
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 1999

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

Commission File Number: 0-13976

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

LOUISIANA
(State or other jurisdiction of
incorporation or organization)

72-0717400
(IRS Employer Identification No.)

2500 MILLBROOK DRIVE, BUFFALO GROVE, ILLINOIS 60089
(Address of principal executive offices and zip code)

ISSUER'S TELEPHONE NUMBER: (847) 279-6100

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)

Indicate by check mark whether the Registrant (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 No

Indicate by check mark 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 Registrant'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 March 15, 2000
was approximately \$124,200,000.

The number of shares of the Issuer's common stock, no par value per share,
outstanding as of March 15, 2000 was 18,968,802.

Certain statements in this Form 10-K constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. When used in this document, the words "anticipate," "believe," "estimate" and "expect" and similar expressions are generally intended to identify forward-looking statements. Any forward-looking statements, including statements regarding the intent, belief or expectations of the Company or its management are not guarantees of future performance. These statements involve risks and uncertainties and actual results may differ materially from those in the forward-looking statements as a result of various factors, including but not limited to:

- the effects of federal, state and other governmental regulation of the Company's business;
- the Company's success in developing, manufacturing and acquiring new products;
- the Company's ability to bring new products to market and the effects of sales of such products on the Company's financial results;
- the effects of competition from generic pharmaceuticals and from other pharmaceutical companies; and
- other factors referred to in this Form 10-K and the Company's other SEC filings.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Effect Future Results". The Company does not intend to update these forward-looking statements.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement (the "Proxy Statement") to be used in connection with the Registrant's 2000 Annual Meeting of shareholders, which Proxy Statement will be filed under the Securities Exchange Act of 1934 within 120 days of the Registrant's fiscal year ended December 31, 1999, are incorporated by reference to Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Akorn, Inc. ("Akorn" or the "Company") manufactures and markets diagnostic and therapeutic pharmaceuticals in specialty areas such as ophthalmology, rheumatology, anesthesia and antidotes, among others. The Company also markets ophthalmic surgical instruments and related products. Customers include physicians, optometrists, wholesalers, group purchasing organizations and other pharmaceutical companies. The Company also provides contract manufacturing services. Akorn is a Louisiana corporation founded in 1971 in Abita Springs, Louisiana, a suburb of New Orleans. In 1997, the Company relocated its headquarters and certain operations to Illinois.

In May 1996, the Company acquired Pasadena Research Laboratories, Inc., a developer and distributor of injectable pharmaceutical products. Subsequently, the Company reorganized its operations into two segments, ophthalmic and injectable. For information regarding sales, operating income and identifiable assets for each of the Company's segments, see Note N to the consolidated financial statements included in Item 8 of this report.

Ophthalmic Segment. The Company markets an extensive line of diagnostic and therapeutic ophthalmic pharmaceutical products as well surgical instruments and related supplies. Diagnostic products, primarily used in the office setting, include mydriatics and cycloplegics, anesthetics, topical stains, gonioscopic solutions, angiography dyes and others. Therapeutic products, sold primarily to wholesalers and other national account customers, include antibiotics, anti-infectives, steroids, steroid combinations, glaucoma medications, decongestants/antihistamines and anti-edema medications. Surgical products 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. Non-pharmaceutical products include various artificial tear solutions, preservative-free lubricating ointments, lid cleansers, vitamin supplements and contact lens accessories.

Injectable Segment. The Company markets a line of specialty injectable pharmaceutical products, including anesthesia products used in the treatment of rheumatoid arthritis and pain management. These products are marketed to wholesalers and other national account customers as well as directly to medical specialists. Akorn also provides contract manufacturing services to pharmaceutical and biotech companies.

Manufacturing. The Company has two manufacturing facilities located in Decatur, Illinois and Somerset, New Jersey. See "Item 2. Description of Property." The Company manufactures a diverse group of sterile pharmaceutical products, including solutions, ointments and suspensions for its ophthalmic and injectable segments. The Company is also in the process of adding freeze dried (lyophilized) manufacturing capabilities at its Decatur facility. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Effect Future Results -- Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities."

Sales and Marketing. While the Company is working to expand its proprietary product base through internal development and, to a lesser extent, acquisitions, the majority of current products are non-proprietary. The Company relies on its efforts in marketing, distribution, development and low cost manufacturing to maintain and increase market share.

The ophthalmic segment uses a three-tiered sales effort. Outside sales representatives, with two field managers, sell directly to physicians and group practices. In-house sales (telemarketing) and customer service (catalog sales) sell to optometrists and other customers. A national accounts group sells to wholesalers, retail chains and other group purchasing organizations. This national accounts group also markets the Company's injectable pharmaceutical products which the Company also sells through telemarketing and direct mail activities to individual specialty physicians and hospitals. The injectable segment does not utilize a field sales force at this time. The segment may add such a force in the future as it introduces proprietary products. The injectable segment markets its contract manufacturing services through direct mail, trade shows and direct industry contacts.

Research and Development. As of December 31, 1999, the Company had 42 Abbreviated New Drug Applications ("ANDAs") for generic pharmaceuticals in various stages of development. The Company has filed 14 of these ANDAs and had 4 ANDAs approved in 1999. See "Government Regulation." The Company expects to continue to file ANDAs on a regular basis as pharmaceutical products of its competitors come off patent allowing the Company to compete by marketing generic equivalents. The Company had one New Drug Application ("NDA"), for Paremyd, on file at December 31, 1999. The Company is also developing four indications for ophthalmic products for which it currently anticipates filing NDAs. See Note C to the consolidated financial statements included in Item 8 of this report. One is an indication for Indocyanine Green to treat age related macular degeneration. If the Company's developmental efforts are successful, the Company currently anticipates filing this NDA within the next four years and estimates

the market size for this product to be \$350 million. A second anticipated NDA filing is for a new delivery system for the pharmaceutical Timolol, which is used in the treatment of glaucoma. If the Company's developmental efforts are successful, the Company currently anticipates filing this NDA within the next three years and estimates the market size for this product to be \$270 million. A third anticipated NDA filing is for Piroxicam ophthalmic solution which is an anti-inflammatory to be used during cataract surgery. The Company began conducting additional clinical studies on this product in the third quarter of 1999 and anticipates filing an NDA by the end of this year. The Company estimates the market for this product to be \$75 million. Finally, the Company currently anticipates filing an NDA for an indication for Indocyanine Green to treat white cataracts. The Company estimates the market for this product to be \$6 to \$10 million. Pre-clinical and clinical trials required in connection with the development of pharmaceutical products are performed by contract research organizations under the direction of Company personnel. No assurance can be given as to whether the Company will file these NDAs, or any ANDAs, when anticipated, will develop marketable products based on these filings or as to the actual size of the market for any such products. See "Government Regulation" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors That May Effect Future Results--Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities".

The Company also maintains a business development program which identifies potential product acquisition or product licensing candidates. The Company has focused its business development efforts on niche products which complement its existing product lines and which have few or no competitors in the market.

At December 31, 1999, 22 full-time employees of the Company were involved in research and development and product licensing.

Research and development costs are expensed as incurred. Such costs amounted to \$2,744,000, \$4,010,000 and \$1,873,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

Patents and Proprietary Rights. The Company considers the protection of discoveries in connection with its development activities important to its business. The Company intends to seek patent protection in the United States and selected foreign countries where deemed appropriate. To date, the Company has received three U.S. patents and has four additional U.S. and one international patent applications pending. There can be no assurance that the Company will obtain U.S. or foreign patents or, if obtained, that they will provide substantial protection or be of commercial benefit. The Company also relies upon trademarks, trade secrets, unpatented proprietary know-how and continuing technological innovation to maintain and develop its competitive position. The Company enters into confidentiality agreements with certain of its employees pursuant to which such employees agree to assign to the Company any inventions relating to the Company's business made by them while in the Company's employ. However, there can be no assurance that others may not acquire or independently develop similar technology or, if patents are not issued with respect to products arising from research, that the Company will be able to maintain information pertinent to such research as proprietary technology or trade secrets. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors That May Effect Future Results--Patents and Proprietary Rights".

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Employee Relations. At December 31, 1999, the Company had 349 full-time employees, of whom 309 were employed by Akorn and 40 by its wholly owned subsidiary, Akorn (New Jersey), Inc. The Company enjoys good relations with its employees, none of whom are represented by a collective bargaining agent.

Competition. The marketing and manufacturing of 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 greater financial and other resources,

including greater sales volume, larger sales forces and greater manufacturing capacity. See "Management's Discussion and Analysis of Operations--Factors That May Effect Future Results--Competition; Uncertainty of Technological Change."

The companies which compete with the ophthalmic segment include Alcon Laboratories, Inc., Allergan Pharmaceuticals, Inc., Ciba Vision and Bausch & Lomb, Inc. ("B&L"). The ophthalmic segment competes primarily on the basis of price and service. The ophthalmic segment purchases some ophthalmic products from Steris Pharmaceuticals, Inc. and B&L, who are in direct competition with the Company in several markets.

The companies which compete with the injectable segment include both generic and name brand companies such as Abbott Labs, Gensia, Marsam, Steris, Elkin Sinn and American Regent. The injectable segment competes primarily on the basis of price. Competitors in the contract manufacturing business include Cook Imaging, Chesapeake Biological Laboratories, Ben Venue and Oread Laboratories. The manufacturing of sterile products must be performed under government mandated Good Manufacturing Practices.

Suppliers and Customers. No unaffiliated supplier of products accounted for more than 10% of the Company's sales in either segment during 1999, 1998 or 1997. The Company requires a supply of quality raw materials and components to manufacture and package pharmaceutical products for itself and for third parties with which it has contracted. The principal components of the Company's products are active and inactive pharmaceutical ingredients and certain packaging materials. Many of these components are available from only a single source and, in many of the Company's ANDAs and NDAs, only one supplier of raw materials has been identified. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors That May Effect Future Results--Dependence on Supply of Raw Materials and Components".

No single customer accounted for more than 10% of the Company's sales in either segment during 1999, 1998 or 1997.

Government Regulation. Pharmaceutical manufacturers and distributors are subject to extensive regulation by government agencies, including the Food and Drug Administration ("FDA"), the Drug Enforcement Agency ("DEA"), the Federal Trade Commission ("FTC") and other federal, state and local agencies. 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, labeling, storage and promotion of products. 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 to approve new drug applications and criminal prosecution. The FDA also has the authority to revoke approval of drug products.

With certain exceptions, FDA approval is required before any drug can be manufactured and marketed. New drugs require the filing of an NDA, including clinical studies demonstrating the safety and efficacy of the drug. Generic drugs, which are equivalents of existing brand name drugs, require the filing of an ANDA, which waives the requirement of conducting clinical studies of safety and efficacy. Ordinarily, the filing of an ANDA for generic drugs which contain the same ingredients as drugs already approved for use in the United States requires data showing that the generic formulation is equivalent to the brand name drug and that the product is stable in its formulation. The Company has no control over the time required for the FDA to approve NDA or ANDA filings.

The Company also manufactures and distributes several controlled-drug substances, the distribution and handling of which are regulated by the DEA. Failure to comply with DEA regulations can result in fines or

seizure of product. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors That May Effect Future Results--Government Regulation".

The Company does not anticipate any material effect from compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment.

ITEM 1A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the executive officers of the Company as of March 15, 2000. Each officer serves as such at the pleasure of the Board of Directors.

NAME AND AGE -----	POSITION WITH THE COMPANY -----	IN POSITION SINCE -----
John N. Kapoor, Ph.D., 56....	Chairman of the Board of the Company since May 1995 and from December 1991 to January 1993, and acting Chairman of the Board of the Company from April 1993 to May 1995; Chief Executive Officer of the Company from May 1996 to November 1998; Chairman of the Board of Option Care, Inc. (infusion services and supplies); chief executive officer of Option Care, Inc. from August 1993 to April 1996; president of E.J. Financial Enterprises, Inc., (venture capital company), since April 1990; director of NeoPharm, Inc. (specialty pharmaceutical company)	1991
Floyd Benjamin, 57.....	President and Chief Executive Officer of the Company since November 1998; Executive Vice President of the Company and President of Taylor Pharmaceuticals, Inc. (a subsidiary of the Company) from May 1996 to November 1998; president of Pasadena Research Laboratories, Inc. ("PRL") from October 1994 to May 1996 and consultant to PRL from October 1993 to October 1994; president and chief executive officer of Neocrin, Inc. (biomedical venture capital company) from February 1992 to October 1993; prior to February 1992, chief operating officer of Lyphomed, Inc. (injectable pharmaceuticals)	1998
Rita J. McConville, 41.....	Vice President, Chief Financial Officer, Secretary and Treasurer of the Company since February 1997; Senior Director and Controller of Option Care, Inc. (infusion services and supplies) from July 1993 to February 1997	1997

ITEM 2. DESCRIPTION OF PROPERTY

Since August 1998, the Company's headquarters and certain administrative offices, as well as a finished goods warehouse, have been located in approximately 24,000 square feet of leased space at 2500 Millbrook Drive, Buffalo Grove, Illinois. From May 1997 to August 1998, the Company's headquarters and ophthalmic division offices were located in approximately 11,000 square feet of leased space in Lincolnshire, Illinois. The Company sub-lets the Lincolnshire space to several tenants. The Company's former headquarters, consisting of approximately 30,000 square feet located on ten acres of land in Abita Springs, Louisiana, was sold in February 1999.

The Company also 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, the Company owns a 55,000 square-foot manufacturing facility in Decatur, Illinois. The Company leases approximately 7,000 square feet of office and warehousing space in San Clemente, California. The Company's Akorn (New Jersey) subsidiary also leases approximately 40,000 square feet of space in Somerset, New Jersey. This space is used for manufacturing, research and development and administrative activities. The combined space is considered adequate to accommodate growth for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

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

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 December 31, 1999.

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 March 10, 2000, the Company estimated that the number of holders of its Common Stock was approximately 3,200, including record holders and individual participants in security position listings.

High and low bid prices per Nasdaq for the periods indicated were:

	HIGH	LOW
	-----	-----
Year Ended December 31, 1999:		
1st Quarter.....	\$5.50	\$3.50
2nd Quarter.....	5.00	3.69
3rd Quarter.....	5.00	3.88
4th Quarter.....	4.69	3.78
Year Ended December 31, 1998:		
1st Quarter.....	\$6.88	\$2.75
2nd Quarter.....	9.06	6.03
3rd Quarter.....	8.00	3.75
4th Quarter.....	6.38	2.63

As of March 15, 2000, there were approximately 600 holders of record of the Company's Common Stock. Closing price at March 15, 2000 was \$9.00 per share as reported by the Nasdaq National Market.

The Company did not pay cash dividends in 1999, 1998 or 1997, and is prohibited by its revolving credit agreement with The Northern Trust Company from doing so.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

In October 1996, the Board of Directors of the Company voted to change the Company's fiscal year from the year ending June 30 to a calendar year. The following table sets forth selected consolidated financial information for the Company for the years ended December 31, 1999, 1998 and 1997, the six month transition period ended December 31, 1996 and the years ended June 30, 1996 and 1995:

	YEARS ENDED DECEMBER 31,			SIX MONTHS	YEARS ENDED JUNE 30,	
	1999	1998	1997	ENDED DECEMBER 31, 1996	1996	1995
PER SHARE						
Equity.....	\$ 1.85	\$ 1.40	\$ 1.20	\$ 0.98	\$ 0.97	\$ 0.93
Net income:						
Basic.....	\$ 0.37	\$ 0.26	\$ 0.11	\$ 0.00	\$ 0.05	\$ 0.15
Diluted.....	\$ 0.36	\$ 0.25	\$ 0.11	\$ 0.00	\$ 0.05	\$ 0.15
Price: High.....	\$ 5.56	\$ 9.19	\$ 4.50	\$ 3.50	\$ 3.50	\$ 4.00
Low.....	\$ 3.50	\$ 2.54	\$ 1.84	\$ 1.63	\$ 2.06	\$ 2.25
P/E: High.....	15x	35x	41x	NM	70x	27x
Low.....	10x	10x	17x	NM	41x	15x
INCOME DATA (000)						
Net sales.....	\$64,632	\$ 56,667	\$42,323	\$16,519	\$33,925	\$37,505
Gross profit.....	33,477	29,060	18,776	5,758	11,953	15,177
Operating income.....	12,122	9,444	3,165	130	1,089	3,910
Interest expense.....	(1,921)	(1,451)	(497)	(243)	(441)	(25)
Pretax income.....	10,639	7,686	2,844	70	977	3,738
Income taxes.....	3,969	3,039	1,052	26	189	1,232
Net income.....	\$ 6,670	\$ 4,647	\$ 1,792	\$ 44	\$ 788	\$ 2,506
Weighted average shares outstanding:						
Basic.....	18,269	17,891	16,614	16,580	16,383	16,236
Diluted.....	18,573	18,766	16,925	16,763	16,788	16,799
BALANCE SHEET (000)						
Current assets.....	\$35,851	\$ 24,948	\$19,633	\$13,840	\$17,001	\$15,474
Net fixed assets.....	20,812	15,860	12,395	12,833	11,524	11,060
Total assets.....	76,098	61,416	38,715	28,013	29,567	27,491
Current liabilities.....	9,693	13,908	8,612	5,636	9,351	7,016
Long-term obligations.....	32,015	21,228	9,852	6,003	3,915	4,890
Shareholders' equity.....	\$34,390	\$ 26,280	\$20,251	\$16,374	\$16,301	\$15,585
CASH FLOW DATA (000)						
From operations.....	\$ 131	\$ 1,093	\$ 64	\$ 2,553	\$ 10	\$ 712
Dividends paid (1).....	--	--	--	--	(583)	--
From investing.....	(6,233)	(13,668)	(6,387)	(2,028)	(873)	(4,943)
From financing.....	5,391	10,898	7,356	(36)	979	3,112
Change in cash & equivalents.....	\$ (711)	\$ (1,677)	\$ 1,033	\$ 489	\$ 116	\$ (1,119)

(1) Dividends paid pertain to Subchapter S distributions made to former PRL shareholders for pre-acquisition earnings.

