

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 SEPTEMBER 30, 1999
- () 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 No
--- ---

At October 31, 1999 there were 18,412,574 shares of common stock, no par value, outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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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)

	September 30, 1999 ----	December 31, 1998* ----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 705	\$ 736
Trade accounts receivable, net	15,061	11,165
Inventory	14,531	11,004
Prepaid expenses and other current assets	1,741	2,043
	-----	-----
TOTAL CURRENT ASSETS	32,038	24,948
OTHER ASSETS	19,742	20,608
PROPERTY, PLANT AND EQUIPMENT, NET	19,212	15,860
	-----	-----
TOTAL ASSETS	\$70,992 =====	\$61,416 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current installments of long-term debt and capital lease obligations	\$ 3,728	\$ 7,445
Trade accounts payable	4,715	3,476

Accrued compensation	1,212	858
Accrued expenses and other current liabilities	4,422	2,129
	-----	-----
TOTAL CURRENT LIABILITIES	14,077	13,908
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	24,698	20,490
OTHER LONG-TERM LIABILITIES	738	738
SHAREHOLDERS' EQUITY		
Common stock	18,316	17,952
Retained earnings	13,163	8,328
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	31,479	26,280
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$70,992	\$61,416
	=====	=====

*Condensed from audited consolidated financial statements.

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
	-----	-----	-----	-----
Net sales	\$ 16,795	\$ 15,138	\$ 47,604	\$ 41,177
Cost of goods sold	7,863	7,270	22,913	20,046
	-----	-----	-----	-----
GROSS PROFIT	8,932	7,868	24,691	21,131
Selling, general and administrative expenses	4,648	3,394	12,906	9,720
Amortization of intangibles	356	682	1,539	1,771
Research and development	603	1,187	1,703	3,143
	-----	-----	-----	-----
	5,607	5,263	16,148	14,634
	=====	=====	=====	=====
OPERATING INCOME	3,325	2,605	8,543	6,497
Interest expense	(506)	(413)	(1,338)	(925)
Offering expenses	-	(350)	-	(350)
Interest and other income, net	(6)	35	405	33
	=====	=====	=====	=====
	(512)	(728)	(933)	(1,242)
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	2,813	1,877	7,610	5,255
Income taxes	1,111	788	2,775	2,018
	-----	-----	-----	-----
NET INCOME	\$ 1,702	\$ 1,088	\$ 4,835	\$ 3,237
	=====	=====	=====	=====

Per Share:

NET INCOME - BASIC	\$ 0.09	\$ 0.06	\$ 0.26	\$ 0.18
	=====	=====	=====	=====
NET INCOME - DILUTED	\$ 0.09	\$ 0.06	\$ 0.26	\$ 0.17
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	18,477	17,948	18,273	17,829
	=====	=====	=====	=====
- DILUTED	18,881	18,840	18,702	18,820
	=====	=====	=====	=====

See notes to condensed consolidated financial statements.

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

	Nine months ended September 30,	
	1999	1998
	----	----
OPERATING ACTIVITIES		
Net income	\$ 4,835	\$ 3,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,823	2,725
Changes in operating assets and liabilities	(3,874)	(7,334)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,784	(1,372)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(4,288)	(2,919)
Net maturities of investments	0	96
Product licensing/acquisition costs	(529)	(13,017)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(4,817)	(15,840)
FINANCING ACTIVITIES		
Repayment of long-term debt	(13,642)	(12)
Proceeds from issuance of long-term debt	14,400	16,371
Proceeds from sale of stock	364	686
Reductions in capital lease obligations	(120)	(111)
Repayment of short-term borrowings, net	-	(1,750)
Debt acquisition costs	-	(126)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,002	15,058
	-----	-----
DECREASE IN CASH AND CASH EQUIVALENTS	(31)	(2,154)
Cash and cash equivalents at beginning of period	736	2,413

CASH AND CASH EQUIVALENTS
AT END OF PERIOD

-----	-----
\$ 705	\$ 259
=====	=====

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). Effective July 1, 1999, the Company merged Taylor Pharmaceuticals, Inc. into Akorn, Inc. and spun off its Somerset, New Jersey operation forming a wholly owned subsidiary Akorn (New Jersey), Inc., an Illinois corporation. 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-and nine-month periods ended September 30, 1999 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, 1998, included in the Company's Annual Report on Form 10-K.

NOTE B - NONCASH TRANSACTIONS

During the first quarter of 1999, the Company settled an outstanding \$685,000 account receivable with one of its customers. In conjunction with this settlement, the Company reversed a specific allowance for doubtful account of \$300,000, received production equipment with a fair market value of \$640,000 and \$223,000 in cash. The Company recognized a gain on this transaction of \$178,000. The Company received an additional \$97,000 in cash in the second quarter and recognized an additional gain equal to the cash payment.

On August 26, 1999, a former employee exercised options for 23,352 shares of the Company's common stock. The individual tendered approximately 8,800 shares of the Company's outstanding stock as consideration for the option exercise, which was recorded as treasury stock. The net effect of this transaction was to increase common stock and paid in capital by \$35,028 and increase treasury stock by \$35,028.

