the Employee or his legal representative so certifies in writing) and the Employee in fact resumes such services.

(c) The "Disability Effective Date" shall mean the date on which termination of employment becomes effective due to Disability.

3.3 Cause. The Company may terminate the Employee's status as an employee for Cause. As used herein, termination by the Company of the Employee's status as an employee for "Cause" shall mean termination as a result of (a) the Employee's breach of this Agreement, or (b) the willful engaging by the Employee in gross misconduct injurious to the Company, which in either case is not remedied within 10 days after the Company provides written notice to the Employee of such breach or willful misconduct.

3.4 Good Reason. The Employee may terminate his status as an employee for Good Reason. As used herein, the term "Good Reason" shall mean:

(a) The occurrence of any of the following during the Employment Term:

(i) the assignment by the Board or by any authorized person to the Employee of any duties or responsibilities that are inconsistent with the Employee's status, title and position as Vice President Manufacturing Operations;

(ii) any removal of the Employee from, or any failure to reappoint or reelect the Employee to, the position of Vice President Manufacturing Operations of the Company, except in connection with a termination of Employee's status as an employee as permitted by this Agreement;

(iii) the Company's requiring the Employee to be based anywhere other than at or within 50 miles of the Company's principal offices in Decatur, Illinois except for required travel in the ordinary course of the Company's business;

(b) any breach of this Agreement by the Company that continues for a period of 10 days after written notice thereof is given by the Employee to the Company;

(c) the failure by the Company to obtain the assumption of its obligations under this Agreement by any successor or assignee as contemplated by Section 6.1(c); or

(d) any purported termination by the Company of the Employee's status as an employee for Cause that is not effected pursuant to a Notice of Termination satisfying the requirements

of this Agreement.

3.5 Voluntary Termination by the Company. Subject to the terms and conditions provided herein, the Company may terminate the Employee's status as an employee during the Employment Term for reasons other than death, Disability or Cause.

3.6 Voluntary Termination by the Employee. Subject to the terms and conditions provided herein, the Employee may terminate the Employee's status as an employee during the Employment Term for reasons other than Good Reason.

3.7 Notice of Termination. Any termination by the Company for Disability or Cause, or by the Employee for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 6.2. For purposes of this Agreement, a "Notice of Termination" means a written notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provisions so indicated and (c) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Employee or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason, Disability or Cause shall not negate the effect of the notice nor waive any right of the Employee or the Company, respectively, hereunder or preclude the Employee or the Company, respectively, from asserting such fact or circumstance in enforcing the Employee's or the Company's rights hereunder.

3.8 Date of Termination. "Date of Termination" means (a) if Employee's employment is terminated by reason of his death or Disability, the Date of Termination shall be the date of death of Employee or the Disability Effective Date, as the case may be, (b) if Employee's employment is terminated by the Company for Cause, or by Employee for Good Reason, the date of delivery of the Notice of Termination or any later date specified therein, (which date shall not be more than 30 days after the giving of such notice) as the case may be, (c) if the Employee's employment is terminated by the Company prior to the end of the Employment Term for reasons other than death, Disability or Cause, the Date of Termination shall be the date on which the Company notifies the Employee of such termination, (d) if the Employee's employment is terminated by the Employee prior to the end of the Employment Term for reasons other than Good Reason, the Date of Termination shall be the date on which the Employee notifies the Company of such termination, and (e) if the Employment Term terminates upon notice by the Company or the Employee as provided for in Section 1.2 or Section 5.2, the Date of Termination shall be the date on which the Employment Term ends.

Section 4. Obligations Upon Termination

4.1 Death. If Employee's status as an employee is terminated by reason of Employee's death, this Agreement shall terminate without further obligations to Employee's legal representatives under this Agreement, other than the obligation to make any payments due pursuant to employee benefit plans maintained by the Company or its affiliates.

4.2 Disability. If Employee's status as an employee is terminated by reason of Employee's Disability, this Agreement

shall terminate without further obligation to Employee, other than the obligation to make any payments due pursuant to employee benefit plans maintained by the Company or its affiliates.