All of the information shown in the table above for the two year period ended June 30, 1996 has been restated to reflect the combined operations of Akorn and Pasadena Research Laboratories, Inc. (PRL).

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 consolidated financial statements.

RESULTS OF OPERATIONS

The Company's revenues are derived from sales of diagnostic and therapeutic pharmaceuticals by the ophthalmic and injectable segments, from sales of surgical instruments and related products by the ophthalmic segment and from sales of contract manufacturing services by the injectable segment. The following table sets forth the percentage relationships that certain items from the Company's Consolidated Statements of Income bear to revenues for the years ended December 31, 1999, 1998 and 1997.

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
Revenues			
Ophthalmic.....	50%	52%	59%
Injectable.....	50	48	41
	---	---	---
Total revenues.....	100%	100%	100%
Gross profit.....	52	51	44
Selling, general and administrative expenses.....	26	24	28
Amortization of intangibles.....	3	4	1
Research and development expenses.....	4	7	4
Operating income.....	19	17	8
Net income.....	10%	8%	4%

COMPARISON OF TWELVE MONTHS ENDED DECEMBER 31, 1999 AND 1998

Net sales increased 14.1% for the year ended December 31, 1999 compared to the prior year. Ophthalmic segment sales increased 11.2%, primarily due to previously acquired products and product licensing agreements entered into in 1999. Injectable segment sales increased 17.1%, primarily due to strong sales of anesthesia products.

Consolidated gross profit increased 15.2% for the year, with gross margins increasing from 51.3% to 51.8%. The increase in gross margins was caused by branded products acquired in 1998 being included in the full year results for 1999 and the resultant shift in sales mix to higher margin products. 1999 cost of sales includes \$1.4 million in unfavorable manufacturing variances resulting from under-utilization of manufacturing capacity at the Somerset, New Jersey facility. Management expects the unfavorable manufacturing variances to continue until additional product approvals are obtained at the Somerset facility.

Selling, general and administrative expenses (SG&A) increased 25.9% from 1998, resulting from new hires in 1999 and the associated salary and salary related expenses being included in the full year results for 1999 (28.9%) as well as one time consulting fees (55.5%) and warehouse related expenses (69.5%). Management expects the growth rate for SG&A expenses to significantly decrease in 2000.

Amortization of intangibles decreased 18.9% for the year, reflecting the expiration of a patent in May 1999.

Research and development expenses ("R&D") decreased 31.6%, primarily reflecting the conclusion of clinical studies on TP-1000, a migraine product, in December 1998. Since obtaining favorable preliminary clinical data, the Company has been seeking a partner to continue development of this product. The Company did not conduct clinical studies in 1999 until late in the third quarter, when a third Piroxicam trial began. Management expects R&D expenses to increase to approximately \$4,000,000 in 2000, as three additional NDA projects begin to move through the pipeline. See "Item 1. Description of Business--Research and Development".

During 1998, the Company recorded \$350,000 in charges related to a cancelled public equity offering.

Interest expense increased 32.4%, reflecting higher average outstanding debt balances related to prior year product acquisitions and 1999 capital spending.

Net income for 1999 was \$6,670,000 or \$0.36 per diluted share compared to \$4,647,000 or \$0.25 per diluted share for the prior year. The increase in earnings resulted from the above mentioned items.

COMPARISON OF TWELVE MONTHS ENDED DECEMBER 31, 1998 AND 1997

Net sales increased 33.9% for the year ended December 31, 1998 compared to the prior year. Ophthalmic segment sales increased 17.3%, primarily due to strong sales of acquired products. Injectable segment sales increased 57.6%, primarily due to acquired anesthesia products. Injectable segment sales also benefited from a continuing shortage of certain distributed products.

Consolidated gross profit increased 54.8% for the year, with gross margins increasing from 44% to 51%. The increase in gross margins was caused by branded product acquisitions and a shift in sales mix to higher margin products.

Selling, general and administrative expenses (SG&A) increased 11.2%, reflecting increased provisions for employee performance bonuses and expenses associated with the new corporate office facility in Buffalo Grove, Illinois.

Amortization of intangibles increased 584.9% for the year, reflecting significant product acquisitions in 1998.

R&D expenses increased 114.1%, primarily reflecting accelerated development of TP-1000, a migraine product.

During 1998, the Company recorded \$350,000 in charges related to a cancelled public equity offering. During 1997, the Company recorded \$1,451,000 in charges related to the relocation of the ophthalmic division and executive offices from Abita Springs, Louisiana to the Chicago area. The charges primarily relate to severance \$494,000, and retention bonus payments, \$151,000, as well as a write-down of the Abita Springs facility and equipment to net realizable value, \$378,000 and moving relocations costs, \$144,000.

Interest expense increased 192.0%, reflecting higher average outstanding debt balances related to product acquisitions. Interest income declined 97.6% due to the liquidation of cash balances to finance acquisition activities.

Net income for 1998 was \$4,647,000 or \$0.25 per diluted share compared to \$1,792,000 or \$0.11 per diluted share for the prior year. The increase in earnings resulted from the above mentioned items.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedge activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The statement, as amended, is effective for the fiscal quarters of the Company's fiscal year ending December 31, 2001. The Company is in the process of evaluating the effect of this Statement on its financial statements.

FINANCIAL CONDITION AND LIQUIDITY

As of December 31, 1999, the Company had cash and cash equivalents of \$25,000. Working capital at that date was \$26,158,000 versus \$11,040,000 at December 31, 1998 resulting primarily from the refinancing of \$11,000,000 of current liabilities with long term debt under the Company's new \$45 million credit facility and an increase in receivables and inventory of \$11,999,000. The Company manages its cash balances to minimize interest expense on its line of credit borrowing. At December 31, 1999, the Company had \$16.8 million available under its revolving credit facility.

During the year ended December 31, 1999, the Company generated \$131,000 in cash from operations after financing its working capital requirements, primarily an increase in accounts receivable and inventories

related to increased sales volume, including acquired products. Management anticipates additional investment in working capital to finance continued sales

growth, but has active working capital management initiatives in place to reduce receivables and inventory levels. Investing activities, which include the purchase of product-related intangible assets as well as equipment required \$6,233,000 in cash. Purchases of equipment for the manufacture of lyophilized (freeze-dried) pharmaceuticals accounted for \$2,507,000 of the \$6,233,000 cash used in investing activities and the Company expects to incur an additional \$5,187,000 for such purchases during 2000. Financing activities provided \$5,391,000 in cash primarily through a net \$4,216,000 increase in long-term debt and \$1,337,000 from stock option exercises. The Company's repayment of capital lease obligations used \$162,000 in cash.

Capital expenditures for equipment in 1999 and 1998 principally relate to the Company's lyophilization project as discussed in Note F to the Consolidated Financial Statements.

In 1997 the Company entered into a \$15 million revolving credit arrangement, increased to \$25 million in 1998, and subsequently increased to \$45 million in 1999, subject to certain financial covenants. See Note H to Consolidated Financial Statement for a description of this indebtedness and other indebtedness of the Company. Management believes that cash flow from operations, in conjunction with borrowing availability under its credit facility, will be sufficient to meet the cash needs of the business for the foreseeable future, but additional long-term financing may be needed to finance product development or acquisitions. There are no guarantees that such financing will be available or available at an acceptable cost.

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.

SELECTED QUARTERLY DATA (UNAUDITED)

In Thousands, Except Per Share Amounts

	NET SALES	GROSS PROFIT	NET INCOME (LOSS)		
			AMOUNT	PER SHARE BASIC	PER SHARE DILUTED
Year Ended December 31, 1999:					
1st Quarter.....	\$14,719	\$ 7,436	\$1,458	\$ 0.08	\$ 0.08
2nd Quarter.....	16,089	8,323	1,675	0.09	0.09
3rd Quarter.....	16,795	8,932	1,702	0.09	0.09
4th Quarter.....	17,029	8,786	1,835	0.11	0.10
	=====	=====	=====	=====	=====
	\$64,632	\$33,477	\$6,670	\$ 0.37	\$ 0.36
Year Ended December 31, 1998:					
1st Quarter.....	\$12,051	\$ 6,242	\$1,048	\$ 0.06	\$ 0.06
2nd Quarter.....	13,987	7,021	1,101	0.06	0.06
3rd Quarter.....	15,138	7,868	1,088	0.06	0.06
4th Quarter.....	15,491	7,929	1,410	0.08	0.08
	=====	=====	=====	=====	=====
	\$56,667	\$29,060	\$4,647	\$ 0.26	\$ 0.25

FACTORS THAT MAY EFFECT FUTURE RESULTS

Government Regulation

Virtually all aspects of the Company's business are regulated by federal

and state statutes and government agencies. The development, testing, manufacturing, processing, quality, safety, efficacy, packaging, labeling, record-keeping, distribution, storage and advertising of the Company's products, and disposal of waste products arising from such activities, are subject to regulation by one or more federal agencies, including the Food and Drug Administration ("FDA"), the Drug Enforcement Agency ("DEA"), the Federal Trade Commission ("FTC"), the Consumer Product Safety Commission, the Occupational Safety and Health Administration ("OSHA") and the U.S. Environmental Protection Agency ("EPA"). These activities are also regulated by similar state and local agencies. Failure to comply with applicable statutes and government regulations could have a material adverse effect on the Company's business, financial condition and results of operations.

All pharmaceutical manufacturers, including the Company, are subject to regulation by the FDA under the authority of the Federal Food, Drug, and Cosmetic Act ("FDC Act"). Under the FDC Act, the federal government has extensive administrative and judicial enforcement powers over the activities of pharmaceutical manufacturers to ensure compliance with FDA regulations. Those powers include, but are not limited to, the authority to initiate court action to seize unapproved or non-complying products, to enjoin non-complying activities, to halt manufacturing operations that are not in compliance with current good manufacturing practices ("cGMP"), to recall products which present a health risk, and to seek civil monetary and criminal penalties. Other enforcement activities include refusal to approve product applications or the withdrawal of previously approved applications. Any such enforcement activities, including the restriction or prohibition on sales of products marketed by the Company or the halting of manufacturing operations of the Company, could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, product recalls may be issued at the discretion of the Company, the FDA or other government agencies having regulatory authority for pharmaceutical product sales. Recalls may occur due to disputed labeling claims, manufacturing issues, quality defects or other reasons. No assurance can be given that recalls of the Company's pharmaceutical products will not occur in the future. Any product recall could have a material adverse effect on the Company's business, financial condition and results of operations.

All "new drugs" must be the subject of an FDA-approved new drug application ("NDA") before they may be marketed in the United States. Certain prescription drugs are not currently required to be the subject of an approved NDA but, rather, may be marketed pursuant to an FDA regulatory enforcement policy permitting continued marketing of those drugs until the FDA determines whether they are safe and effective. All generic equivalents to previously approved drugs or new dosage forms of existing drugs must be the subject of an FDA-approved abbreviated new drug application ("ANDA") before they may be marketed in the United States. The FDA has the authority to withdraw existing NDA and ANDA approvals and to review the regulatory status of products marketed under the enforcement policy. The FDA may require an approved NDA or ANDA for any drug product marketed under the enforcement policy if new information reveals questions about the drug's safety or effectiveness. All drugs must be manufactured in conformity with cGMP and drugs subject to an approved NDA or ANDA must be manufactured, processed, packaged, held, and labeled in accordance with information contained in the NDA or ANDA.

The Company and its third-party manufacturers are subject to periodic inspection by the FDA to assure such compliance. The FDA imposes additional stringent requirements on the manufacture of sterile pharmaceutical products to ensure the sterilization processes and related control procedures consistently produce a sterile product. Additional sterile manufacturing requirements include the submission for expert review of detailed documentation for sterilization process validation in drug applications beyond those required for general manufacturing process validation. Various sterilization process requirements are the subject of detailed FDA guidelines, including requirements for the maintenance of microbiological control and quality stability. Pharmaceutical products must be distributed, sampled and promoted in accordance with FDA requirements. The FDA also regulates drug labeling and the advertising of prescription drugs. The Company believes its operating facilities and practices are in compliance with applicable federal and state law. However,

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a finding by a governmental agency or court that the Company is not in compliance could have a material adverse effect on the Company's business, financial condition and results of operations.

While the Company believes that all of its current pharmaceuticals are lawfully marketed in the United States under current FDA enforcement policies or have received the requisite agency approvals for manufacture and sale, such marketing authority is subject to withdrawal by the FDA. In addition, modifications or enhancements of approved products are in many circumstances subject to additional FDA approvals which may or may not be granted and which may be subject to a lengthy application process. Any change in the FDA's enforcement policy or any decision by the FDA to require an approved NDA or ANDA for a Company product not currently subject to the approved NDA or ANDA requirements or any delay in the FDA approving an NDA or ANDA for a Company product could have a material adverse effect on the Company's business, financial condition and results of operations.

A number of products marketed by the Company are "grandfathered" drugs which are permitted to be manufactured and marketed without FDA-issued ANDAs or NDAs on the basis of their having been marketed prior to enactment of relevant sections of the FDC Act. The regulatory status of these products is subject to change and/or challenge by the FDA, which could establish new standards and limitations for manufacturing and marketing such products, or challenge the evidence of prior manufacturing and marketing upon which grandfathering status is based. The Company is not aware of any current efforts by the FDA to change the status of any of its "grandfathered" products, but there can be no assurance that such initiatives will not occur in the future. Any such change in the status of the Company's "grandfathered" products could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company also manufactures and sells drugs which are "controlled substances" as defined in the federal Controlled Substances Act and similar state laws, which establishes, among other things, certain licensing, security and record keeping requirements administered by the DEA and similar state agencies, as well as quotas for the manufacture, purchase and sale of controlled substances. The DEA could limit or reduce the amount of controlled substances which the Company is permitted to manufacture and market. The Company has not experienced sanctions or fines for non-compliance with the foregoing regulations, but no assurance can be given that any such sanctions or fines would not have a material adverse effect on the Company's business, financial condition and results of operations.

The Company cannot determine what effect changes in regulations or statutes or legal interpretation, when and if promulgated or enacted, may have on its business in the future. Changes could, among other things, require changes to manufacturing methods, expanded or different labeling, the recall, replacement or discontinuation of certain products, additional record keeping and expanded documentation of the properties of certain products and scientific substantiation. Such changes or new legislation could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities

The Company's strategy for growth is dependent upon its ability to develop products that can be promoted through existing marketing and distribution channels and, when appropriate, the enhancement of such marketing and distribution channels. The Company currently has 42 ANDAs in various stages of development and anticipates filing four NDAs. See "Item 1. Description of Business - Research and Development." The Company may not meet its anticipated time schedule for the filing of ANDAs and NDAs or may decide not to pursue ANDAs or NDAs that it has submitted or anticipates submitting. The internal development of new pharmaceutical products by the Company is dependent upon the

research and development capabilities of the Company's personnel and its infrastructure. There can be no assurance that the Company will successfully develop new pharmaceutical products or, if developed, successfully integrate new products into its existing product lines. In addition, there can be no assurance that the Company will receive all necessary approvals from the FDA or that such approvals will not involve delays which adversely affect the marketing and sale of the Company's products. The Company's failure to develop new products or receive FDA approval of ANDAs or NDAs, could have a material adverse effect on the Company's business, financial condition and results of operations. Another part of the Company's growth strategy is to develop the

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capability to manufacture lyophilized (freeze-dried) pharmaceutical products. While the Company has devoted resources to developing these capabilities, it may not be successful in developing these capabilities, or the Company may not realize the anticipated benefits from developing these capabilities.

Generic Substitution

The Company's branded pharmaceutical products are subject to competition from generic equivalents and alternative therapies. Generic pharmaceuticals are the chemical and therapeutic equivalents of brand-name pharmaceuticals and represent an increasing proportion of pharmaceuticals dispensed in the United States. There is no proprietary protection for most of the branded pharmaceutical products sold by the Company and generic and other substitutes for most of its branded pharmaceutical products are sold by other pharmaceutical companies. In addition, governmental and cost-containment pressures regarding the dispensing of generic equivalents will likely result in generic substitution and competition generally for the Company's branded pharmaceutical products. Although the Company attempts to mitigate the effect of this substitution through, among other things, creation of strong brand-name recognition and product-line extensions for its branded pharmaceutical products, there can be no assurance that the Company will be successful in these efforts. Increased competition in the sale of generic pharmaceutical products could have a material adverse effect on the Company's business, financial condition and results of operations. Generic substitution is regulated by the federal and state governments, as is reimbursement for generic drug dispensing. There can be no assurance that substitution will be permitted for newly-approved generic drugs or that such products will be subject to government reimbursement.