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO 1998

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

	Three Months Ended September 30,	
	1999	1998

	(in thousands)	
Ophthalmic segment	\$ 8,162	\$ 7,392
Injectable segment	8,633	7,746
	-----	-----
Total net sales	\$16,795	\$15,138
	=====	=====

Consolidated net sales increased 11% in the quarter ended September 30, 1999 compared to the same period in 1998. Ophthalmic segment sales increased 10%, reflecting prior year product acquisitions as well as growth in the base business. Injectable segment sales increased 11% compared to the same period in 1998 due to prior year product acquisitions, growth in national account sales and increased contract development and manufacturing activity.

Consolidated gross profit increased 14% during the quarter, with gross margins increasing from 52% to 53%. Margins for the ophthalmic segment decreased from 54% to 40%, reflecting prior year product acquisitions as well as a higher-margin sales mix, offset by under absorption of plant overhead expenses in the Somerset, NJ operation, which was acquired in the third quarter of 1998. Margins for the injectable segment increased from 50% to 66%, primarily due to over absorption of plant overhead expenses due to increased manufacturing volume at the Decatur location. Total net manufacturing variances were immaterial. 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.

Selling, general and administrative (SG&A) expenses increased 37% during the quarter ended September 30, 1999 as compared to the same period in 1998, reflecting increased compensation related expenses and product promotion as well as administrative expenses related to the Buffalo Grove and Somerset facilities. The percentage of SG&A expenses to sales increased from 22% to 28%, reflecting the increases noted above. Amortization of intangibles decreased from \$682,000 to \$356,000, or 48% from the prior year quarter, reflecting the expiration of a purchased patent.

Research and development (R&D) expense decreased 49% in the quarter, to \$603,000 from \$1,187,000 for the same period in 1998. The decrease reflects timing of expenses for clinical trials rather than a change in the number of products under development. Management expects R&D expenses 1999 to increase in the fourth quarter and through the next fiscal year.

Interest expense of \$506,000 reflects interest on bank debt used to grow operations.

The Company's effective tax rate for the quarter was 40% compared to 42% for the prior-year period. The Company reported net income of \$1,702,000 or \$0.09 per diluted share for the three months ended September 30, 1999, compared to \$1,088,000 or \$0.06 per diluted share for the comparable prior year quarter.

NINE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED TO 1998

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

	Nine Months Ended September 30,	
	1999	1998
	----- (in thousands) -----	
Ophthalmic segment	\$23,900	\$21,206
Injectable segment	23,704	19,971

Total net sales	\$47,604	\$41,177
	=====	

Consolidated net sales increased 16% in the six months ended June 30, 1999 compared to the same period in 1998. Ophthalmic segment sales increased 13%, reflecting prior year acquisitions as well as growth in the base business. Injectable segment sales increased 32% compared to the same period in 1998, primarily due to prior year product acquisitions and increased contract manufacturing activity.

Consolidated gross profit increased 17% during the six months ended June 30, 1999 compared to the same period in 1998, with gross margins increasing from 51% to 52%. Margins for the ophthalmic segment decreased from 51% to 48% during the comparable periods, primarily due under-absorption of plant overhead expenses in the Somerset, New Jersey location. Margins for the injectable segment increased from 52% to 53%, primarily due to a shift in sales mix and over absorbed overhead at the Decatur location.

Selling, general and administrative (SG&A) expenses increased 33% during the nine months ended September 30, 1999 as compared to the same period in 1998. This increase is due to increased compensation related expenses and product promotion activity as well as additional facility related expenses for Buffalo Grove and Somerset. The percentage of SG&A expenses to sales increased from 24% to 27%, reflecting the increases noted above. Amortization of intangibles decreased from \$1,771,000 to \$1,539,000 or 15% over the prior year quarter, reflecting the expiration of a purchased patent.

Research and development (R&D) expense decreased 46% in the six months to \$1,703,000 from \$3,143,000 for the same period in 1998. 1998 R&D spending included expenses for clinical trials associated with TP-1000, the company's potential migraine product. Akorn did not engage in any clinical trials during most of the first nine months of 1999, with patient enrollment for the third piroxicam trial beginning in September. Management expects R&D expenses for the remainder of 1999 to increase.

Interest expense increased 45% to \$1,338,000 from \$925,000 for the same period in 1998 due to higher average outstanding debt balances. Other income of \$405,000 relates primarily to a gain on the settlement of an outstanding contract manufacturing customer debt. The customer settled the debt with a combination of manufacturing equipment and cash, the fair market value of which exceeded the book value of the debt by approximately \$275,000. Also included within other income is a gain on sale of assets of \$96,000.

The Company's effective tax rate for the nine months ended September 30, 1999 was 36% compared to 38% for the prior-year period. The effective rate reflects the effect of amended returns filed in 1999 for prior years. Management expects the effective rate for the remaining quarters of 1999 to approximate 40%. The Company reported net income of \$4,835,000 or \$0.26 per diluted share for the nine months ended September 30, 1999, compared to \$3,237,000 or \$0.17 per diluted share for the comparable prior period.