4.3 Termination by Company for Reasons other than Death, Disability or Cause; Termination by Employee for Good Reason. If the Company terminates the Employee's status as an employee prior to the end of the Employment Term for reasons other than death, Disability or Cause, or the Employee terminates his employment prior to the end of the Employment Term for Good Reason, then

(a) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal to the Employee's Base Salary through the end of the Employment Term had the notice contemplated by Section 1.2 been given as of the Date of Termination; and

(b) the amount of any performance-based bonus or options granted to the Employee shall be deemed to be the amount to which the Employee would have been entitled if the budgeted goals or other performance goals applicable thereto had been met but not exceeded and, whether or not the performance goals have been met as of the Date of Termination, such bonus shall be payable within 30 days of the Date of Termination and such options (if not already exercisable) shall become exercisable as of the Date of Termination and shall expire on the date of expiration of the options as provided in the applicable option agreement.

4.4 Termination for Cause, Without Good Reason or at End of Employment Term. This Agreement shall terminate without further obligation to the Employee other than obligations imposed by law and obligations imposed pursuant to any employee benefit plan maintained by the Company or its affiliates (a) if the Employee's status as an Employee is terminated by the Company for Cause or by the Employee for reasons other than Good Reason or (b), except as otherwise provided in Section 5.2, at the end of the Employment Term. If the Company or the Employee gives notice of termination of the Employment Term as provided for in Section 1.2, the Company may, at its option, terminate Employee's status as an employee, in which case such termination shall be deemed a termination by the Company without Cause for purposes of all provisions of this Agreement.

4.5 Resignation as Director. If Employee is a director of the Company and his employment is terminated for any reason other than death, the Employee shall, if requested by the Company, immediately resign as a director of the Company. If such resignation is not received when so requested, the Employee shall forfeit any right to receive any payments pursuant to this Agreement.

4.6 Accrued Obligations and Other Benefits. Upon termination of employment for any reason the Employee shall be entitled to receive promptly, and in addition to any other benefits specifically provided, (a) the Employee's Base Salary through the Date of Termination to the extent not theretofore paid, (b) any accrued vacation pay, to the extent not theretofore paid, and (c) any other amounts or benefits required to be paid or provided or which the Employee is entitled to receive under any plan, program, policy practice or agreement of the Company.

4.7 Stock Options. The foregoing benefits are intended to be in addition to the value of any options to acquire common stock of Akorn the exercisability of which may be accelerated pursuant to the terms of any stock option, incentive or other similar plan heretofore or hereafter adopted by Akorn.

Section 5. Change of Control

5.1 Definitions. For purposes of this Section 5, the following terms shall have the meanings indicated below.

(a) Company. In the event of any assignment or succession as described in Section 6.1(c), the term "Company" as used in this Agreement shall refer also to such successor or assignee. As used in Section 5.1(b) the term "Company" shall refer to Akorn and shall not refer to Akorn Manufacturing, Inc., except as otherwise indicated.

(b) Change of Control. A "Change of Control" shall mean the occurrence of any of the following events:

(i) the acquisition by any individual, entity or "person" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership of more than 30% of the outstanding shares of the Company's common stock, no par value per share (the "Common Stock"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control:

(A) any acquisition of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or

(D) any acquisition of Common Stock by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of subsection (b)(iii) of this Section 5.1; or

(ii) individuals who, as of the Agreement Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Agreement Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Incumbent Board; or

(iii) the consummation of a reorganization, merger or consolidation, or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in any such case, unless, following such Business Combination,

(A) all or substantially all of the individuals and entities who were the direct or indirect beneficial owners of the Company's outstanding common stock and voting securities entitled to vote generally in the election of directors immediately prior to such Business Combination have direct or indirect beneficial ownership, respectively, of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, of the corporation resulting from such Business Combination (which, for purposes of this paragraph (A) and

paragraphs (B) and (C), shall include a corporation which as a result of such transaction controls the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries), and

(B) except to the extent that such ownership existed prior to the Business Combination, no person (excluding any corporation resulting from such Business Combination or any employee benefit plan or related trust of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or 20% or more of the combined voting power of the then outstanding voting securities of such corporation, and

(C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the board of directors of the Company at the time of the initial action of the Board providing for such Business Combination;

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company or;

(v) the consummation of a reorganization, merger or consolidation, sale or other disposition of all or substantially all of the assets, or sale, transfer or other distribution of more than 50% of the shares of common stock of Akorn Manufacturing, Inc. or of the voting securities entitled to vote in the election of directors thereof, in any such case, unless, following such transaction, at least a majority of the members of the Board of Directors of Akorn Manufacturing, Inc. or other corporation resulting from such transaction were members of the Board of Directors of Akorn Manufacturing, Inc. or of the Company at the time of the initial action of the Board of Directors of Akorn Manufacturing, Inc. or of the Company providing for such transaction.