Dependence on Generic and Off-Patent Pharmaceutical Products

The success of the Company depends, in part, on its ability to anticipate which branded pharmaceuticals are about to come off patent and thus permit the Company to develop, manufacture and market equivalent generic pharmaceutical products. Generic pharmaceuticals must meet the same quality standards as branded pharmaceuticals, even though these equivalent pharmaceuticals are sold at prices which are significantly lower than that of branded pharmaceuticals. In addition, generic products that third parties develop may render the Company's generic products noncompetitive or obsolete. Although the Company has successfully brought generic pharmaceutical products to market in a timely manner in the past, there can be no assurance that the Company will be able to consistently bring these products to market quickly and efficiently in the future. An increase in competition in the sale of generic pharmaceutical products or the Company's failure to bring such products to market before its competitors could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition; Uncertainty of Technological Change

The Company competes with other pharmaceutical companies, including major pharmaceutical companies with financial resources substantially greater than those of the Company, in developing, acquiring, manufacturing and marketing pharmaceutical products. The selling prices of pharmaceutical products typically decline as competition increases. Further, other products now in use, under

development or acquired by other pharmaceutical companies, may be more effective or offered at lower prices than the Company's current or future products. The industry is characterized by rapid technological change which may render the Company's products obsolete, and competitors may develop their products more rapidly than the Company. Competitors may also be able to complete the regulatory process sooner, and therefore, may begin to market their products in advance of the Company's products. The Company believes that competition in sales of its products is based primarily on price, service, availability and product efficacy. There can be no assurance that: (i) the Company will be able to develop or acquire commercially attractive pharmaceutical products; (ii) additional competitors will not enter the market; or (iii) competition from other pharmaceutical companies will not have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Supply of Raw Materials and Components

The Company requires a supply of quality raw materials and components to manufacture and package pharmaceutical products for itself and for third parties with which it has contracted. The principal components

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

Dependence on Third-Party Manufacturers

The Company derives a significant portion of its net sales from the sale of products manufactured by third parties, including its competitors in some instances. There can be no assurance that the Company's dependence on third parties for the manufacture of such products will not adversely affect the Company's profit margins or its ability to develop and deliver its products on a timely and competitive basis. If for any reason the Company is unable to obtain or retain third-party manufacturers on commercially acceptable terms, it may not be able to distribute certain of its products as planned. No assurance can be made that the manufacturers utilized by the Company will be able to provide the Company with sufficient quantities of its products or that the products supplied to the Company will meet the Company's specifications. Any delays or difficulties with third-party manufacturers could adversely affect the marketing and distribution of certain of the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Product Liability

The Company faces exposure to product liability claims in the event that the use of its technologies or products or those it licenses from third parties is alleged to have resulted in adverse effects in users thereof. Receipt of regulatory approval for commercial sale of such products does not mitigate such product liability risks. While the Company has taken, and will continue to take, what it believes are appropriate precautions, there can be no assurance that it will avoid significant product liability exposure. In addition, future product labeling may include disclosure of additional adverse effects, precautions and contraindications, which may adversely impact sales of such products. The Company currently has product liability insurance in the amount of \$10.0 million

for aggregate annual claims with a \$25,000 deductible per incident and a \$150,000 aggregate annual deductible. However, there can be no assurance that its insurance coverage will be sufficient to cover fully potential claims. Additionally, there can be no assurance that adequate insurance coverage will be available in the future at acceptable costs, if at all, or that a product liability claim would not have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Acquisition and Licensing of Pharmaceutical Products

As part of its growth strategy, the Company plans to purchase or license pharmaceutical product lines of other pharmaceutical or biotechnology companies. Other companies, including those with substantially greater financial, marketing and other resources, compete with the Company for the right to acquire or license such products. The Company's success in executing this strategy depends, in part, on its ability to identify potential products that meet the Company's criteria, including possessing a recognizable brand name or being complementary to the Company's existing product lines. There can be no assurance that the Company will have success in identifying potential product acquisitions or licensing opportunities or that, if identified, it will complete such product acquisitions or obtain such licenses on acceptable terms or that it will successfully integrate any acquired or licensed products into its existing product lines. The inability to complete acquisitions of, or obtain licenses for, pharmaceutical products could have a material adverse effect on the Company's business, financial condition and results of operations. Furthermore, there can be no assurance that the Company, once it has obtained rights to a pharmaceutical product and committed to payment terms, will be able to generate sales sufficient to create a profit or otherwise avoid a loss. Any inability to generate such

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sufficient sales or any subsequent reduction of sales could have a material adverse effect on the Company's business, financial condition and result of operations.

Patents and Proprietary Rights

The patent position of competitors in the pharmaceutical industry generally is highly uncertain, involves complex legal and factual questions, and is the subject of much litigation. There can be no assurance that any patent applications relating to the Company's potential products or processes will result in patents being issued, or that the resulting patents, if any, will provide protection against competitors who: (i) successfully challenge the Company's patents; (ii) obtain patents that may have an adverse effect on the Company's ability to conduct business; or (iii) are able to circumvent the Company's patent position. It is possible that other parties have conducted or are conducting research and could make discoveries of pharmaceutical formulations or processes that would precede any discoveries made by the Company, which could prevent the Company from obtaining patent protection for these discoveries or marketing products developed therefrom. Consequently, there can be no assurance that others will not independently develop pharmaceutical products similar to or obsoleting those that the Company is planning to develop, or duplicate any of the Company's products. The inability of the Company to obtain patents for its products and processes or the ability of competitors to circumvent or obsolete the Company's patents could have a material adverse effect on the Company's business, financial condition and results of operations.

Need to Attract and Retain Key Personnel in Highly Competitive Marketplace

The Company's performance depends, to a large extent, on the continued service of its key research and development personnel, other technical employees, managers and sales personnel and its ability to continue to attract and retain such personnel. Competition for such personnel is intense, particularly for highly motivated and experienced research and development and other technical personnel. The Company is facing increasing competition from

companies with greater financial resources for such personnel. There can be no assurance that the Company will be able to attract and retain sufficient numbers of highly-skilled personnel in the future, and the inability to do so could have a material adverse effect on the Company's business, operating results and financial condition.

Dependence on Key Executive Officers

The Company's success will depend, in part, on its ability to retain its key executive officers. The loss of one or more of the Company's key executive officers could have a material adverse effect on the Company's business, financial condition and results of operations.

Quarterly Fluctuation of Results; Possible Volatility of Stock Price

The Company's results of operations may vary from quarter to quarter due to a variety of factors including the timing of the development and marketing of new pharmaceutical products, the failure to develop such products, delays in obtaining government approvals, including FDA approval of NDAs or ANDAs for Company products, expenditures incurred to acquire and promote pharmaceutical products, changes in the Company's customer base, a customer's termination of a substantial account, the availability and cost of raw materials, interruptions in supply by third-party manufacturers, the introduction of new products or technological innovations by the Company's competitors, loss of key personnel, changes in the mix of products sold by the Company, changes in sales and marketing expenditures and competitive pricing pressures. There can be no assurance that the Company will be successful in maintaining or improving its profitability or avoiding losses in any future period. Such fluctuations may result in volatility in the price of the Company's Common Stock.

Relationships With Other Entities; Conflicts of Interest

Mr. John N. Kapoor, Ph.D., the Company's Chairman of the Board is affiliated with EJ Financial Enterprises, Inc., a health care investment firm ("EJ Financial"). EJ Financial is involved in the management of health care companies in various fields, and Dr. Kapoor is involved in various capacities with the management and operation of these companies. The John N. Kapoor Trust, the beneficiary of which is Dr. Kapoor, is a principal shareholder of each of these companies. As a result, Dr. Kapoor devotes limited time to the business of the Company. Although such companies do not currently compete directly with the

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Company, certain companies with which EJ Financial is involved are in the pharmaceutical business. Discoveries made by one or more of these companies could render the Company's products less competitive or obsolete. Potential conflicts of interest could have a material adverse effect on the Company's business, financial condition and results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivatives Instruments and Hedging Activities." This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedge activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The statement, as amended, is effective for the fiscal quarters of the Company's fiscal year ending December 31, 2001. The Company is in the process of evaluating the effect of this Statement on its financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with changes in interest rates. The Company's interest rate exposure is limited to interest rate changes on its revolving credit agreement. The revolving credit agreement bears interest at rates which fluctuate at the federal funds rate or LIBOR plus an applicable

percentage, depending upon certain financial ratios. All of the Company's remaining long-term debt is at fixed interest rates. The Company believes that reasonable possibly near-term changes in interest rates would not have a material effect on the Company's financial position, results of operations and cash flows.

The Company's financial instruments consist mainly of cash, accounts receivable, accounts payable and debt. The carrying amount of these instruments, except debt, approximate fair value due to their short-term nature. The estimated fair value of the Company's debt instruments is based upon rates currently available to the Company for debt with similar terms and remaining maturities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are included in Part II, Item 8 of this Form 10-K.

Report of Independent Auditors.....	19
Consolidated Balance Sheets as of December 31, 1999 and 1998.....	20
Consolidated Statements of Income for the years ended December 31, 1999, 1998 and 1997.....	21
Consolidated Statements of Shareholders' Equity for the years ended December 31, 1999, 1998 and 1997.....	22
Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997.....	23
Notes to Consolidated Financial Statements.....	24

REPORT OF 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 December 31, 1999 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. 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 respects, the financial position of Akorn, Inc. and subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Chicago, Illinois
February 25, 2000

AKORN, INC.

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	DECEMBER 31,	
	1999	1998
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 25	\$ 736
Trade accounts receivable (less allowance for uncollectibles of \$226 and \$425 at December 31, 1999 and 1998, respectively).....	17,695	11,165
Inventory.....	16,473	11,004
Deferred income taxes.....	803	932
Prepaid expenses and other assets.....	855	1,111
	-----	-----
TOTAL CURRENT ASSETS.....	35,851	24,948
	-----	-----
OTHER ASSETS		
Intangibles, net.....	19,412	20,541
Other.....	23	67
	-----	-----
TOTAL OTHER ASSETS.....	19,435	20,608
PROPERTY, PLANT AND EQUIPMENT, NET.....	20,812	15,860
	-----	-----
TOTAL ASSETS.....	\$76,098	\$61,416
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current installments of long-term debt.....	\$ 1,305	\$ 7,284
Current portion of capital lease obligations.....	41	161
Trade accounts payable.....	4,523	3,476
Income taxes payable.....	1,606	1,472
Accrued compensation.....	1,049	858
Accrued expenses and other liabilities.....	1,169	657
	-----	-----
TOTAL CURRENT LIABILITIES.....	9,693	13,908
	-----	-----
Long-term debt.....	30,643	20,448
Capital lease obligations.....	--	42
Deferred income taxes.....	1,372	738
SHAREHOLDERS' EQUITY		
Preferred stock, \$1.00 par value -- authorized 5,000,000 shares; none issued		
Common stock, no par value -- authorized 40,000,000 shares; issued and outstanding 18,650,990 and 18,121,514 shares at December 31, 1999 and 1998, respectively.....	19,392	17,952
Retained earnings.....	14,998	8,328
	-----	-----
TOTAL SHAREHOLDERS' EQUITY.....	34,390	26,280
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$76,098	\$61,416
	=====	=====

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
Net sales.....	\$64,632	\$56,667	\$42,323
Cost of goods sold.....	31,155	27,607	23,547
GROSS PROFIT.....	33,477	29,060	18,776
Selling, general and administrative expenses.....	16,733	13,291	11,949
Amortization of intangibles.....	1,878	2,315	338
Research and development.....	2,744	4,010	1,873
Relocation costs.....	--	--	1,451
	21,355	19,616	15,611
OPERATING INCOME.....	12,122	9,444	3,165
Interest and other income (expense):			
Interest income.....	31	1	41
Interest expense.....	(1,921)	(1,451)	(497)
Offering costs.....	--	(350)	--
Gain on sale of fixed assets.....	275	--	--
Other income, net.....	132	42	135
	(1,483)	(1,758)	(321)
INCOME BEFORE INCOME TAXES.....	10,639	7,686	2,844
Income taxes.....	3,969	3,039	1,052
NET INCOME.....	\$ 6,670	\$ 4,647	\$ 1,792
NET INCOME PER SHARE:			
BASIC.....	\$ 0.37	\$ 0.26	\$ 0.11
DILUTED.....	\$ 0.36	\$ 0.25	\$ 0.11
Weighted average shares outstanding:			
Basic.....	18,269	17,891	16,614
Diluted.....	18,573	18,766	16,925

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

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
Earnings			
Income applicable to common stock.....	\$ 6,670	\$ 4,647	\$ 1,792
Shares			
Weighted average number of shares outstanding.....	18,269	17,891	16,614
Net income per share -- basic.....	\$ 0.37	\$ 0.26	\$ 0.11
Additional shares assuming conversion of options.....	304	875	311

Weighted average diluted shares.....	18,573	18,766	16,925
Net income per share -- diluted.....	\$ 0.36	\$ 0.25	\$ 0.11
	=====	=====	=====

See notes to consolidated financial statements.

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AKORN, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)

	COMMON STOCK		RETAINED EARNINGS	TREASURY STOCK	TOTAL
	SHARES OUTSTANDING	AMOUNT			
Balances at December 31, 1996.....	16,592	\$14,174	\$ 2,231	\$ (31)	\$16,374
Net income.....			1,792		1,792
Exercise of stock options.....	22	46			46
Exercise of warrant.....	1,000	2,000			2,000
Treasury stock reissued.....	9		(13)	31	18
Employee stock purchase plan.....	7	21			21
Balances at December 31, 1997.....	17,630	16,241	4,010	--	20,251
Net income.....			4,647		4,647
Treasury stock received in lieu of cash.....	(56)			(465)	(465)
Exercise of stock options.....	484	1,649			1,649
Treasury stock reissued.....	56		(329)	465	136
Employee stock purchase plan.....	8	62	--	--	62
Balances at December 31, 1998.....	18,122	17,952	8,328	--	26,280
Net income.....			6,670		6,670
Treasury stock received in lieu of cash.....	(9)			(35)	(35)
Exercise of stock options.....	478	1,228			1,228
Management bonus paid in stock.....	27	109			109
Treasury stock reissued.....	9	(6)		35	29
Employee stock purchase plan.....	32	109	--	--	109
Balances at December 31, 1999.....	18,659	\$19,392	\$14,998	\$ --	\$34,390

See notes to consolidated financial statements.

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AKORN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
OPERATING ACTIVITIES			
Net income.....	\$ 6,670	\$ 4,647	\$ 1,792
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	3,161	3,615	1,515
Gain on disposal of fixed assets.....	(245)	--	--
Stock bonus.....	109	--	--
Provision for losses on accounts receivable and			

inventory.....	--	--	1,188
Deferred income taxes.....	763	307	34
Write down of building and equipment.....	--	--	400
Other.....	(6)	--	43
Changes in operating assets and liabilities:			
Accounts receivable.....	(6,992)	(5,736)	(4,170)
Inventory, prepaid expenses and other assets.....	(5,213)	(1,770)	(2,235)
Trade accounts payable and accrued expenses.....	1,750	(980)	1,721
Income taxes payable.....	134	1,010	461
Pre-funded development costs.....	--	--	(685)
	-----	-----	-----
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES.....	131	1,093	64
INVESTING ACTIVITIES			
Purchases of property, plant and equipment.....	(6,157)	(4,765)	(1,154)
Proceeds from disposal of fixed assets.....	629	--	--
Product licensing costs.....	(705)	(1,820)	(68)
Sales of investments.....	--	96	480
Purchase of product intangibles.....	--	(7,179)	(5,645)
	-----	-----	-----
NET CASH USED IN INVESTING ACTIVITIES.....	(6,233)	(13,668)	(6,387)
FINANCING ACTIVITIES			
Proceeds from exercise of stock options.....	1,337	1,102	2,085
Repayments of long-term debt.....	(22,584)	(2,583)	(33)
Proceeds from issuance of long-term debt.....	26,800	14,404	3,955
Principal payments under capital lease obligations.....	(162)	(149)	(151)
Short-term borrowings, net.....	--	(1,750)	1,500
Debt acquisition costs.....	--	(126)	--
	-----	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	5,391	10,898	7,356
	-----	-----	-----
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS.....	(711)	(1,677)	1,033
Cash and cash equivalents at beginning of year.....	736	2,413	1,380
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 25	\$ 736	\$ 2,413
	=====	=====	=====

See notes to consolidated financial statements.

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AKORN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation: The accompanying consolidated financial statements include the accounts of Akorn, Inc. and its wholly owned subsidiaries (the Company), Compass Vision, Inc. (Compass), Spectrum Scientific Pharmaceuticals, Inc. (Spectrum), Walnut Pharmaceuticals, Inc. (Walnut) and Akorn (New Jersey), Inc. Balances and activities of Compass, Spectrum and Walnut are immaterial. Intercompany transactions and balances have been eliminated in consolidation.

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. Significant estimates and assumptions relate to the reserve for wholesaler chargebacks, the reserve for slow-moving and obsolete inventory and the carrying value of intangible assets.

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.

Inventory: Inventory is stated at the lower of cost (average cost method)

or market (see Note E). Provision is made for slow-moving, unsalable or obsolete items.

Stock Compensation Plans: The Company has an Incentive Compensation Plan under which any officer or key employee is eligible to receive options as designated by the Company's Board of Directors. The Company also has a Stock Option Plan for directors under which directors are granted nonqualified options.

Intangibles: Intangibles consist primarily of product licensing and other such costs which are capitalized and amortized on the straight line method over the lives of the related license periods or the estimated life of the acquired product, which range from 17 months to 18 years. Accumulated amortization at December 31, 1999 and 1998 was \$4,523,000 and \$2,976,000, respectively.

The Company annually assesses the impairment of intangibles based on several factors, including probable fair market value and anticipated cash flows.

