

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

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 0-13976

AKORN, INC.

(Exact Name of Registrant as Specified in its Charter)

LOUISIANA
(State or Other Jurisdiction of
Incorporation or Organization)

72-0717400
(I.R.S. Employer
Identification No.)

2500 MILLBROOK DRIVE
BUFFALO GROVE, ILLINOIS
(Address of Principal Executive Offices)

60089
(Zip Code)

(847) 279-6100
(Issuer's telephone number)

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

Yes x No
----- -----

At April 28, 2000 there were 18,984,752 shares of common stock, no par value, outstanding.

PART I. FINANCIAL INFORMATION

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 6. Exhibits and Reports on Form 8-K

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

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AKORN, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
IN THOUSANDS
(UNAUDITED)

	March 31, 2000 -----	December 31, 1999* -----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 538	\$ 25
Trade accounts receivable, net	19,457	17,695
Inventory	17,548	16,473
Prepaid expenses and other assets	2,213	1,658
	-----	-----
TOTAL CURRENT ASSETS	39,756	35,851
OTHER ASSETS	19,055	19,435
PROPERTY, PLANT AND EQUIPMENT, NET	23,580	20,812
	-----	-----
TOTAL ASSETS	\$82,391 =====	\$76,098 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current installments of long-term debt and capital lease obligations	\$ 1,351	\$ 1,346
Trade accounts payable	3,868	4,523
Accrued compensation	254	1,049
Accrued expenses and other liabilities	1,645	2,775
	-----	-----
TOTAL CURRENT LIABILITIES	7,118	9,693
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	35,882	30,643
OTHER LONG-TERM LIABILITIES	1,372	1,372

SHAREHOLDERS' EQUITY		
Common stock	21,227	19,392
Retained earnings	16,792	14,998
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	38,019	34,390
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$82,391	\$76,098
	=====	=====

*Condensed from audited consolidated financial statements

See notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2000	1999
	-----	-----
Net sales	\$ 16,644	\$ 14,719
Cost of sales	8,231	7,283
	-----	-----
GROSS PROFIT	8,413	7,436
Selling, general and administrative expenses	3,775	4,002
Amortization of intangibles	380	702
Research and development	734	462
	-----	-----
	4,889	5,166
	-----	-----
OPERATING INCOME	3,524	2,270
Interest expense	(672)	(533)
Interest and other income, net	40	293
	-----	-----
	(632)	(240)
	-----	-----
INCOME BEFORE INCOME TAXES	2,892	2,030
Income taxes	1,098	572
	-----	-----
NET INCOME	\$ 1,794	\$ 1,458
	=====	=====
PER SHARE:		
NET INCOME - BASIC	\$ 0.10	\$ 0.08
	=====	=====
NET INCOME - DILUTED	\$ 0.09	\$ 0.08
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	18,802	18,143
	=====	=====
- DILUTED	19,710	18,737
	=====	=====

See notes to condensed consolidated financial statements.

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

	Three months ended March 31,	
	2000	1999
	-----	-----
OPERATING ACTIVITIES		
Net income	\$ 1,794	\$ 1,458
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	830	1,140
Changes in operating assets and liabilities	(5,971)	(3,290)
	-----	-----
NET CASH USED BY OPERATING ACTIVITIES	(3,347)	(692)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3,218)	(905)
Product licensing/acquisition costs	--	(462)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(3,218)	(1,367)
FINANCING ACTIVITIES		
Repayment of long-term debt	(7,757)	(5,140)
Increased borrowings under long-term debt agreement	13,000	7,100
Proceeds from exercise of stock options	1,835	57
Reductions in capital lease obligations	--	(39)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	7,078	1,978
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	513	(81)
Cash and cash equivalents at beginning of period	25	736
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 538	\$ 655
	=====	=====

See notes to condensed consolidated financial statements.

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

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Akorn, Inc. and its wholly owned subsidiaries (the Company).

Intercompany transactions and balances have been eliminated in consolidation. These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and accordingly do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2000 are not necessarily indicative of the results that may be expected for a full year. For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 1999, included in the Company's Annual Report on Form 10-K.

AKORN, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2000 COMPARED TO 1999

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

	Three Months Ended March 31,	
	2000	1999
	----- (in thousands)	
Ophthalmic segment	\$ 7,179	\$ 7,709
Injectable segment	9,465	7,010
	-----	-----
Total net sales	\$16,644	\$14,719
	=====	=====

Consolidated net sales increased 13.1% in the quarter ended March 31, 2000 compared to the same period in 1999. Ophthalmic segment sales decreased 6.9%, reflecting the loss of sales of certain products previously sourced from third parties which are no longer available to the Company at competitive prices. Injectable division sales increased 35.0% compared to the same period in 1999 due to strong anesthesia and antidote sales and increased contract manufacturing activity.