(c) Affiliate. The term "affiliate" or "affiliated companies" shall mean any company or other entity controlled by, controlling, or under common control with, the Company.

(d) Cause. After a Change of Control, "Cause," as used in this Agreement, shall have the following meaning and not the meaning given in Section 3.3:

(i) the willful and continued failure of the Employee to perform substantially the Employee's duties hereunder (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Employee by the Board of the Company which specifically identifies the manner in which the Board believes that the Employee has not substantially performed the Employee's duties, or

(ii) the willful engaging by the Employee in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company or its affiliates.

For purposes of this provision, no act or failure to act, on the part of the Employee, shall be considered "willful" unless it is done, or omitted to be done, by the Employee in bad faith or without reasonable belief that the Employee's action or omission was in the best interests of the Company or its affiliates. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of a senior officer of the Company or based upon the advice of

counsel for the Company or its affiliates shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of the Company or its affiliates. The cessation of employment of the Employee shall not be deemed to be for Cause unless and until there shall have been delivered to the Employee a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Employee and the Employee is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Employee has engaged in the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(e) Good Reason. After a Change of Control, "Good Reason," as used in this Agreement, shall have the following meaning and not the meaning given in Section 3.4:

(i) Any failure of the Company or its affiliates to provide the Employee with the position, authority, duties and responsibilities at least equivalent in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control;

(ii) The assignment to the Employee of any duties inconsistent in any respect with Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 1.1, or any other action that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith that is remedied within 10 days after receipt of written notice thereof from the Employee to the Company;

(iii) Any failure by the Company or its affiliates to comply with any of the provisions of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith that is remedied within 10 days after receipt of written notice thereof from the Employee to the Company;

(iv) The Company or its affiliates requiring the Employee to be based at any office or location other than as provided in Section 3.4(a)(iii) hereof or requiring the Employee to travel on business to a substantially greater extent than required immediately prior to the Change of Control;

(v) Any purported termination of the Employee's employment otherwise than as expressly permitted by this Agreement; or

(vi) Any failure by the Company to comply with and satisfy Sections 6.1(c) and (d) of this Agreement.

For purposes of this Section 5, any good faith determination of "Good Reason" made by the Employee shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Employee for any reason during the 30-day period immediately following the first anniversary of the Change of Control shall be deemed to be a termination for Good Reason.

(f) Beneficial Ownership. The terms "beneficial ownership," "beneficial owner," "beneficially owns," and similar terms shall have the meanings set forth in Rule 13d-3 under the Exchange Act.

5.2 Employment Capacity and Term after Change of Control. (a) If a Change of Control occurs during the Employment Term, the Employee's Employment Term (the "Modified Employment Term") shall be extended until and terminate at the close of business on the later to occur of the second anniversary of the Change of Control or the date one year after the date on which either the Company or the Employee has notified the other of such termination; and provided, further, that Employee's status as an employee is subject to earlier termination to the extent provided in this Agreement.

(b) After a Change of Control and during the Modified Employment Term, (i) the Employee's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities in and with respect to the Company shall be at least equivalent in all material respects to the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Change of Control and (ii) the Employee's service shall be performed at the location where the Employee was employed immediately preceding the Change of Control or any office or location less than 50 miles from such location.

5.3 Compensation and Benefits. During the Modified Employment Term, in addition to the compensation and benefits described in Section 2, the Employee shall be entitled to the following compensation and benefits:

(a) Salary. During the Modified Employment Term, Employee's Base Salary shall be as provided for in Section 2.1.

(b) Benefit Plans. During the Modified Employment Term, the Employee and his family, if any, shall be entitled to participate in and receive applicable benefits under all such (i) incentive, savings and retirement plans, practices, policies and programs, (ii) welfare benefit plans, practices, policies and programs (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental health and travel accident insurance plans and programs) and (iii) paid vacation and other fringe benefits, plans, practices, policies and programs as are applicable generally to other peer employees of the Company and its affiliated companies in effect generally after the Change of Control or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

(c) Expenses. During the Modified Employment Term, the Employee shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Employee in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect generally after the Change of Control with respect to other peer employees of the Company and its affiliated companies or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

(d) Office and Support Staff. During the Modified Employment Term, the Employee shall be entitled to an office or offices of a size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided generally after the Change of Control with respect to other peer employees of the Company and its affiliated companies or, if more favorable to the Employee, as in effect for the Employee at any time during the 120-day period immediately preceding the Change of Control.