Property, Plant and Equipment: Property, plant and equipment is 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.

Accrual for Chargebacks: The Company accrues an estimate of the difference between the gross sales price of certain products sold to wholesalers and expected resale prices of such products under contractual arrangements with third parties such as hospitals and group purchasing organizations at the time of sale. As part of the Company's sales terms to wholesale customers, it agrees to reimburse wholesalers for such differentials between wholesale prices and contract prices. Because this accrual relates to amounts not yet collected from the wholesalers, this accrual is recorded as a reduction of accounts receivable.

Income Taxes: The Company files a consolidated federal income tax return with all of its subsidiaries. Deferred income taxes are provided in the financial statements 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.

Fair Value of Financial Instruments: The Company's financial instruments include cash, accounts receivable, accounts payable and term debt. The fair values of cash, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of the

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Company's bank borrowings under its credit facility approximate fair value because the interest rates are reset periodically to reflect current market rates.

Net Income Per Common Share: Basic net income per common share is based upon weighted average common shares outstanding. Diluted net income per common share is based upon the weighted average number of common shares outstanding, including the dilutive effect of stock options and warrants using the treasury stock method.

NOTE B -- NONCASH TRANSACTIONS

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.

In July 1998, the Company financed the acquisition of four product licenses with long-term debt in the amount of \$3.332 million.

On June 5, 1998, a former employee exercised options for 105,000 shares of the Company's common stock. The individual tendered approximately 22,000 shares of the Company's outstanding stock as consideration for the option exercise and approximately 33,000 shares to satisfy the personal income tax withholding requirements of the transaction, all of which was recorded as treasury stock. The net effect of this transaction was to increase accrued liabilities by \$280,000, increase common stock and paid in capital by \$185,000, and increase treasury stock by \$465,000.

On March 31, 1998, the Company financed the acquisition of two product licenses with long-term debt in the amount of \$3.905 million.

NOTE C -- PRODUCT AND OTHER ACQUISITIONS

In March 1999, the Company purchased Paredrine from Pharmics for \$62,500 in cash. The acquisition cost has been allocated to intangibles and will be amortized over 15 years.

On February 1, 1999, the Company paid \$400,000 in cash to Eastman Kodak to license IC Green raw material manufacturing processes. The acquisition cost has been allocated to intangibles and will be amortized over 15 years.

On August 1, 1998, the Company entered into an agreement to purchase three ophthalmic products, Fluress, Ful-Glo and Rose Bengal, from Allergan, Inc. The total purchase price was \$4,650,000 with \$2,000,000 paid in cash upon closing and two additional payments of \$1,500,000 and \$1,150,000 payable on the next two anniversaries of the closing date. The Company is imputing interest on these payments with a 7.5 percent interest rate. The acquisition cost has been allocated to intangibles and will be amortized over 15 years.

In July 1998, the Company acquired certain assets of Advanced Remedies, Inc. (ARI) for approximately \$3,750,000. The purchase price included, in addition to capital equipment, all Abbreviated New Drug Applications (ANDAs) for any product previously approved for ARI or under review by the FDA. The purchase price also included regulatory files for products under development by ARI but not yet filed with the FDA. The total purchase price was allocated to ANDAs, \$3,000,000 with amortization over 15 years, and tangible assets, \$750,000 with asset depreciation up to ten years.

On January 21, 1998, the Company announced the purchase of the New Drug Application (NDA), trademark and U.S. trade name rights to Paremyd, a topical mydriatic combination product, from Allergan. Paremyd had been off the market for all of 1997 due to a raw material shortage. The Company is awaiting FDA approval to manufacture the product. The total purchase price was \$700,000, with \$500,000 paid in cash upon closing and \$200,000 payable upon receipt of an approved supplement from the FDA or twelve months

NOTE C -- PRODUCT AND OTHER ACQUISITIONS -- (CONTINUED)

from closing, whichever is sooner. The acquisition cost has been allocated to intangibles and will be amortized over 15 years.

On January 13, 1998, the Company announced the purchase of two branded injectable products, Sufenta and Alfenta, from Janssen Pharmaceutica, Inc. The products are injectable opioid analgesics indicated for use in the induction and maintenance of general anesthesia. Both were NDA products, and Alfenta remains covered under patent. The total purchase price was \$6,600,000, with \$2,200,000 paid in cash upon closing and two additional payments of \$2,200,000 payable on the next anniversary of the closing date and on December 29, 1999, respectively. The second two payments were secured by irrevocable bank letters of credit,

which were issued under the revolving credit facility (see Note H). The acquisition cost has been allocated to intangibles and will be amortized for 17 months (patent) and 15 years.

NOTE D -- ALLOWANCE FOR UNCOLLECTIBLES

The activity in the allowance for uncollectibles for the periods indicated is as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
Balance at beginning of year.....	\$425	\$522	\$ 359
Provision for bad debts.....	161	50	285
Specific reversal of doubtful account.....	(300)	--	--
Accounts written off.....	(60)	(147)	(122)
Balance at end of year.....	\$226	\$425	\$ 522

NOTE E -- INVENTORY

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

	DECEMBER 31,	
	1999	1998
Finished goods.....	\$10,316	\$ 6,947
Work in process.....	2,179	2,635
Raw materials and supplies.....	3,978	1,422
	\$16,473	\$11,004

Inventory at December 31, 1999 and 1998 is reported net of reserves for slow-moving, unsalable and obsolete items of \$134,000 and \$572,000, respectively.

NOTE F -- PROPERTY, PLANT AND EQUIPMENT

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

	DECEMBER 31,	
	1999	1998
Land.....	\$ 396	\$ 479
Buildings and leasehold improvements.....	7,763	7,544
Furniture and equipment.....	17,955	15,984
Automobiles.....	55	32

	26,169	24,039
Accumulated depreciation.....	(11,677)	(10,744)
	-----	-----
	14,492	13,295
Construction in progress.....	6,320	2,565
	-----	-----
	\$ 20,812	\$ 15,860
	=====	=====

Construction in progress represents capital expenditures principally related to the Company's lyophilization project which will enable the Company to perform processes in-house which are currently being performed by a sub-contractor. The Company is committed to \$1.4 million in additional construction costs.

NOTE G -- PRE-FUNDED DEVELOPMENT COSTS

As part of a cross-licensing agreement with Pfizer, Inc. (Pfizer), the Company was paid an advance of \$1 million to be used to fund the costs of developing a non-steroidal anti-inflammatory drug for ophthalmic indications. During the twelve months ended December 31, 1997, the Company incurred development costs of \$534,696 which were charged against the pre-funded balance.

NOTE H -- FINANCING ARRANGEMENTS

The Company's long-term debt consists of (in thousands):

	DECEMBER 31,	
	-----	-----
	1999	1998
	-----	-----
Payable under lines of credit.....	\$28,200	\$16,700
Mortgages payable secured by real property located in Decatur, Illinois.....	2,678	2,897
Notes payable secured by various assets, with maturities through 2000 at interest rates ranging from 7.5% to 10.25%.....	1,070	8,135
	-----	-----
	31,948	27,732
Less current portion.....	1,305	7,284
	-----	-----
Long-term debt.....	\$30,643	\$20,448
	=====	=====

Maturities of debt are as follows (in thousands):

Year ending December 31:	
2000.....	\$ 1,305
2001.....	28,453
2002.....	273
2003.....	293
2004.....	316
Thereafter.....	1,308

Total.....	\$31,948
	=====

In December 1997, the Company entered into a \$15,000,000 revolving credit agreement with The Northern Trust Company, which was increased to \$25,000,000 on June 30, 1998 and to \$45,000,000 on December 28, 1999, of which there were outstanding borrowings of \$28,200,000 and letters of credit of \$35,000 at December 31, 1999. The total outstanding principal balance is payable in full on December 28, 2001. Outstanding borrowings under this facility currently bear interest at the federal funds rate or LIBOR plus an applicable percentage, depending on certain financial ratios, which interest rate was 5.365% at December 31, 1999.

The agreement provides that an annual commitment fee be paid by the Company based on 0.25% of the average daily unused amount of the facility. The agreement also requires the Company to maintain certain financial covenants including, but not limited to: minimum net income, minimum net worth, minimum cash flow coverage and maximum funded debt to EBITDA. The agreement prohibits the Company from declaring any cash dividends on its common stock. The revolving credit facility is secured by substantially all of the assets of the Company and its subsidiaries, excluding real property located in Decatur, Illinois.

On June 1, 1998, the Company entered into a \$3,000,000 mortgage agreement with Standard Mortgage Investors, LLC of which there were outstanding borrowings of \$2,678,000 at December 31, 1999. The principal balance is amortized over 10 years, with the final payment due in June 2007. The mortgage note bears an interest rate of 7.375% and is secured by the real property located in Decatur, Illinois.

On August 1, 1998, the Company entered into an agreement to purchase three ophthalmic products from Allergan, Inc. The total purchase price was \$4,650,000 with \$2,000,000 paid in cash upon closing and two additional payments of \$1,500,000 and \$1,150,000 payable on the next two anniversaries of the closing date. The Company is imputing interest on these payments with a 7.5% interest rate.

NOTE I -- LEASING ARRANGEMENTS

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

Property, plant and equipment includes the following amounts relating to such capital leases (in thousands):

	DECEMBER 31,	
	1999	1998
	-----	-----
Furniture and equipment.....	\$ 806	\$ 806
Less accumulated depreciation.....	(697)	(540)
	-----	-----
	\$ 109	\$ 266
	=====	=====

Depreciation expense provided on these assets was \$157,034, for each of the years ended December 31, 1999, 1998 and 1997.

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

Year ending December 31, 2000.....	\$43

Total Minimum Lease Payments.....	43
Less: Amount Representing Interest.....	(2)

Present Value of Net Minimum Lease Payments.....	\$41
	===

The Company leases real and personal property in the normal course of business under various operating leases, including non-cancelable and month-to-month agreements. Payments under these leases were \$906,167, \$570,288, and \$289,276 for the years ended December 31, 1999, 1998 and 1997, respectively.

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

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NOTE I -- LEASING ARRANGEMENTS -- (CONTINUED)

Years ended December 31,	
2000.....	\$ 627
2001.....	900
2002.....	606
2003.....	302
2004.....	290
2005.....	286
2006.....	286
2007.....	286
2008.....	24

Total Minimum Payments Required.....	\$3,607
	=====

The Company currently sub-lets portions of its leased space. Rental income under these sub-leases was \$211,043 in 1999 and \$41,160 in 1998.

NOTE J -- STOCK OPTIONS AND EMPLOYEE STOCK PURCHASE PLAN

Under the 1988 Incentive Compensation Program (the "Incentive Program") any officer or key employee of the Company is eligible to receive options as designated by the Company's Board of Directors. As of December 31, 1999, 4,500,000 shares of the Company's Common Stock are reserved to be issued under the Incentive Program. The exercise price of the options granted under the Incentive Program may not be less than 50 percent of the fair market value of the shares subject to the option on the date of grant, as determined by the Board of Directors. All options granted under the Incentive Program during the years ended December 31, 1999, 1998 and 1997 have exercise prices equivalent to the market value of the Company's Common Stock on the date of grant. Options granted under the Incentive Program generally vest over a period of three years and expire within a period of five years.

Under the 1991 Stock Option Plan for Directors (the "Directors' Plan") persons elected as directors of the Company are granted nonqualified options at the fair market value of the shares subject to option on the date of the grant. As of December 31, 1999, 500,000 shares of the Company's Common Stock are reserved to be issued under the Directors' Plan. Options granted under the Directors' Plan vest immediately and expire five years from the date of grant.

A summary of the status of the Company's stock options as of December 31, 1999, 1998 and 1997 and changes during the years ended December 31, 1999, 1998 and 1997 is presented below (shares in thousands):

	YEARS ENDED DECEMBER 31,					
	1999		1998		1997	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of period.....	1,952	\$ 3.16	1,899	\$2.35	1,281	\$2.35
Granted.....	777	\$ 4.53	784	\$5.18	927	\$2.38
Exercised.....	(478)	\$ 2.71	(530)	\$2.20	(22)	\$2.13
Expired/Canceled.....	(350)	\$ 4.19	(201)	\$5.96	(287)	\$2.46
Outstanding at end of period.....	1,901	\$ 3.64	1,952	\$3.16	1,899	\$2.35
Options exercisable at end of period.....	1,088	\$ 3.19	1,033	\$2.87	1,086	\$2.35
Options available for future grant.....	1,736		2,163		1,246	
Weighted average fair value of options granted during the period.....		\$ 2.37		\$2.58		\$1.04

The fair value of each option granted during the year ended December 31, 1999 is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 51%, (iii) risk-free interest rate of 6.5% and (iv) expected life of 5 years.

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NOTE J -- STOCK OPTIONS AND EMPLOYEE STOCK PURCHASE PLAN -- (CONTINUED)

The fair value of each option granted during the year ended December 31, 1998 is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 55%, (iii) risk-free interest rate of 5.75% and (iv) expected life of 5 years.

The fair value of each option granted during the year ended December 31, 1997 is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield of 0%, (ii) expected volatility of 39%, (iii) risk-free interest rate of 5.75% and (iv) expected life of 5 years.

The following table summarizes information about stock options outstanding at December 31, 1999 (shares in thousands):

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT DECEMBER 31, 1999	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 1999	WEIGHTED AVERAGE EXERCISE PRICE
\$1.50.....	65	0.7 years	\$ 1.50	65	\$ 1.50
\$1.75 -- \$2.12.....	5	2.5 years	\$ 2.12	4	\$ 2.12
\$2.13 -- \$2.20.....	412	2.3 years	\$ 2.15	349	\$ 2.14
\$2.28 -- \$2.54.....	144	2.3 years	\$ 2.36	112	\$ 2.36
\$2.63 -- \$2.81.....	134	2.0 years	\$ 2.73	122	\$ 2.73
\$2.88 -- \$3.94.....	100	3.9 years	\$ 3.92	51	\$ 3.92
\$3.97 -- \$4.60.....	610	3.9 years	\$ 4.18	236	\$ 4.16
\$4.69 -- \$5.56.....	411	4.0 years	\$ 5.13	129	\$ 5.22
\$8.00 -- \$8.38.....	20	3.4 years	\$ 8.38	20	\$ 8.38
	1,901			1,088	

The Company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized for its stock option plans.

Had compensation cost for the Company's stock-based compensation plans been determined based on Statement of Financial Accounting Standards ("SFAS") No. 123, the Company's net income and net income per share for the years ended December 31, 1999, 1998 and 1997 would have been the pro forma amounts indicated below (in thousands, except per share amounts):

YEARS ENDED DECEMBER 31,

	1999		1998		1997	
	AS	PROFORMA	AS	PROFORMA	AS	PROFORMA
	REPORTED		REPORTED		REPORTED	
Net income, (loss).....	\$6,670	\$5,939	\$4,647	\$4,110	\$1,792	\$1,441
Net income per share - diluted.....	\$ 0.36	\$ 0.32	\$ 0.25	\$ 0.22	\$ 0.11	\$ 0.09

The Akorn, Inc. Employee Stock Purchase Plan permits eligible employees to acquire shares of the Company's common stock through payroll deductions not exceeding 15% of base wages, at a 15% discount from market price. A maximum of 1,000,000 shares of the Company's common stock may be acquired under the terms of the Plan. Purchases of shares issued from treasury stock approximated 7,000, 8,000 and 9,000 shares, respectively, during the years ended December 31, 1999, 1998 and 1997. New shares issued under the plan approximated 26,000 in 1999, 8,000 in 1998 and 11,000 in 1997.

NOTE K -- INCOME TAXES

The income tax provision (benefit) consisted of the following (in thousands):

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NOTE K -- INCOME TAXES -- (CONTINUED)

	CURRENT	DEFERRED	TOTAL
	-----	-----	-----
Year ended December 31, 1999:			
Federal.....	\$2,561	\$ 636	\$3,197
State.....	645	127	772
	-----	-----	-----
	\$3,206	\$ 763	\$3,969
	=====	=====	=====
Year ended December 31, 1998:			
Federal.....	\$2,124	\$ 359	\$2,483
State.....	608	(52)	556
	-----	-----	-----
	\$2,732	\$ 307	\$3,039
	=====	=====	=====
Year ended December 31, 1997:			
Federal.....	\$1,005	\$ (79)	\$ 926
State.....	13	113	126
	-----	-----	-----
	\$1,018	\$ 34	\$1,052
	=====	=====	=====

Income tax expense differs from the "expected" tax expense computed by applying the U.S. Federal corporate income tax rate of 34% to income before income taxes as follows (in thousands):

YEARS ENDED DECEMBER 31,		
1999	1998	1997
-----	-----	-----

Computed "expected" tax expense.....	\$3,618	\$2,613	\$ 947
Increase in income taxes resulting from:			
State income taxes, net of federal income tax benefits....	510	371	85
Other, net.....	(159)	55	20
	-----	-----	-----
Income tax expense.....	\$3,969	\$3,039	\$1,052
	=====	=====	=====

Deferred tax assets (liabilities) at December 31, 1999 and 1998 include (in thousands):

	DECEMBER 31, 1999	DECEMBER 31, 1998
	-----	-----
Other accrued expenses.....	\$ 432	\$ 621
Intangible assets, net.....	246	214
Property, plant and equipment, net.....	(1,735)	(1,208)
Other, net.....	488	567
	-----	-----
	\$ (569)	\$ 194
	=====	=====

The deferred taxes are classified in the accompanying balance sheets as follows (in thousands):

	DECEMBER 31, 1999	DECEMBER 31, 1998
	-----	-----
Deferred tax asset - current.....	\$ 803	\$ 932
Deferred tax liability - noncurrent.....	(1,372)	(738)
	-----	-----
	\$ (569)	\$ 194
	=====	=====

NOTE L -- CHANGES IN ACCOUNTING ESTIMATES

The Company accrues an estimate of the difference between the gross sales price of certain products sold to wholesalers and expected resale prices of such products under contractual arrangements with third parties such as hospitals and group purchasing organizations at the time of sale. This reserve is carried as a reduction

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NOTE L -- CHANGES IN ACCOUNTING ESTIMATES -- (CONTINUED)

of accounts receivable. The Company evaluates the reserve balance against actual chargebacks processed by wholesalers. Actual chargebacks processed can vary substantially from period to period. The acquisition of two injectable anesthesia products from Janssen Pharmaceutica in the third quarter of 1996 resulted in a substantial increase in chargeback activity. Initial receipt of actual chargeback requests from wholesalers was sporadic during 1996. By year-end 1997, management felt that chargeback activity for these products had stabilized and that sufficient data had been obtained to validate adjustments to chargeback accrual assumptions. During the fourth quarter of the year ended December 31, 1997, the Company revised its assumptions underlying the reserve for chargebacks, resulting in an increase in net sales of \$1,300,000.