FINANCIAL CONDITION AND LIQUIDITY

Working capital at September 30, 1999 was \$18.0 million compared to \$11.0 million at December 31, 1998. At September 30, 1999 the Company had \$0.4 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 nine months ended September 30, 1999, the Company generated \$3,784,000 in cash from operations primarily due to increased net income. Investing activities, which include the purchase of product related intangibles as well as equipment, required \$4,817,000 in cash. Cash provided by financing activities, a net increase of \$1,002,000, was primarily funded through an increase in long-term debt.

YEAR 2000 ISSUES

The Company faces exposure to Year 2000 issues in its information technology systems, embedded systems in its manufacturing equipment and facilities, and in the systems utilized by its customers and suppliers. A discussion of each of these exposures follows. The Company does not expect Year 2000 issues to have a material adverse effect on its financial condition or results of operations.

The Company utilizes information technology systems to store and process its business transactions. Lack of Year 2000 compliance in any of these systems could result in disruption of routine accounts payable, accounts receivable and inventory transactions which could in turn effect operating cash flows. The Company utilizes commercially available financial software, and has no internally developed programming which would require modification. To become Year 2000 compliant, the Company's information technology systems required upgrading the server software at its Decatur location and the installation of Year 2000 compliant financial software in its Buffalo Grove location. The Company is dependent upon the representations of its hardware and software vendors to ensure Year 2000 compliance, and has received such representations. The Company currently has a substantial number of inventory items with product expiration dates in the year 2000 and beyond and has experienced no problems with system misclassification of such products as expired. The cost of the required software upgrade and conversion is estimated at \$600,000, of which approximately \$600,000 had been incurred through September 30, 1999.

The Company utilizes various automated production equipment and facilities components such as telecommunications systems, alarms and sprinkling systems in the course of normal operations. Lack of Year 2000 compliance in any of these embedded systems could result in business interruptions relating to production delays and disruption of customer service and telesales functions, which could in turn effect operating profits and cash from operations. The Company is dependent upon the representations of its vendors to ensure Year 2000 compliance, and has received such representations. The most reasonably likely worst-case scenario would involve manual system overrides and added personnel to perform otherwise automated functions.

The Company's customers utilize various systems to process transactions in the normal course of business. Smaller customers tend to utilize manual accounting systems and therefore present less risk. Wholesalers and other larger customers tend to rely on automated processing systems for inventory control and accounts payable. Lack of Year 2000 compliance in these customer systems could result in erroneous product returns for short-dated product and disruption of payments of outstanding invoices, which would in turn effect operating cash flows. The Company is dependent upon representations of its customers to ensure Year 2000 compliance, and has received such representations. The Company has already sold a substantial amount of product with expiration dates in the year 2000 and beyond and has experienced no problems with erroneous returns of such product for short-dating. The most reasonably likely worst-case scenario would involve added personnel to perform otherwise automated functions.

The Company's vendors and suppliers utilize various systems to process transactions in the normal course of business. Lack of Year 2000 compliance in these vendor systems could result in shortages of required

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components and raw materials due to misclassification of ship dates or expiration dates as well as disruption of supply or service due to misclassification of invoices as past due, which would in turn effect operating profits and cash from operations. The Company is dependent upon the representations of its vendors and suppliers to ensure Year 2000 compliance, and has received such representations. The Company has already purchased a substantial amount of raw material with expiration dates in the year 2000 and beyond and has experienced no apparent shortages of materials due to erroneous expiration dates. The most reasonably likely worst-case scenario would involve added personnel to perform otherwise automated functions.

The Company's utilities and freight suppliers use various automated systems to route power and telecommunications signals and to schedule shipments and deliveries. Lack of Year 2000 compliance in these suppliers' systems could result in business interruptions due to production delays and disruption of customer service, telesales and distribution functions, which could in turn effect operating profits and cash from operations. The Company is dependent upon the representations of its suppliers to ensure Year 2000 compliance, and has received such representations. The most reasonably likely worst-case scenario would involve manual system overrides and added personnel to locate viable carriers.

The Company has completed installation of its Year 2000 compliant financial system in the Buffalo Grove location, and began parallel processing in the fourth quarter of 1998. Conversion to the live compliant system was begun in January 1999, and has been completed. Upgrade of the server in the Decatur location has been completed. Surveys of customer and supplier compliance have been completed and will continue when new suppliers are added.

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, 1998 and in Note Q to the consolidated financial statements included in that report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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: October 31, 1999

AKORN, INC.
EXHIBIT 11.1

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Earnings:				
Income applicable to common stock	\$ 1,702	\$ 1,088	\$ 4,835	\$ 3,237
Weighted average number of shares outstanding	18,477	17,948	18,273	17,829
Net income per share - basic	\$ 0.09	\$ 0.06	\$ 0.26	\$ 0.18
Additional shares assuming conversion of options and warrants	404	892	429	991
Pro forma shares	18,881	18,840	18,702	18,820
Net income per share - diluted	\$ 0.09	\$ 0.06	\$ 0.26	\$ 0.17

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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