5.4 Termination of Employment after a Change of Control.

After a Change of Control and during the Modified Employment Term, the Employee's status as an employee shall terminate or may be terminated as provided in Section 3 of this Agreement; provided, however, that after a Change of Control and during the Modified Employment Term the terms "Cause" and "Good Reason," as used in Section 3 and elsewhere in this Agreement, shall have the meanings given to them in this Section 5 and not the meanings given to them in Section 3.

5.5 Obligations of the Company upon Termination after a Change of Control. (a) If, after a Change of Control and prior to the end of the Modified Employment Term, the Company terminates the Employee's employment other than for Cause, death or Disability, or the Employee terminates employment for Good Reason, then

(i) within 30 days of the Date of Termination the Company shall pay to the Employee in a lump sum an amount equal to the Employee's Base Salary through the end of the Modified Employment Term had such termination not occurred; and

(ii) Employee shall be entitled to the benefits provided in Section 4.3(b) and the amounts, if any, contemplated by Sections 4.6 and 4.7.

(b) If, after a Change of Control and prior to the end of the Modified Employment Term, the Employee's employment is terminated (i) for death, (ii) for Disability or (iii) for Cause (as defined in this Section 5), by the Employee for reasons other than Good Reason (as defined in this Section 5) or at the end of the Modified Employment Term, then the Employee shall be entitled to the benefits described in Section 4.1, Section 4.2 or Section 4.4, as the case may be, and shall be entitled to the benefits described in Sections 4.6 and 4.7. If the Company or the Employee gives notice of termination of the Modified Employment Term as provided for in Section 5.2, the Company may, at its option, terminate Employee's status as an Employee, in which case such termination shall be deemed a termination without Cause for purposes of all provisions of this Agreement.

(c) The rights and obligations of the Company and Employee contained in Section 4.5 ("Resignation as Director") shall continue to apply after a Change of Control.

5.6 Certain Additional Payments. If after a Change of Control Employee is subjected to an excise tax as a result of the "excess parachute payment" provisions of section 4999 of the Internal Revenue Code of 1986, as amended, whether by virtue of the benefits of this Agreement or by virtue of any other benefits provided to Employee in connection with a Change of Control pursuant to Company plans, policies or agreements (including the value of any options to acquire Common Stock of the Company the exercisability of which is accelerated pursuant to the terms of any stock option, incentive or similar plan heretofore or hereafter adopted by the Company), the Company shall pay to Employee (whether or not his employment has terminated) such amounts as are necessary to place Employee in the same position after payment of federal income and excise taxes and state and local income taxes as he would have been if such provisions had not been applicable to him.

Section 6. Miscellaneous

6.1 Binding Effect.

(a) This Agreement shall be binding upon and inure to the benefit of the Company and any of its successors or assigns.

(b) This Agreement is personal to the Employee and shall not be assignable by the Employee without the consent of the Company (there being no obligation to give such consent) other than such rights or benefits as are transferred by will or the laws of descent and distribution.

(c) The Company shall require any successor to or assignee of (whether direct or indirect, by purchase, merger, consolidation or otherwise) all or substantially all of the assets or businesses of the Company (i) to assume unconditionally and expressly this Agreement and (ii) to agree to perform all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such assumption to be set forth in a writing reasonably satisfactory to the Employee. In the event of any such assignment or succession, the term "Company" as used in this Agreement shall refer also to such successor or assign.

(d) The Company shall require all entities that control, or that after the Change of Control will control, directly or indirectly, any such successor or assignee to agree to cause to be performed all of the obligations under this Agreement in the same manner and to the same extent as would have been required of the Company had no assignment or succession occurred, such agreement to be set forth in writing reasonably satisfactory to the Employee.

6.2 Notices. All notices hereunder must be in writing and shall be deemed to have given upon receipt of delivery by: (a) personal delivery to the designated individual, (b) certified or registered mail, postage prepaid, return receipt requested, (c) a nationally recognized overnight courier service (against a receipt therefor) or (d) facsimile transmission with confirmation of receipt. All such notices must be addressed as follows or such other address as to which any party hereto may have notified the other in writing:

If to the Company, to:

Akorn Manufacturing, Inc.
100 Akorn Drive
Abita Springs, Louisiana 70420
Attn: President
Facsimile transmission No. (504) 893-1257

If to the Employee, to:
Tim J. Toney
2850 Virt Road
Decatur, Illinois 62521
Facsimile transmission No. _____

6.3 Governing Law. This Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Louisiana.

6.4 Withholding. The Employee agrees that the Company has the right to withhold, from the amounts payable pursuant to this Agreement, all amounts required to be withheld under applicable income and/or employment tax laws, or as otherwise stated in documents granting rights that are affected by this Agreement.