The Company records a reserve for slow-moving and obsolete inventory based upon evaluation of product dating and unit sales forecasts. In 1999, the Company incurred \$328,000 in charges for unsalable product. Throughout 1999, the Company

evaluated its estimate for unsalable product resulting in an estimate decrease of approximately \$206,000. This reduction in the reserve balance reflects more timely destruction of obsolete product. During 1998, the Company evaluated its estimate for unsalable product resulting in an estimate increase of approximately \$665,000.

During the quarter ended December 31, 1997, the Company increased its estimate for management bonuses by approximately \$300,000.

NOTE M -- RETIREMENT PLAN

All employees who have attained the age of 21 with six months of service are eligible for participation in the Company's 401(k) Plan. The plan-related expense recognized for the years ended December 31, 1999, 1998 and 1997 totaled \$220,203, \$89,020 and \$65,704, respectively. The employer's matching contribution is a percentage of the amount contributed by each employee and is funded on a current basis.

NOTE N -- INDUSTRY SEGMENT INFORMATION

The Company classifies its operations into two business segments, ophthalmic and injectable. The ophthalmic segment manufactures, markets and distributes diagnostic and therapeutic pharmaceuticals and surgical instruments and related supplies. The injectable segment manufactures, markets and distributes

NOTE N -- INDUSTRY SEGMENT INFORMATION -- (CONTINUED)

injectable pharmaceuticals, primarily in niche markets. Selected financial information by industry segment is presented below (in thousands):

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
NET SALES			
Ophthalmic.....	\$32,467	\$29,205	\$24,901
Injectable.....	32,165	27,462	17,422
Total net sales.....	\$64,632	\$56,667	\$42,323
OPERATING INCOME			
Ophthalmic.....	\$ 4,338	\$ 4,219	\$ 1,598
Injectable.....	9,208	6,364	2,428
General Corporate.....	(1,424)	(1,139)	(861)
Total operating income.....	12,122	9,444	3,165
Interest and other (expense), net.....	(1,483)	(1,758)	(321)
Income before income taxes.....	\$10,639	\$ 7,686	\$ 2,844
IDENTIFIABLE ASSETS			
Ophthalmic.....	\$38,206	\$34,538	\$20,957
Injectable.....	37,892	26,878	17,758
Total identifiable assets.....	\$76,098	\$61,416	\$38,715
DEPRECIATION AND AMORTIZATION			
Ophthalmic.....	\$ 1,738	\$ 1,009	\$ 516
Injectable.....	1,293	2,632	999
Total depreciation and amortization.....	\$ 3,031	\$ 3,641	\$ 1,515

For the year ended December 31, 1997, operating income for the ophthalmic

segment includes non-recurring charges of \$1,451,000 related to the relocation of the division from Abita Springs, Louisiana to the Chicago area. The charges primarily relate to severance, \$494,000, and retention bonus payments, \$151,000 as well as a write-down of the Abita Springs facility and equipment to net realizable value, \$378,000 and moving relocation costs, \$144,000. For the same period, operating income for the injectable segment includes non-recurring charges of \$213,000 related to a change in an estimate of the timing of absorption of manufacturing overhead.

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

NOTE O -- COMMITMENTS AND CONTINGENCIES

The Company is a party in legal proceedings and potential claims arising in the ordinary course of its business. Despite the inherent uncertainties of litigation, management of the Company at this time does not believe that such proceedings will have a material adverse impact on the consolidated financial position, results of operations, or cash flows of the Company.

NOTE P -- SUPPLEMENTAL CASH FLOW INFORMATION (IN THOUSANDS)

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
Interest and taxes paid:			
Interest.....	\$1,245	\$1,121	\$ 592
Income taxes.....	2,860	1,167	788
Noncash investing and financing activities:			
Treasury stock received for exercise of stock options.....	35	465	--
Notes issued for product acquisitions.....	--	6,741	3,250

NOTE Q -- RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedge activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The statement, as amended, is effective for the fiscal quarters of the Company's fiscal year ending December 31, 2001. The Company is in the process of evaluating the effect of this Statement on its financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Information concerning directors and compliance with Section 16(a) of the Exchange Act is incorporated by reference to the Company's Definitive Proxy Statement for its 2000 Annual Meeting of Shareholders. Information concerning

the Company's executive officers is included in Item 1A of Part I hereof.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item as to executive compensation is hereby incorporated by reference from the information appearing under the caption "Executive Compensation" in the Company's definitive Proxy Statement which is to be filed with the Securities and Exchange Commission (the "Commission") within 120 days of the Company's fiscal year ended December 31, 1999.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item as to the ownership of management and others of securities of the Company is hereby incorporated by reference from the information appearing under the caption "Security Ownership" in the Company's definitive Proxy Statement which is to be filed with the Commission within 120 days of the Company's fiscal year ended December 31, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item as to certain business relationships and transactions with management and other related parties of the Company is hereby incorporated by reference from the information appearing under the caption "Transactions with Shareholders and Directors" in the Company's definitive Proxy Statement which is to be filed with the Commission within 120 days of the Company's fiscal year ended December 31, 1999.

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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 among Akorn, Inc., Taylor, and Pasadena Research Laboratories, Inc. dated May 7, 1996, incorporated by reference to the Company's report on Form 10-K for the fiscal year ended June 30, 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) Articles of Amendment to Articles of Incorporation of the company dated February 28, 1997, incorporated by reference to Exhibit 3.2 to the Company's report on Form 10-K for the transition period from July 1, 1996 to December 31, 1996.
 - (3.3) Current Composite of By-laws of the Company, incorporated by reference to Exhibit 3.3 to the Company's report on Form 10-K for the transition period from July 1, 1996 to December 31, 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.
- 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 10.24

- (10.1) to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.
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
- (10.2) fiscal year ended June 30, 1992.
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
- (10.3) 33-44785.
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
- (10.4) dated September 20, 1989.
*Amended and Restated Credit Agreement dated September 15, 1999 among the Company, Akorn (New Jersey), Inc. and The Northern Trust Company (the "Credit Agreement")
- (10.5) *Amendment No. 1 to the Credit Agreement dated December 28, 1999.
- (10.6)
- (21.1) *Subsidiaries of the Company
- (23.1) *Consent of Deloitte & Touche LLP
- (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/ FLOYD BENJAMIN

Floyd Benjamin
Chief Executive Officer

Date: March 28, 2000

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/ FLOYD BENJAMIN ----- Floyd Benjamin	Chief Executive Officer and Director (Principal Executive Officer)	March 28, 2000
/s/ RITA J. MCCONVILLE ----- Rita J. McConville	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 28, 2000
/s/ JOHN N. KAPOOR, PH.D. ----- John N. Kapoor, Ph.D.	Director	March 28, 2000
/s/ DANIEL E. BRUHL, M.D.	Director	March 28, 2000

Daniel E. Bruhl, M.D.

/s/ DOYLE S. GAW

Director

March 28, 2000

Doyle S. Gaw

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of September 15, 1999

Among

AKORN, INC.

And

AKORN NEW JERSEY, INC.

as Borrowers,

and

THE NORTHERN TRUST COMPANY,

as Lender

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FIRST INDUSTRIAL, L.P.
 CONSOLIDATED STATEMENTS OF CHANGES IN PARTNER'S CAPITAL
 (DOLLARS IN THOUSANDS)

	Total	General Partner Preferred Units	General Partner Units	Unamortized Value of General Partner Restricted Units	Limited Partners Units
	-----	-----	-----	-----	-----
Balance at December 31, 1996	\$ 535,232	\$ --	\$ 496,169	\$ --	\$ 39,063
Contributions	458,860	144,290	199,340	--	115,230
Issuance of General Partner Restricted Units	--	--	(3,655)	--	3,655
Amortization of General Partner Restricted Units	238	--	--	--	238
Distributions	(81,772)	(7,936)	(65,322)	--	(8,514)
Unit Conversions	--	--	3,395	--	(3,395)
Net Income	53,619	7,936	40,371	--	5,312
Balance at December 31, 1997	966,177	144,290	677,608	(3,417)	147,696
Contributions	279,208	192,700	37,095	--	49,413
Issuance of General Partner Restricted Units	--	--	2,345	(2,345)	--
Amortization of General Partner Restricted Units	2,450	--	--	--	2,450
Distributions	(123,555)	(26,691)	(82,316)	--	(14,548)
Unit Conversions	--	--	5,150	--	5,150
Net Income	85,279	26,691	8,547	--	50,041
Balance at December 31, 1998	1,209,559	336,990	689,923	(3,312)	185,958
Contributions	5,115	--	840	--	4,275
Issuance of General Partner Restricted Units	--	--	2,008	(2,008)	--
Amortization of General Partner Restricted Units	1,233	--	--	1,233	--
Distributions	(138,534)	(28,924)	(92,151)	--	(17,459)
Unit Conversions	--	--	2,618	--	(2,618)
Net Income	137,977	28,924	91,661	--	17,392

Balance at December 31, 1999 \$ 1,215,350 \$ 336,990 \$ 694,899 \$ (4,087) \$ 187,548
=====

The accompanying notes are an integral part of the financial statements.

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"Affiliate" shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially, or as a trustee, guardian or other fiduciary, five percent (5%) or more of the Stock having ordinary voting power in the election of directors of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person's officers, directors, joint venturers and partners. For the purposes of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise; provided, however, that the term "Affiliate" shall specifically exclude Lender.

"Applicable Percentage" shall mean at any time of determination, with respect to LIBOR Loans or Federal Funds Rate Loans, the applicable percentage set forth below based on the ratio of Funded Debt to EBITDA on a consolidated basis of the Borrowers at such time:

Level	Funded Debt to EBITDA Ratio	LIBOR Loan and Federal Funds Rate Loan*
1	Less than or equal to 1.25x	1.125%
2	> 1.25x but <= 2.00x	1.25%
3	> 2.00x but <= 2.50x	1.50%
4	> 2.50x	1.625%

For purposes of the foregoing, (a) from the Closing Date until September 30, 1999, the Applicable Percentages shall be determined in accordance with Level 2, (b) from and after such date, the Applicable Percentages shall be determined at any time by reference to the ratio of Funded Debt to EBITDA on a consolidated basis of the Borrowers in effect at the time, (c) any change in the Applicable Percentages based on a change in such ratio shall be effective for all purposes five (5) Business Days from delivery to the Lender of an officer's certificate of Akorn with respect to the Financial Statements to be delivered pursuant to Section 5.1, (i) setting forth in reasonable detail the calculation of such ratio for such fiscal period and (ii) stating that such officer has reviewed the terms of this Agreement and has made, or caused to be made under his or her supervision, a review in reasonable detail of the transactions and condition of Akorn and its Subsidiaries during the accounting period covered by the related Financial Statements and that such review has not disclosed the existence during or at the end of such accounting period, and that such officer does not have knowledge of the existence as at the date of such officer's certificate, of any condition or event that constitutes a Default or an Event of Default and (d) notwithstanding the foregoing provisions of clauses (b) and (c), no reduction in the Applicable Percentages shall be effective if a Default or Event of Default shall have occurred and be continuing. It is understood

that the foregoing officer's certificate shall be permitted to be delivered prior to, but in no event later than, the time of the actual

* For Federal Funds Loans also add 1/8 % per definition of Federal Funds Rate.

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delivery of the financial statements required to be delivered pursuant to Section 5.1 for the applicable fiscal period. Any change in the Applicable Percentages due to a change in the applicable Level shall be effective on the effective date of such change in the applicable Level and shall apply to all LIBOR Loans made on or after the commencement of the period (and to Federal Funds Rate Loans that are outstanding at any time during the period) commencing on the effective date of such change in the applicable Level and ending on the date immediately preceding the effective date of the next such change in applicable Level.

"Business Day" shall mean any day that is (a) not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of Illinois and (b) a Eurodollar Business Day.

"Capital Lease" shall mean, with respect to any Person, any lease of any property (whether real, personal or mixed) by such Person as lessee that, in accordance with GAAP, either would be required to be classified and accounted for as a capital lease on a balance sheet of such Person or otherwise be disclosed as such in a note to such balance sheet, other than any such lease under which such Person is the lessor.

"Capital Lease Obligation" shall mean, with respect to any Capital Lease, the amount of the obligation of the lessee thereunder that, in accordance with GAAP, would appear on a balance sheet of such lessee in respect of such Capital Lease or otherwise be disclosed in a note to such balance sheet.

"Charges" shall mean all federal, state, county, city, municipal, local, foreign or other governmental taxes (including, without limitation, Taxes and taxes owed to the PBGC at the time due and payable), levies, assessments, charges, liens, claims or encumbrances upon or relating to (a) the Collateral, (b) the Obligations, (c) the employees, payroll, income or gross receipts of any Borrower or any of their Subsidiaries, (d) any Borrower's or any of their Subsidiaries' ownership or use of any properties or other assets, or (e) any other aspect of any Borrower's or any of their Subsidiaries' businesses.

"Closing Date" shall mean the date on which the conditions set forth in Section 3 shall have been satisfied in a manner satisfactory to the Lender.

"Code" shall mean the Uniform Commercial Code as the same may, from time to time, be in effect in the State of Illinois; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of Lender's security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of Illinois, the term "Code" shall mean the Uniform Commercial Code as in effect in such other jurisdiction solely for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

"Collateral" shall mean the property covered by the Security Agreements and any other personal property, tangible or intangible, now existing or hereafter acquired, that may at

any time be or become subject to a security interest or Lien in favor of Lender to secure the Obligations.

"Commitment" shall mean the aggregate commitment of the Lender to make Advances and issue Letters of Credit, which aggregate commitment shall be Twenty-Five Million United State Dollars (\$25,000,000) on the Closing Date, as such amount may be adjusted, if at all, from time to time in accordance with Section 2.3 of the Agreement.

"Conversion/Continuation Date" shall mean any date on which, under Section 2.14, any Borrower (a) converts Loans of one type to another type, or (b) continues as Loans of the same type, but with a new LIBOR Period, Loans having LIBOR Periods expiring on such date.

"Currency Agreement" shall mean any foreign exchange contract, currency swap agreement, futures contract, option contract, synthetic cap or other similar agreement designed to protect the Person entering into same against fluctuations in currency values.

"DEA" shall mean the Drug Enforcement Agency, together with its successors, and comparable agencies in foreign countries.

"Debt Service" shall mean, with respect to any Person for any period, an amount equal to the sum of (a) the Interest Charges and Letter of Credit fees for such period, measured at the end of each Fiscal Quarter for the four immediately preceding Fiscal Quarters then ended, and (b) the scheduled amortization of any outstanding current maturities on Indebtedness, measured at the end of each Fiscal Quarter for the four immediately following Fiscal Quarters.

"Default" shall mean any event which, with the passage of time or notice or both, would, unless cured or waived, become an Event of Default.

"Default Rate" shall have the meaning assigned to it in Section 2.5(d).

"Dollars" or "\$" shall mean lawful currency of the United States of America.

"EBITDA" means for any period of determination, Akorn's consolidated net earnings (or loss) after provision for taxes, plus cash charges against income for foreign, federal and state income taxes for such period, plus depreciation and amortization expenses for such period, plus Akorn's consolidated aggregate interest expense for such period, plus any extraordinary losses arising outside of the ordinary course of business during such period which have been included in the calculation of net earnings, minus extraordinary gains arising outside the ordinary course of business during such period which have been included in the calculation of net earnings, all determined on a consolidated basis, in accordance with GAAP.

"EBIT" shall mean, with respect to Borrowers for any period, the consolidated net earnings (or loss) after provision for taxes, plus charges against income for foreign, federal and

state income taxes for such period, plus interest expense for such period of Borrowers and their consolidated Subsidiaries, all determined in accordance with GAAP.