Consolidated gross profit increased 13.1% during the quarter, with gross margins remaining flat at 51%. Margins for the ophthalmic division decreased from 55% to 52%, reflecting proportionally greater sales of the basic generic product line as well as underabsorption of plant overhead expenses at the Somerset facility. Margins for the injectable division increased from 45% to 53%, primarily due to improved absorption of plant overhead expenses at the Decatur facility. The Company incurred unfavorable manufacturing variances of \$385,000 at its Somerset, NJ facility and \$55,000 at its Decatur, IL facility. Management expects the Decatur facility to operate at full absorption levels for the remainder of the year, but the Somerset facility should continue to produce unfavorable variances until additional product approvals are obtained at the facility or additional third-party manufacturing business is contracted.

Selling, general and administrative (SG&A) expenses decreased 5.7% during the quarter ended March 31, 2000 as compared to the same period in 1999, primarily reflecting decreased compensation related expenses. The percentage of SG&A expenses to sales decreased from 27.2% to 22.7%, reflecting the decreases noted above. Amortization of intangibles decreased from \$702,000 to \$380,000, or 45.9% over the prior year quarter, reflecting the expiration of a purchased patent in mid-1999.

Research and development (R&D) expense increased 58.9% in the quarter, to \$734,000 from \$462,000 for the same period in 1999. The increase reflects expenses related to clinical trials. Management expects total R&D expenses in 2000 to increase over prior year levels.

Interest expense of \$672,000 was up 26.1% on higher interest rates and higher outstanding debt balances. Other income of \$40,000 relates to the sale of unused trademark rights.

The Company's effective tax rate for the quarter was 38.0% compared to 28.2% for the prior-year period. The unusually low effective rate in 1999 reflects the effect of amended returns filed in 1999 for prior years. Management expects the effective rate for the remaining quarters of 2000 to approximate 38.5%. The Company reported net income of \$1,794,000 or \$0.09 per diluted share for the three months ended March 31, 2000, compared to \$1,458,000 or \$0.08 per diluted share for the comparable prior year quarter.

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FINANCIAL CONDITION AND LIQUIDITY

Working capital at March 31, 2000 was \$32.6 million compared to \$26.2 million at December 31, 1999. At March 31, 2000 the Company had \$11.5 million of financing available under its line of credit. Management believes that existing cash and cash flows from operations are sufficient to handle the Company's working capital requirements for the immediate future, but that additional financing will be necessary for acquisitions. There is no guarantee that such financing will be available or available at an acceptable cost.

For the quarter ended March 31, 2000, the Company used \$3,347,000 in cash from operations to finance its working capital requirements, primarily an increase in accounts receivable and inventory. Investing activities, which primarily relate to purchase of equipment and in progress construction, required \$3,218,000 in cash. Investment activities provided \$7,078,000 in cash, primarily the result of increased borrowings against the line of credit and the exercise of stock options.

YEAR 2000 ISSUES

The Company established a process to identify and resolve the business issues associated with Year 2000 and expended resources to ensure that its critical processes were Year 2000 compliant. The Company did not experience any business disruptions associated with Year 2000. The Company will continue to monitor its computer applications throughout Year 2000 to ensure that any latent Year 2000 matters are addressed promptly.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Certain legal proceedings in which the registrant, Akorn, Inc. (the "Company"), is involved are described in Item 3 to the Company's Form 10-K for the year ended December 31, 1999 and in Note O to the consolidated financial statements included in that report.

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 March 31, 2000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- (11.1) Computation of Earnings (Loss) per Share
- (27) Financial Data Schedule

(b) Reports on Form 8-K

None.

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SIGNATURES

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

AKORN, INC.

/s/ Rita J. McConville

Rita J. McConville
Vice President, Chief Financial Officer and Secretary
(Duly Authorized and Principal Financial Officer)

Date: April 28, 2000

AKORN, INC.
EXHIBIT 11.1

COMPUTATION OF NET INCOME PER SHARE
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31,	
	2000	1999
	-----	-----
Income:		
Income applicable to common stock	\$ 1,794	\$ 1,458
	=====	=====
Weighted average number of shares outstanding	18,802	18,143
Net income per share - basic	\$ 0.10	\$ 0.08
Additional shares assuming conversion of options and warrants	908	594
	-----	-----
Pro forma shares	19,710	18,737
	=====	=====
Net income per share - diluted	\$ 0.09	\$ 0.08
	=====	=====

<ARTICLE> 5

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This schedule contains summary financial information from consolidated financial statements for the quarter ended March 31, 2000 and is qualified in its entirety by reference to such financial statements.

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