6.5 Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, Employee and the Company intend for any court construing this Agreement to

modify or limit such provision temporally, spatially or otherwise so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

6.6 Waiver of Breach. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach thereof.

6.7 Remedies Not Exclusive. No remedy specified herein shall be deemed to be such party's exclusive remedy, and accordingly, in addition to all of the rights and remedies provided for in this Agreement, the parties shall have all other rights and remedies provided to them by applicable law, rule or regulation.

6.8 Company's Reservation of Rights. Employee acknowledges and understands that the Employee serves at the pleasure of the Board and that the Company has the right at any time to terminate Employee's status as an employee of the Company, or to change or diminish his status during the Employment Term, subject to the rights of the Employee to claim the benefits conferred by this Agreement.

6.9 Survival. Following the Date of Termination, each party shall have the right to enforce all rights, and shall be bound by all obligations, of such party that are continuing rights and obligations under this Agreement.

6.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Company and the Employee have caused this Agreement to be executed as of the Agreement Date.

AKORN MANUFACTURING, INC.

By: /s/ Eric M. Wingerter
Eric M. Wingerter
Secretary

EMPLOYEE: /s/ Tim J. Toney
Tim J. Toney

EXHIBIT 11.1

COMPUTATION OF NET INCOME PER SHARE

(In Thousands, Except Per Share Data)

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

Exhibit 21.1

SUBSIDIARIES OF AKORN, INC.

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

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-44785, 33-24970 and 33-70686 of Akorn, Inc. on Form S-8 of our report dated September 11, 1996 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's change in its method of accounting for income taxes in 1994 and the Company's change in its method of accounting for certain investments in debt and equity securities in 1995), appearing in this Annual Report on Form 10-K of Akorn, Inc. for the year ended June 30, 1996.

Deloitte & Touche llp
New Orleans, Louisiana
September 11, 1996

EXHIBIT 24.1

POWER OF ATTORNEY

(Form 10-K, FYE 6/30/96)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Eric M. Wingerter, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

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

/s/ Floyd Benjamin
Floyd Benjamin

September 19, 1996
(DATE)

EXHIBIT 24.2

POWER OF ATTORNEY

(Form 10-K, FYE 6/30/96)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Eric M. Wingerter, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

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

/s/ Daniel E. Bruhl, M.D.
Daniel E. Bruhl, M.D.

September 25, 1996
(DATE)

EXHIBIT 24.3

POWER OF ATTORNEY

(Form 10-K, FYE 6/30/96)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Eric M. Wingerter, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

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

/s/ J. Ed Campbell, M.D.
J. Ed Campbell, M.D.

September 19, 1996
(DATE)

EXHIBIT 24.4

POWER OF ATTORNEY

(Form 10-K, FYE 6/30/96)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Eric M. Wingerter, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

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

/s/ George S. Ellis, M.D.
George S. Ellis, M.D.

September 19, 1996
(DATE)

EXHIBIT 24.5

POWER OF ATTORNEY

(Form 10-K, FYE 6/30/96)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Eric M. Wingerter, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

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

/s/ Doyle S. Gaw
Doyle S. Gaw

September 19, 1996
(DATE)

EXHIBIT 24.6

POWER OF ATTORNEY

(Form 10-K, FYE 6/30/96)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Eric M. Wingerter, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

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

/s/ David H. Turner, M.D.
David H. Turner, MD

September 19, 1996
(DATE)

EXHIBIT 24.7

POWER OF ATTORNEY

(Form 10-K, FYE 6/30/96)

KNOW ALL MEN BY THESE PRESENTS, that the undersigned director of Akorn, Inc. (the "Company") does hereby constitute and appoint John N. Kapoor, Ph.D. and Eric M. Wingerter, and anyone of them acting in the absence of the others, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1996, to sign any and all amendments thereto, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

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

/s/ Lawrence A. Yannuzzi, M.D.
Lawrence A. Yannuzzi, M.D.

September 23, 1996
(DATE)

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>

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