"Environmental Laws" shall mean all federal, state, local and foreign laws, statutes, ordinances and regulations, now or hereafter in effect, and in each case as amended or supplemented from time to time, and any applicable judicial or administrative interpretation thereof, including any applicable judicial or administrative order, consent decree or judgment, relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation). "Environmental Laws" include, but are not limited to, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Sections 9601 et seq.); the Hazardous Material Transportation Act, as amended (49 U.S.C. Sections 1801 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. Sections 136 et seq.); the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901 et seq.); the Toxic Substance Control Act, as amended (15 U.S.C. Sections 2601 et seq.); the Clean Air Act, as amended (42 U.S.C. Sections 740 et seq.); the Federal Water Pollution Control Act, as amended (33 U.S.C. Sections 1251 et seq.); the Occupational Safety and Health Act, as amended (29 U.S.C. Sections 651 et seq.); and the Safe Drinking Water Act, as amended (42 U.S.C. Sections 300(f) et seq.), and any and all regulations promulgated thereunder, and all analogous state, local and foreign counterparts or equivalents and any transfer of ownership notification or approval statutes.

"Environmental Liabilities and Costs" shall mean all liabilities, obligations, responsibilities, remedial actions, removal actions, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all fees, disbursements and expenses of counsel, experts and consultants and costs of investigation and feasibility studies), fines, penalties, sanctions and interest incurred as a result of any claim, suit, action or demand by any Person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law (including any thereof arising under any Environmental Law, permit, order or agreement with any Governmental Authority) and which relate to any health or safety condition regulated under any Environmental Law or in connection with any other environmental matter or Release, threatened Release or the presence of a Hazardous Material or threatened Release of a Hazardous Material.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time, and any regulations promulgated thereunder.

"ERISA Affiliate" shall mean, with respect to any Borrower or any Subsidiary thereof, any trade or business (whether or not incorporated) under common control with such Borrower or such Subsidiary and which, together with such Borrower or such Subsidiary, are treated as a single employer within the meaning of Sections 414(b), (c), (m) or (o) of the IRC.

"ERISA Event" shall mean, with respect to any of the Borrowers or any Subsidiary thereof or ERISA Affiliate, (a) a Reportable Event with respect to a Title IV Plan or a

Multiemployer Plan; (b) the withdrawal of any Borrower or any Subsidiary thereof or ERISA Affiliate from a Title IV Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer, as defined in Section

4001(a)(2) of ERISA; (c) the complete or partial withdrawal of any Borrower or Subsidiary thereof or ERISA Affiliate from any Multiemployer Plan; (d) the filing of a notice of intent to terminate a Title IV Plan or the treatment of a plan amendment as a termination under Section 4041 of ERISA; (e) the institution of proceedings to terminate a Title IV Plan or Multiemployer Plan by the PBGC; (f) the failure to make required contributions to a Qualified Plan; or (g) any other event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Title IV Plan or Multiemployer Plan or the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA.

"Eurodollar Business Day" shall mean a Business Day on which banks in the city of London are generally open for interbank or foreign exchange transactions.

"Event of Default" shall have the meaning assigned to it in Section 8.1.

"FDA" shall mean the Federal Food and Drug Administration and comparable agencies in foreign countries.

"Federal Funds Rate" shall mean, for any day, (a) an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions, with members of the Federal Reserve System only, arranged by Federal funds brokers, plus (b) one-eighth of one percent (1/8%) plus (c) the Applicable Percentage. The Federal Funds Rate shall be determined by the Lender on the basis of reports by Federal funds brokers to, and published daily by, the Federal Reserve Bank of New York in the Composite Closing Quotations for U.S. Government Securities. If such publication is unavailable or the Federal Funds Rate is not set forth therein, the Federal Funds Rate shall be determined on the basis of any other source reasonably selected by the Lender. The Federal Funds Rate applicable each day shall be the Federal Funds Rate reported as applicable to Federal Funds transactions on that date. In the case of Saturday, Sunday or legal holiday, the Federal Funds Rate shall be the rate applicable to Federal funds transactions on the immediately preceding day for which the Federal Funds Rate is reported.

"Federal Funds Rate Loan" shall mean a portion of an Advance bearing interest by reference to the Federal Funds Rate.

"Federal Reserve Board" shall have the meaning assigned to it in Section 4.11.

"Fees" shall mean any and all fees payable to Lender pursuant to the Agreement or any of the other Loan Documents.

"Financial Statements" shall mean the financial statements referred to in Section 4.4.

"Fiscal Quarter" shall mean any of the quarterly accounting periods of a Borrower of each Fiscal Year.

"Fiscal Year" shall mean any of the annual accounting periods of a Borrower ending on December 31, of each year.

"Floating Rate Loans" shall mean Prime Rate Loans and Federal Funds Rate Loans.

"Funded Debt" shall mean, with respect to Borrowers, all Indebtedness for borrowed money evidenced by notes, bonds, debentures, or similar evidences of Indebtedness, including, but not limited to, the Obligations (including, but not limited to, Letter of Credit Obligations), and unsecured financing by a seller of product lines to Borrowers which by its terms matures less than eighteen months from the date of determination thereof, but excluding Indebtedness of Borrowers secured by the real estates owned by Borrowers and their Subsidiaries.

"Funding Arrangements" shall have the meaning assigned to it in Section 2.10(b).

"GAAP" shall mean generally accepted accounting principles in the United States of America as in effect on the Closing Date, consistently applied.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guaranteed Indebtedness" shall mean, as to any Person, any obligation of such Person guaranteeing any Indebtedness, lease, dividend, or other obligation ("primary obligations") of any other Person (the "primary obligor") in any manner, including any obligation or arrangement of such Person (a) to purchase or repurchase any such primary obligation, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet condition of the primary obligor, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) to indemnify the owner of such primary obligation against loss in respect thereof. The amount of any Guaranteed Indebtedness at any time shall be deemed to be an amount equal to the lesser at such time of (y) the stated or determinable amount of the primary obligation in respect of which such Guaranteed Indebtedness is made or (z) the maximum amount for which such Person may be liable pursuant to the terms of the instrument embodying such Guaranteed Indebtedness; or, if not stated or determinable, the maximum reasonably anticipated liability (assuming full performance) in respect thereof.

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"Hazardous Material" shall mean any substance, material or waste, the generation, handling, storage, treatment or disposal of which is regulated by or forms the basis of liability now or hereafter under, to any Government Authority in any jurisdiction in which any Borrower or any Subsidiary thereof has owned, leased, or operated real property or disposed of hazardous materials, or to any Federal Government Authority, including, without limitation, any material or substance which is (a) defined as a "solid waste," "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste" or "restricted hazardous waste" or other similar term or phrase under any Environmental Laws, (b) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCBs), any radioactive substance, methane, volatile hydrocarbons or any industrial solvent, (c) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. ss. 1251 et seq. (33 U.S.C. Sections 1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. Sections 1317), (d) defined as a "hazardous waste" pursuant to Section 1004 of the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et

seq. (42 U.S.C. Section 6903), or (e) defined as a "hazardous substance" pursuant to Section 1012 of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. Section 9601).

"Indebtedness" of any Person shall mean (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property payment for which is deferred six (6) months or more, but excluding obligations to trade creditors incurred in the ordinary course of business that are not overdue by more than six (6) months unless being contested in good faith, (b) reimbursement and all other obligations with respect to letters of credit, bankers' acceptances and surety bonds, whether or not matured, (c) all obligations evidenced by notes, bonds, debentures or similar Instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all Capital Lease Obligations, (f) all obligations of such Person under Interest Rate Agreements, Currency Agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging arrangements, (g) all Indebtedness referred to in clause (a), (b), (c), (d), (e) or (f) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property or other assets (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, and (h) with respect to any Borrower or any Subsidiary thereto, the Obligations.

"Indemnified Person" shall have the meaning assigned to it in Section 2.10(a).

"Interest Charges" shall mean, with respect to any Person for any period, the amount which, in conformity with GAAP, would be set forth opposite the caption "interest expense" (or any like caption) on a consolidated income statement of such Person and all other Persons with which such Person's financial statements are to be consolidated in accordance with GAAP for the relevant period ended on such date.

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"Interest Payment Date" means (a) as to any Prime Rate Loan or any Federal Funds Rate Loan, the last Business Day of each month to occur while such Loan is outstanding, and (b) as to any LIBOR Loan, the last day of the LIBOR Period applicable thereto; provided, however, that, in addition to the foregoing, each of (x) the date upon which both the Commitment has been terminated and the Loans have been paid in full and (y) the Termination Date shall be deemed to be an "Interest Payment Date" with respect to any interest which is then accrued hereunder.

"Interest Rate Agreement" shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate futures contract, interest rate option contract or other similar agreement or arrangement to which any Borrower or any Subsidiary thereof is a party, designed to protect such Borrower or such Subsidiary against fluctuations in interest rates.

"Investments" shall have the meaning assigned to it in Section 7.2.

"IRC" shall mean the Internal Revenue Code of 1986, as amended, and any successor thereto.

"IRS" shall mean the Internal Revenue Service, or any successor

thereto.

"Issuance Request" shall mean a request and certificate duly executed by an authorized officer of any Borrower, in form and substance satisfactory to the Lender, for the issuance by the Lender of a Letter of Credit.

"Leases" shall mean all leasehold estates in real property now owned or hereafter acquired by any Borrower, or any of its Subsidiaries, as lessee.

"Letter of Credit Obligation" shall mean any outstanding obligation incurred by Lender at the request of Akorn, for the account of any Borrower, whether direct or indirect, contingent or otherwise, due or not due, in connection with the issuance by Lender of the Letter of Credit. The amount of such Letter of Credit Obligation shall equal the maximum amount which may be payable by Lender thereupon or pursuant thereto.

"Letter of Credit" shall mean a standby letter of credit issued from time to time before, on or after the Closing Date at the request of Akorn and for the account of any Borrower in the aggregate maximum face amount not exceeding the Commitment for which Lender has incurred any Letter of Credit Obligation pursuant thereto.

"Level" means any of the ranges applicable to the Funded Debt to EBITDA ratio as set forth in the table contained in the definition of "Applicable Percentage."

"LIBOR Loan" shall mean a portion of an Advance bearing interest by reference to the LIBOR Rate.

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"LIBOR Period" shall mean, with respect to any LIBOR Loan, each period commencing on the last day of the next preceding LIBOR Period applicable to such LIBOR Loan and ending one (1), two (2) or three (3) months thereafter, as selected by Akorn's irrevocable notice to Lender as set forth in Section 2.1(a) hereof; provided that the foregoing provision relating to LIBOR Periods is subject to the following:

(a) if any LIBOR Period pertaining to a LIBOR Loan would otherwise end on a day that is not a Eurodollar Business Day, such LIBOR Period shall be extended to the next succeeding Eurodollar Business Day unless the result of such extension would be to carry such LIBOR Period into another calendar month in which event such LIBOR Period shall end on the immediately preceding Eurodollar Business Day;

(b) any LIBOR Period that would otherwise extend beyond the Termination Date shall end two (2) Eurodollar Business Days prior to the Termination Date;

(c) any LIBOR Period pertaining to a LIBOR Loan that begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such LIBOR Period) shall end on the last Eurodollar Business Day of a calendar month;

(d) Akorn shall select LIBOR Periods so as not to require a payment or prepayment of any LIBOR Loan during a LIBOR Period for such Loan; and

(e) Akorn shall select LIBOR Periods so that there shall be no more than eight (8) separate LIBOR Loans which are Advances in existence at any one time.

"LIBOR Rate" shall mean for each LIBOR Period, a rate of interest determined by the Lender equal to (a) that fixed rate of interest per year for deposits with maturity periods of one (1), two (2) or three (3) months (which -maturity period Akorn shall select subject to the terms stated herein), in United States dollars offered to the Lender in or through the London interbank market at or about 11:00 A.M., London time, two (2) Eurodollar Business Days before the first (1st) day of each LIBOR Period and for the London deposit maturity requested, divided by one minus any applicable reserve requirement (expressed as a decimal) on Eurodollar deposits of the same amount and maturity as determined by Lender, plus (b) the Applicable Percentage.

"Lien" shall mean any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, security interest, easement or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the Code or comparable law of any jurisdiction).

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"Loan" shall mean, as the context may require, the aggregate amount of Advances outstanding at any time to any Borrower or to all Borrowers.

"Loan Account" shall have the meaning assigned to it in Section 2.9.

"Loan Documents" shall mean the Agreement, the Note, the Security Agreements, the Letters of Credit, and all other agreements, instruments, documents and certificates identified in the Schedule of Documents in favor of Lender and including (without limitation) all other pledges, powers of attorney, consents, assignments, contracts, notices, and all other written matter whether heretofore, now or hereafter executed by or on behalf of any Borrower or any of its Affiliates, or any employee of any Borrower or any of its Affiliates, and delivered to Lender in connection with the Agreement or the transactions contemplated hereby.

"Margin Stock" shall have the meaning assigned to it in Section 4.11.

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, assets, operations, prospects or financial or other condition of Borrowers and their Subsidiaries considered as a whole, (b) Borrowers' ability to pay the Loans or any of the other Obligations in accordance with the terms thereof, (c) the Collateral or Lender's Liens on the Collateral or the priority of any such Lien, or (d) Lender's rights and remedies under the Agreement or any of the other Loan Documents.

"Maximum Lawful Rate" shall have the meaning assigned to it in Section 2.5(e).

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA, and to which any Borrower or any of the Subsidiaries thereof or ERISA Affiliate is making, is obligated to make, has made or been obligated to make, contributions on behalf of participants who are or were employed by any of them.

"Net Income" shall mean, with respect to any period, the aggregate of the net income (loss) of the Person in question for such period, determined in

accordance with GAAP on a consolidated basis, provided that (a) the net income (loss) of any Person which is not a Subsidiary shall be included only to the extent of the amount of cash dividends or distributions paid to the Person in question or to a consolidated Subsidiary of such Person and (b) the net income (loss) of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded. There shall be excluded in computing Net Income the excess (but not the deficit), if any, of (x) any gain which must be treated as an extraordinary item under GAAP or any gain realized upon the sale or other disposition of any real property or equipment that is not sold in the ordinary course of business or of any capital stock of the Person or a Subsidiary of the Person over (y) any loss which must be treated as an extraordinary item under GAAP or any loss realized upon the sale or other disposition of any real property or equipment that is not sold in the ordinary course of business or of any capital stock of the Person or a Subsidiary of the Person.

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"Net Worth" shall mean the book value of the assets of Borrowers on a consolidated basis (inclusive of goodwill, patents, trademarks, tradenames, copyrights, organization expenses, treasury stock, debt discount and expense, deferred charges and other like intangibles), minus (a) reserves applicable thereto, and (b) all of Borrowers' liabilities on a consolidated basis (including accrued and deferred income taxes).

"Non-Use Fee" shall have the meaning assigned to it in Section 2.6.

"Note" shall have the meaning assigned to it in Section 2.1(b) and shall be substantially in the form of Exhibit B.

"Notice of Advance" shall have the meaning assigned to it in Section 2.1.

"Notice of Conversion/Continuation" shall mean a notice in substantially the form of Exhibit D.

"Obligations" shall mean all loans, advances, debts, liabilities and obligations, including, without limitation, the Loans and Letter of Credit Obligations, for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or amounts are liquidated or determinable) owing by any Borrower or any Subsidiary thereof to Lender, and all covenants and duties regarding such amounts, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, arising under the Agreement or any of the other Loan Documents. This term includes all principal, interest (including, without limitation, all interest which accrues after the commencement of any case or proceedings in bankruptcy after the insolvency of, or for the reorganization of, any Borrower or any Subsidiary thereof, whether or not allowed in such proceeding), Fees, Charges, expenses, attorneys' fees and any other sum chargeable to any Borrower or any Subsidiary thereof under the Agreement or any of the other Loan Documents.

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any successor thereto.

"Pension Plan" shall mean an employee pension benefit plan, as defined in Section 3(2) of ERISA (other than a Multiemployer Plan), which is not an individual account plan, as defined in Section 3(34) of ERISA, and which any

Borrower or any Subsidiary thereof or, if a Title IV Plan, any ERISA Affiliate maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them.

"Permitted Encumbrances" shall mean the following encumbrances: (a) Liens for taxes or assessments or other governmental Charges or levies, not yet due and payable; (b) pledges or deposits securing obligations under workmen's compensation, unemployment insurance, social security or public liability laws or similar legislation; (c) pledges or deposits securing bids, tenders, contracts (other than contracts for the payment of money) or leases to which any Borrower or any Subsidiary thereof is a party as lessee made in the ordinary course of business; (d) deposits securing statutory obligations of any Borrower or any Subsidiary thereof;

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(e) inchoate and unperfected workers', mechanics', suppliers' or similar liens arising in the ordinary course of business; (f) carriers', warehousemen's or other similar possessory liens arising in the ordinary course of business and securing liabilities in an outstanding aggregate amount not in excess of \$100,000 at any time; (g) deposits securing, or in lieu of, surety, appeal or customs bonds in proceedings to which any Borrower or any Subsidiary thereof is a party; (h) any attachment or judgment lien, unless the judgment it secures shall not, within 30 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 30 days after the expiration of any such stay; (i) zoning restrictions, easements, licenses, or other restrictions on the use of real property or other minor irregularities in title (including leasehold title) thereto, so long as the same do not materially impair the use, value, or marketability of such real property, lease or leasehold estate; (j) Liens existing on the Closing Date and listed on Schedule 7.7 hereto; and (k) other Liens securing Indebtedness permitted pursuant to the terms of this Agreement, including but not limited to, under Section 7.3 hereof.

"Person" shall mean any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, other entity or government (whether federal, state, county, city, municipal, local, foreign, or otherwise, including any instrumentality, division, agency, body or department thereof).

"Plan" shall mean, with respect to any Borrower, any Subsidiary thereof or any ERISA Affiliate, at any time, an employee benefit plan, as defined in Section 3(3) of ERISA, which any Borrower or any Subsidiary thereof maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them.

"Prime Rate" shall mean a rate per year equal to that rate of interest per year announced from time to time by Lender called its prime rate, which rate at any time may not be the lowest rate charged by Lender. Changes in the Prime Rate shall take effect on the date set forth in each announcement for a change in the Prime Rate.

"Prime Rate Loan" shall mean a portion of an Advance bearing interest by reference to the Prime Rate.

"Qualified Plan" shall mean an employee pension benefit plan, as defined in Section 3(2) of ERISA, which is intended to be tax-qualified under Section 401(a) of the IRC, and which any Borrower, any Subsidiary thereof or any ERISA Affiliate maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them.

"Reimbursement Obligation" shall have the meaning assigned to it in Section 2.2(e).

"Release" shall mean, as to any Person, any material release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, dumping, leaching or

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migration of Hazardous Materials in the indoor or outdoor environment by such Person, including the movement of Hazardous Materials through or in the air, soil, surface water, ground water or property.

"Reportable Event" shall mean any of the events described in Section 4043(b)(1), (2), (3), (5), (6), (8) or (9) of ERISA.

"Restricted Payment" shall mean (a) the declaration or payment of any dividend or the incurrence of any liability to make any other payment or distribution of cash or other property or assets in respect of a Person's Stock, (b) any payment on account of the purchase, redemption, defeasance or other retirement of a Person's Stock or any other payment or distribution made in respect thereof, either directly or indirectly, or (c) any payment, loan, contribution, or other transfer of funds or other property to any stockholder of such Person, except salary and cash bonuses paid to such Person.

"Retiree Welfare Plan" shall refer to any Welfare Plan providing for continuing coverage or benefits for any participant or any beneficiary of a participant after such participant's termination of employment, other than continuation coverage provided pursuant to Section 4980B of the IRC and at the sole expense of the participant or the beneficiary of the participant.

"Schedule of Documents" shall mean the schedule, including all appendices, exhibits or schedules thereto, listing certain documents and information to be delivered in connection with this Agreement, the other Loan Documents and the transactions contemplated thereunder, substantially in the form attached hereto as Schedule B.

"Security Agreements" shall mean the Amended and Restated Security Agreement dated as of December 29, 1997 entered into among Lender and Borrowers substantially in the form of Exhibit C, and that certain Intellectual Property Security Agreement dated even date herewith entered into between Lender and Akorn, including all amendments, restatements, modifications and supplements thereto, as the same may be in effect at the time such reference becomes operative.

"Solvent" shall mean, with respect to any Person, that (a) the fair salable value of its assets exceeds the fair present value of its liabilities (including all liabilities whether reflected on a balance sheet prepared in accordance with GAAP or otherwise and whether direct, indirect, fixed, contingent, disputed or undisputed); (b) such Person is able to pay its debts when due; and (c) such Person has capital sufficient to carry on its current business and all businesses in which it is about to engage.

"Stated Amount" of each Letter of Credit means the "Stated Amount" as defined therein.

"Stated Expiry Date" shall have the meaning assigned to it in Section 2.2.

"Stock" shall mean all shares, options, warrants, general or limited partnership interests or other equivalents (regardless of how designated) of or in a corporation, partnership or equivalent entity whether voting or nonvoting, including common stock, preferred stock or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended).

"Subsidiary" shall mean, with respect to any Person, (a) any corporation of which an aggregate of more than fifty percent (50%) of the outstanding Stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, Stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, owned legally or beneficially by such Person and/or one or more Subsidiaries of such Person, or with respect to which any such Person has the right to vote or designate the vote of fifty percent (50%) or more of such Stock whether by proxy agreement, operation of law or otherwise and (b) any partnership in which such Person and/or one or more Subsidiaries of such Person shall have an interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%) or of which any such Person is a general partner or may exercise the powers of a general partner.

"Taxes" shall mean taxes, levies, imposts, deductions, Charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on or measured by the net income of Lender by the jurisdictions under the laws of which Lender is organized or any political subdivision thereof.

"Termination Date" shall mean the earliest of (a) December 29, 2000, (b) the date of termination of Lender's obligations to advance funds or permit existing Advances to remain outstanding pursuant to Section 8.2, and (c) the date of indefeasible prepayment in full by Borrowers of the Loans, and the permanent reduction of the Commitment to zero dollars (\$0) in accordance with the provisions of Section 2.3.

"Title IV Plan" shall mean a Pension Plan, other than a Multiemployer Plan, which is covered by Title IV of ERISA.

"Unfunded Pension Liability" shall mean, at any time, the aggregate amount, if any, of the sum of (a) the amount by which the present value of all accrued benefits under each Title IV Plan exceeds the fair market value of all assets of such Title IV Plan allocable to such benefits in accordance with Title IV of ERISA, all determined as of the most recent valuation date for each such Title IV Plan using the actuarial assumptions in effect under such Title IV Plan, and (b) for a period of five (5) years following a transaction reasonably likely to be covered by Section 4069 of ERISA, the liabilities (whether or not accrued) that could be avoided by any Borrower, any Subsidiary thereof or any ERISA Affiliate as a result of such transaction.

"Welfare Plans" shall mean any welfare plan, as defined in Section 3(1) of ERISA, which is maintained or contributed to by any Borrower, any Subsidiary thereof or any ERISA Affiliate.

"Withdrawal Liability" shall mean, at any time, the aggregate amount of the liabilities, if any, pursuant to Section 4201 of ERISA, and any increase in contributions pursuant to Section 4243 of ERISA with respect to all Multiemployer Plans.

1.2. Other Definitional Provisions. Unless otherwise defined or the context otherwise requires, all financial and accounting terms used herein or in any certificate or other document made or delivered pursuant hereto shall be defined in accordance with GAAP. Unless otherwise defined therein, all terms defined in this Agreement shall have the defined meanings when used in the Note or in any certificate or other document made or delivered pursuant hereto. Terms used in this Agreement which are defined in any Exhibit hereto shall, unless the context otherwise indicates, have the meanings given them in such Exhibit. Other terms used in this Agreement shall, unless the context indicates otherwise, have the meanings provided for by the UCC to the extent the same are used or defined therein.

1.3. Interpretation of Agreement. A Section, an Exhibit or a Schedule is, unless otherwise stated, a reference to a section hereof, an exhibit hereto or a schedule hereto, as the case may be. Section captions used in this Agreement are for convenience only, and shall not affect the construction of this Agreement. The words "hereof," "herein," "hereto" and "hereunder" and words of similar purport when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

2. AMOUNT AND TERMS OF CREDIT.

2.1. Advances. (a) Subject to the terms and conditions of this Agreement, the Lender agrees to make advances (the "Advance(s)") to the Borrowers, from time to time from the date of this Agreement until the Termination Date, at such times and in such amounts as the Borrowers may request, not to exceed in the aggregate at any one time outstanding the difference of (i) the Commitment, minus (ii) the Letter of Credit Obligations. Until all amounts outstanding in respect of the Loans shall become due and payable on the Termination Date, Borrowers may from time to time borrow, repay and reborrow under this Section 2.1(a). Each Advance to a Borrower shall be made on notice by such Borrower to the Lender at its principal banking office at 50 South LaSalle Street, Chicago, Illinois 60675, given no later than 11:00 a.m. (Chicago time) on (ix) the Business Day of the proposed Advance, or (x) in the case of a request for an Advance that is a LIBOR Loan, two (2) Business Days prior to the date of the proposed Advance; provided, however, that any Advance requested as a LIBOR Loan shall be in a minimum amount of \$250,000 and integral multiples of \$50,000 in excess of such amount. Each such notice (a "Notice of Advance") shall be substantially in the form of Exhibit A hereto, specifying therein the requested date, the amount and type of such Advance, and such other information as may be required by Lender and shall be given in writing (by telecopy or overnight courier) or by telephone confirmed immediately in writing if requested by the Lender. Lender

shall be entitled to rely upon, and shall be fully protected under this Agreement in relying upon, any Notice of Advance believed by Lender to be genuine and to assume that each Person executing and delivering the same was duly authorized unless the responsible individual acting thereon for Lender shall have, at the time of reliance thereon, actual knowledge to the contrary.

(b) Prior Obligations Restructuring. On the date that all of the

conditions precedent to the effectiveness of this Agreement have been satisfied (herein, the "Restructuring Date"), and at the time on such date that the restructuring contemplated by this Agreement occurs (herein, the "Restructuring Time"), (i) the outstanding principal balance of the Prior Loans at the Restructuring Time shall be restated and continue as Loans under this Agreement, (ii) the security interests and liens granted by, and guaranties given by, the Borrowers to the Lender under the Original Loan Agreement and the documents delivered in connection therewith shall continue in full force and effect under this Agreement and the Loan Documents, as applicable, and (iii) any Prior Reimbursement Obligations outstanding at the Restructuring Time shall be restated and continue as Letter of Credit Obligations under this Agreement. None of the Prior Obligations shall be deemed to have been repaid as a result of the restructuring described in this Section 2.1(b).

(c) Note. Borrowers shall execute and deliver to the Lender a note to evidence the Loans, such note to be in the principal amount of the Commitment, dated the date hereof and substantially in the form of Exhibit B hereto (the "Note"). The Note shall represent the joint and several obligation of each Borrower to pay the amount of the Commitment or, if less, the aggregate unpaid principal amount of all Advances made by the Lender to Borrowers and all other Obligations with interest thereon as prescribed in Section 2.5. The date and amount of each Advance and each payment of principal with respect thereto shall be recorded on the books and records of the Lender, which books and records shall constitute prima facie evidence of the accuracy of the information therein recorded. The entire unpaid balance of the Loans shall be immediately due and payable on the Termination Date.

(d) Akorn. Each Borrower hereby designates Akorn as its sole agent for the purposes of issuing Notices of Advances, requesting an issuance of a Letter of Credit, selecting interest rate options and receiving notices and consents hereunder.

2.2. Letters of Credit.

(a) Requests. By delivering to Lender an Issuance Request substantially in the form of Schedule A hereto, on or before 3:00 p.m., Chicago time, Borrowers may request, from time to time prior to the Termination Date and on not less than two Business Days' notice, that the Lender issue a standby letter of credit, and for such purposes described in the Issuance Request (as used herein, the term "issue" when referring to Letters of Credit shall include any increase in the amount of or extension of the term of any Letter of Credit). The Stated Amount of any Letter of Credit requested to

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be issued pursuant to such Issuance Request shall be denominated in U.S. dollars. Each Letter of Credit shall by its terms:

(i) be issued in a Stated Amount which, together with all Letter of Credit Obligations and the Loans, in the aggregate does not exceed (or would not exceed) the Commitment;

(ii) be stated to expire on a date (its "Stated Expiry Date") no later than the Termination Date; and

(iii) on or prior to its Stated Expiry Date:

(A) terminate immediately upon notice to the Lender from the beneficiary thereunder that all obligations covered thereby have been terminated, paid, or otherwise satisfied in full, or

(B) reduce in part immediately and to the extent the beneficiary thereunder has notified the Lender thereof that the obligations covered thereby have been paid or otherwise satisfied in part.

By delivery to the Lender of an Issuance Request at least two Business Days prior to the Stated Expiry Date of any Letter of Credit, Borrowers may request the Lender to extend the Stated Expiry Date of such Letter of Credit for an additional period not to exceed the period ending on the Termination Date.

(b) Issuances and Extensions. Subject to the terms and conditions of this Agreement, the Lender shall issue Letters of Credit, and extend the Stated Expiry Dates of outstanding Letters of Credit, in accordance with the Issuance Requests made therefor. If the Issuance Request consists of, or is supplemented by, the Lender's standard letter of credit application form, the terms of such application shall apply with respect to such Letter of Credit, but only to the extent such terms are not inconsistent with the provisions hereof.

(c) Fees and Expenses. Borrowers agree to pay to the Lender (i) in respect of each standby Letter of Credit, a fee equal to 1.00% per annum (calculated from and including the date of issuance (or date of renewal or extension, if any) thereto to the Stated Expiry Date thereof) on the Stated Amount of each such Letter of Credit, payable in advance on the last Business Day of each Fiscal Quarter and on the Termination Date, and (ii) upon demand from time to time, Lender's standard issuance, administrative, operating and other fees and charges in effect from time to time in connection with the fronting, issuance, maintenance, modification (if any) and administration of each Letter of Credit.

(d) Disbursements. The Lender will notify Akorn promptly of the presentment for payment of any Letter of Credit, together with notice of the date (the

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"Disbursement Date") such payment shall be made. Subject to the terms and provisions of such Letter of Credit, the Lender shall make such payment to the beneficiary (or its designee) of such Letter of Credit. Prior to 12:00 noon, Chicago time, on the Disbursement Date, Borrower will reimburse the Lender for all amounts which it has disbursed under such Letter of Credit. To the extent the Lender is not reimbursed in full in accordance with this subsection, Borrower's Reimbursement Obligation shall accrue interest at a fluctuating rate determined by reference to the Prime Rate, plus a margin of two percent (2%) per annum, payable on demand. In the event the Lender is not reimbursed by Borrower on the Disbursement Date, or if the Lender must for any reason return or disgorge such reimbursement, the Lender shall fund the Reimbursement Obligation therefor by making Loans as provided in Section 2.1 (Borrowers being deemed to have given a timely request therefor for such amount); provided, however, for the purpose of determining the availability of the Advances immediately prior to giving effect to the application of the proceeds of such Loans, such Reimbursement Obligations shall be deemed not to be outstanding at such time.

(e) Reimbursement. Borrowers' obligation (a "Reimbursement Obligation") under subsection (d) of this Section 2.2 to reimburse the Lender with respect to each Disbursement (as defined below) (including interest thereon) shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim, or defense to payment which Borrowers may have or have had against the Lender or any beneficiary of a Letter of Credit, including any defense based upon the occurrence of any Event of Default or Default, any draft, demand, or

certificate, or other document presented under a Letter of Credit proving to be forged, fraudulent, invalid, or insufficient, the failure of any Disbursement to conform to the terms of the applicable Letter of Credit (if, in the Lender's good faith opinion, such Disbursement is determined to be appropriate) or any non-application or misapplication by the beneficiary of the proceeds of such Disbursement, or the legality, validity, form, regularity, or enforceability of such Letter of Credit. "Disbursement" means any payment made under a Letter of Credit by the Lender to the beneficiary thereunder.

(f) Deemed Disbursements. Upon the occurrence and during the continuation of any Event of Default, an amount equal to that portion of Letter of Credit Obligations attributable to outstanding and undrawn Letters of Credit shall, at the option of the Lender, and without demand upon or notice to Akorn, be deemed to have been paid or disbursed by the Lender under such Letters of Credit (notwithstanding that such amount may not in fact have been so paid or disbursed), and, upon notification by the Lender to Akorn of its obligations under this subsection, Borrowers shall be immediately obligated to reimburse the Lender the amount deemed to have been so paid or disbursed by the Lender. Any amounts so received by the Lender from Borrowers pursuant to this subsection shall be held as collateral security for the repayment of Borrowers' Obligations in connection with the Letters of Credit. At any time when such Letters of Credit shall terminate and all Reimbursement Obligations to the Lender are either terminated or paid or reimbursed to the Lender in full, the obligations of Borrowers under

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this subsection shall be reduced accordingly (subject, however, to reinstatement in the event any payment in respect of such Letters of Credit is recovered in any manner from any Lender), and if no Event of Default shall be continuing, the Lender will return to Borrowers the excess, if any, of

(i) the aggregate amount deposited by Borrowers with the Lender and not theretofore applied by the Lender to any Reimbursement Obligation; over

(ii) the aggregate amount of all Reimbursement Obligations to the Lender pursuant to this subsection, as so adjusted.

At such time when all Events of Default shall have been cured or waived, the Lender shall return to Borrower all amounts then on deposit with the Lender pursuant to this subsection. All amounts on deposit pursuant to this subsection shall, until their application to any Reimbursement Obligation or their return to Borrowers, as the case may be, bear interest at the daily average Federal Funds Rate (without taking into account the Applicable Percentage) from time to time in effect (net of the costs of any reserve requirements, in respect of amounts on deposit pursuant to this Section, pursuant to Federal Reserve Board Regulation D), which interest shall be held by the Lender as additional collateral security for the repayment of the Letter of Credit Obligations in connection with the Letters of Credit issued by the Lender.

(g) Nature of Reimbursement Obligations. Borrowers shall assume all risks of the acts, omissions, or misuse of any Letter of Credit by the beneficiary thereof. The Lender (except to the extent of its own gross negligence or willful misconduct) shall not be responsible for:

(i) the form, validity, sufficiency, accuracy, genuineness, or legal effect of any Letter of Credit or any document submitted by any party in connection with the application for an issuance of a Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent, or forged;

(ii) the form, validity, sufficiency, accuracy, genuineness, or legal effect of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof in whole or in part, which may prove to be invalid or ineffective for any reason;

(iii) failure of the beneficiary to comply fully with conditions required in order to demand payment under a Letter of Credit;

(iv) errors, omissions, interruptions, or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise; or

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(v) any loss or delay in the transmission or otherwise of any document or draft required in order to make a Disbursement under a Letter of Credit or of the proceeds thereof.

None of the foregoing shall affect, impair, or prevent the vesting of any of the rights or powers granted the Lender hereunder.

2.3. Prepayment, Commitment Reduction. Borrowers shall have the right at any time on three (3) days' prior written notice to the Lender to voluntarily prepay all or part of the Loans and permanently reduce or terminate the Commitment, and no prepayment fee, premium or penalty shall be payable in connection with any such voluntary prepayment, except LIBOR funding breakage costs in accordance with Section 2.10(b). Upon any such prepayment and permanent reduction or termination of the Commitment, Borrowers' right to receive Advances shall simultaneously terminate or be permanently reduced, as the case may be.

2.4. Use of Proceeds. Borrowers shall utilize the proceeds of Advances for working capital financing for the Borrowers and funding for acquisitions and other general corporate purposes of the Borrowers.

2.5. Interest on Loans.

(a) Borrowers shall pay interest to Lender, in arrears on each applicable Interest Payment Date, based on the amounts outstanding from time to time under the Loan, at a rate equal to (i) the Prime Rate, (ii) the applicable LIBOR Rate or (iii) the Federal Funds Rate.

(b) If any payment on the Loans becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day (except as set forth in the definition of LIBOR Period) and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension.

(c) All computations of interest shall be made by the Lender on the basis of a three hundred sixty (360) day year, in each case for the actual number of days occurring in the period for which such interest is payable. The Prime Rate and the Federal Funds Rate shall be determined each day based upon the Prime Rate and the Federal Funds Rate, respectively, as in effect each day. Each determination by the Lender of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest

error or bad faith.

(d) So long as any Event of Default shall have occurred and be continuing, and after written notice from the Lender to Akorn, the interest rates applicable to the Loans and any other Obligations shall be increased by two percent (2%) per annum above the rate of interest otherwise applicable hereunder ("Default Rate").

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(e) Notwithstanding anything to the contrary set forth in this Section 2.5, if, at any time until payment in full of all of the Obligations, the rate of interest payable hereunder exceeds the highest rate of interest permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto (the "Maximum Lawful Rate"), then in such event and so long as the Maximum Lawful Rate would be so exceeded, the rate of interest payable hereunder shall be equal to the Maximum Lawful Rate; provided, however, that if at any time thereafter the rate of interest payable hereunder is less than the Maximum Lawful Rate, Borrowers shall continue to pay interest hereunder at the Maximum Lawful Rate until such time as the total interest received by Lender from the making of such Advances hereunder is equal to the total interest which would have been received had the interest rate payable hereunder been (but for the operation of this paragraph) the interest rate payable since the Closing Date as otherwise provided in this Agreement. Thereafter, the interest rate payable hereunder shall be the rate of interest provided in Sections 2.5(a) through (d) of this Agreement, unless and until the rate of interest again exceeds the Maximum Lawful Rate, in which event this paragraph shall again apply. In no event shall the total interest received by Lender pursuant to the terms hereof exceed the amount which Lender could lawfully have received had the interest due hereunder been calculated for the full term hereof at the Maximum Lawful Rate. In the event the Maximum Lawful Rate is calculated pursuant to this paragraph, such interest shall be calculated at a daily rate equal to the Maximum Lawful Rate divided by the number of days in the year in which such calculation is made. In the event that a court of competent jurisdiction, notwithstanding the provisions of this Section 2.5(e), shall make a final determination that Lender has received interest hereunder or under any of the other Loan Documents in excess of the Maximum Lawful Rate, Lender shall, to the extent permitted by applicable law, promptly apply such excess first to any interest due and not yet paid hereunder in respect of the Loans, then to the outstanding principal of the Loans, then to Fees and any other unpaid Obligations and thereafter shall refund any excess to Borrowers or as a court of competent jurisdiction may otherwise order.

2.6. Fees. As compensation for Lender's costs and risks in making the Loan available to Borrowers, Borrowers agree to pay to Lender, in arrears, on the last Business Day of each month prior to the Termination Date and on the Termination Date, a fee for Borrowers' non-use of available funds (the "Non-Use Fee") in an amount equal to one quarter of one percent (0.25%) per annum (calculated on the basis of a 360 day year for actual days elapsed) of the difference between the respective daily averages of (a) the Commitment (as it may be adjusted from time to time hereunder) and (b) the sum of (i) the amount of the Loan outstanding, plus (ii) the Letter of Credit Obligations during the period for which the Non-Use Fee is due.

2.7. Charging of Accounts. The Borrowers hereby authorize the Lender, and the Lender may, in its sole and absolute discretion charge to the Borrowers at any time all or any portion of any of the Obligations then due and owing (and interest, if any, thereon) including but not limited to any Fees and other costs and expenses of the Lender for which the Borrowers are liable pursuant to the

terms of this Agreement or any other Loan Document, by charging Akorn's

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demand deposit account or any other bank account with the Lender; provided, however that the provisions of this Section 2.7 shall not affect the Borrowers' obligation to pay when due all amounts payable by the Borrowers under this Agreement, the Note or any other Loan Document, whether or not there are sufficient funds therefor in the demand deposit account or any other bank account of Akorn with the Lender.

2.8. Application and Allocation of Payments. Lender is authorized to, and at its option may, make or cause to be made Advances on behalf of Borrowers for payment of all Fees, expenses, Charges, costs, principal, interest, or other Obligations owing by Borrower under this Agreement or any of the other Loan Documents if and to the extent any such Borrower fails to promptly pay any such amounts as and when due, even if such Advance would cause total Advances to exceed the Commitment. At Lender's option and to the extent permitted by law, any advances so made shall be deemed Advances constituting part of the Loans hereunder. Following the occurrence and during the continuance of an Event of Default, Borrowers hereby irrevocably waive the right to direct the application of any and all payments at any time or times hereafter received from or on behalf of any such Borrower, and each Borrower hereby irrevocably agrees that Lender shall have the continuing exclusive right to apply any and all such payments against the then due and payable Obligations of Borrowers and in repayment of the Loan as Lender may deem advisable notwithstanding any previous entry by Lender upon the Loan Account or any other books and records. In the absence of a specific determination by Lender with respect thereto, the same shall be applied in the following order: (a) to then due and payable interest payments on the Loans; (b) to principal payments on the Loans; (c) to then due and payable Fees and expenses; (d) to then due and payable Obligations other than Fees, expenses and interest and principal payments; and (e) to all other then due and payable Obligations.

2.9. Loan Account and Accounting. Lender shall maintain a loan account (the "Loan Account") on its books to record: (a) all Advances, (b) all payments made by Borrowers and (c) all other appropriate debits and credits as provided in this Agreement with respect to the Loans or any other Obligations. All entries in the Loan Account shall be made in accordance with Lender's customary accounting practices as in effect from time to time. Borrowers shall pay all Obligations as such amounts become due or are declared due pursuant to the terms of this Agreement.

The balance in the Loan Account shall be presumptive evidence of the amounts due and owing to Lender by Borrower; provided, that any failure to so record or any error in so recording shall not limit or otherwise affect Borrowers' obligations to pay the Obligations. Any accounting provided by Lender to Akorn regarding the Loan Account shall (absent manifest error) be deemed final, binding and conclusive upon Borrowers in all respects as to all matters reflected therein, unless Akorn, within thirty (30) days after the date any such accounting is rendered, shall notify Lender in writing of any objection which Borrowers may have to any such accounting, describing the basis for such objection with specificity. In that event, only those items expressly objected to in such notice shall be deemed to be disputed by Borrowers.

Lender's determination, based upon the facts available, of any item objected to by Akorn in such notice shall (absent manifest error) be final, binding and conclusive on Borrowers.

2.10. Indemnity. (a) Each Borrower shall indemnify and hold each of Lender and its Affiliates, and each of Lender's and its Affiliates' respective officers, directors, employees, attorneys, agents and representatives (each an "Indemnified Person") harmless from and against any and all suits, actions, proceedings, claims, damages, losses, liabilities and expenses (including attorneys' fees and disbursements and other costs of investigation or defense, including those incurred upon any appeal) which may be instituted or asserted against or incurred by any such Indemnified Person as the result of credit having been extended under this Agreement and the other Loan Documents or in connection with or arising out of the transactions contemplated hereunder and thereunder or any actions or failures to act in connection therewith, including any and all Environmental Liabilities and Costs; provided, that no Borrower shall be liable for any indemnification to such Indemnified Person to the extent that any such suit, action, proceeding, claim, damage, loss, liability or expense results solely from such Indemnified Person's gross negligence or willful misconduct, as finally determined by a court of competent jurisdiction after exhaustion of all available appeals. NEITHER LENDER NOR ANY OTHER INDEMNIFIED PERSON SHALL BE RESPONSIBLE OR LIABLE TO ANY OTHER PARTY HERETO, ANY SUCCESSOR, ASSIGNEE OR THIRD PARTY BENEFICIARY OF SUCH PERSON OR ANY OTHER PERSON ASSERTING CLAIMS DERIVATIVELY THROUGH SUCH PARTY, FOR INDIRECT, PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED AS A RESULT OF CREDIT HAVING BEEN EXTENDED OR TERMINATED UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

(b) Borrowers understand that in connection with Lender's arranging to provide the LIBOR Rate interest option, Lender may enter into funding arrangements with third parties ("Funding Arrangements") on terms and conditions which could result in losses to Lender if such LIBOR Rate funds do not remain outstanding at the interest rates provided herein for the entire LIBOR Period with respect to which the LIBOR Rate has been fixed. Consequently, in order to induce Lender to provide such options on the terms provided herein and in consideration of Lender entering into such Funding Arrangements from time to time, if any LIBOR Loans are repaid in whole or in part prior to the last day of any such LIBOR Period therefor, whether such repayment is made pursuant to any provision of this Agreement or any other Loan Document or is the result of acceleration, by operation of law or otherwise, Borrowers shall indemnify and hold harmless Lender from and against and in respect of any and all losses, costs and expenses resulting from, or arising out of or imposed upon or incurred by Lender by reason of the liquidation or reemployment of funds acquired or committed to be acquired by Lender to fund such LIBOR Loans, pursuant to the Funding Arrangements. The amount of any losses, costs or expenses resulting in an obligation of Borrowers to make a payment pursuant to the foregoing sentence shall not include any losses attributable to lost profit to Lender but shall represent the excess, if any, of (A) Lender's cost of borrowing the LIBOR Rate funds, pursuant to the Funding Arrangements over (B) the return to Lender

on its reinvestment of such funds; provided, however, that if Lender terminates any Funding Arrangements in respect of the LIBOR Loans, the amount of such losses, costs and expenses shall include the cost to Lender of such termination. In reinvesting any funds borrowed by Lender pursuant to the Funding Arrangements, Lender shall take into consideration the remaining maturity of such borrowings. As promptly as practicable under the circumstances, Lender shall provide Akorn with its written calculation of all amounts payable pursuant to the next preceding sentence, and such calculation shall be binding on the parties hereto unless Akorn shall object thereto in writing within ten (10) Business Days of receipt thereof.

2.11. Access. (a) Each Borrower shall provide full access during normal business hours, from time to time upon one (1) Business Day's prior notice, to Lender and any of its officers, employees and agents, as frequently as Lender determines, in its reasonable discretion, to be appropriate (unless a Default or Event of Default shall have occurred and be continuing, in which event Lender and its officers, employees, designees, agents and representatives shall have access at any and all times and without any advance notice), to the properties, facilities, books, and records of Borrowers and their Subsidiaries, to the Collateral, to the accountants of Borrowers and the Subsidiaries thereof and to the work papers of such accountants, and in addition, (b) while any Default or Event of Default shall have occurred and be continuing, (i) at any time for purposes of inspection, audit or verification of accounts, or (ii) upon the consent of Akorn, to such Borrower's suppliers, customers, advisors and employees (including officers). Without limiting the generality of the foregoing, each Borrower shall (x) permit Lender, and any of its officers, employees, agents and representatives, to inspect, audit and make extracts from all of such Borrower's and its Subsidiaries' records, files and books of account and (y) permit Lender, and any of its officers, employees, agents and representatives, to inspect, review and evaluate the accounts at such Borrower's and its Subsidiaries, locations and at premises not owned by or leased to such Borrower or any Subsidiary of such Borrower. Each Borrower shall make available to Lender and its counsel, as quickly as is possible under the circumstances, originals or copies of all books, records, board minutes, contracts, insurance policies, environmental audits, business plans, files, financial statements (actual and pro forma), filings with federal, state and local regulatory agencies, and other instruments and documents which Lender may request. Each Borrower shall deliver any document or instrument necessary for Lender, as it may from time to time request, to obtain records from any service bureau or other Person which maintains records for such Borrower, and shall maintain duplicate records or supporting documentation on media, including computer tapes and discs owned by such Borrower. Borrowers shall instruct their certified public accountants to make available to Lender such information and records as Lender may request.

(b) A fee of \$500 per day per individual or Lender's then standard rate, whichever is greater, (plus all reasonable out-of-pocket costs and expenses) in connection with Lender's field examinations permitted under Section 2.11(a) above and Section 5(g) of the Amended and Restated Security Agreement referred to in the definition of

"Security Agreements" shall be paid promptly by Borrowers in connection with each field audit conducted after the Closing Date.

2.12. Taxes. (a) Any and all payments by any Borrower hereunder or under the Note shall be made, in accordance with this Section 2.12, free and clear of and without deduction for any and all present or future Taxes. If any Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under the Note, (a) the sum payable shall be increased as much as shall be necessary so that after making all required deductions

(including deductions applicable to additional sums payable under this Section 2.12) Lender shall receive an amount equal to the sum Lender would have received had no such deductions been made, (b) such Borrower shall make such deductions, and (c) such Borrower shall pay the full amount deducted to the relevant taxing or other authority in accordance with applicable law.

(b) Borrowers shall indemnify and pay, within ten (10) days of demand therefor, Lender for the full amount of Taxes (including any Taxes imposed by any jurisdiction on amounts payable under this Section 2.12) paid by Lender and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally asserted.

2.13. Capital Adequacy; Increased Costs; Illegality. (a) In the event that Lender shall have determined that the adoption after the date hereof of any law, treaty, governmental (or quasi-governmental) rule, regulation, guideline or order regarding capital adequacy, reserve requirements or similar requirements or compliance by Lender with any request or directive regarding capital adequacy, reserve requirements or similar requirements (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) from any central bank or governmental agency or body having jurisdiction does or would have the effect of increasing the amount of capital, reserves or other funds required to be maintained by Lender and thereby reducing the rate of return on Lender's capital as a consequence of its obligations hereunder, then Borrowers shall from time to time within fifteen (15) days after notice and demand on Akorn by Lender (together with the certificate referred to in the next sentence) pay to Lender additional amounts sufficient to compensate Lender for such reduction. A certificate as to the amount of such cost and showing the basis of the computation of such cost submitted by Lender to Borrowers shall, absent manifest error, be final, conclusive and binding for all purposes.

(b) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), including, without limitation, any requirement that Lender hold reserves with respect to the Loan or the Commitment, there shall be any increase in the cost to Lender of agreeing to make or making, funding or maintaining of any Loan, then Borrowers shall from time to time, upon demand by Lender, pay to Lender for the account of Lender additional amounts sufficient to compensate Lender for such increased cost. A certificate as to the amount of such increased cost, submitted to Akorn by Lender, shall be

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conclusive and binding on Borrowers for all purposes, absent manifest error. Lender agrees that, as promptly as practicable after it becomes aware of any circumstances referred to in clause (i) or (ii) above which would result in any such increased cost to Lender, it shall, to the extent not inconsistent with Lender's internal policies of general application, use reasonable commercial efforts to minimize costs and expenses incurred by it and payable to it by Borrowers pursuant to this Section 2.13(b).

(c) Notwithstanding anything to the contrary contained herein, if the introduction of or any change in or in the interpretation of any law or regulation shall make it unlawful, or any central bank or other Governmental Authority shall assert that it is unlawful, for Lender to agree to make or to make or to continue to fund or maintain any LIBOR Loan, then, unless Lender is able to agree to make or to make or to continue to fund or to maintain such LIBOR Loan at another branch or office of Lender without, in Lender's opinion, adversely affecting it or its Loans or the

income obtained therefrom, on notice thereof and demand therefor by Lender to Borrowers, (i) the obligation of Lender to agree to make or to make or to continue to fund or maintain LIBOR Loans shall terminate and (ii) Borrowers shall forthwith prepay in full all outstanding LIBOR Loans, together with interest accrued thereon, unless Borrowers, within five (5) Business Days after the delivery of such notice and demand, convert all such Loans into a Loan bearing interest based on the Prime Rate.

(d) Upon Lender obtaining actual knowledge of the occurrence of any of the events set forth in this Section 2.13, Lender shall promptly notify Akorn of the occurrence of such event. Borrowers shall have the right within five (5) days of receipt of such notice to convert any outstanding LIBOR Loans to Prime Rate Loans.

2.14. Conversion and Continuation Elections.

(a) Borrowers may, upon irrevocable written notice (or telephonic notice promptly confirmed in writing) to Lender in accordance with Section 2.14(b):

(i) elect, as of any Business Day, in the case of Floating Rate Loans, or as of the last day of the applicable LIBOR Period, in the case of LIBOR Loans, to convert any such Loans (or any part thereof in an aggregate minimum amount of \$50,000, or integral multiples of \$10,000 in excess thereof, in the case of Floating Rate Loans, and \$250,000, or integral multiples of \$50,000 in excess thereof, in the case of LIBOR Loans) into Loans of any other type; or

(ii) elect as of the last day of the applicable LIBOR Period, to continue any LIBOR Loans having LIBOR Periods expiring on such day (or any part thereof in an amount not less than \$250,000, or that is in an integral multiple of \$50,000 in excess thereof);

provided, that if at any time the aggregate amount of LIBOR Loans in respect of any borrowing is reduced, by payment, prepayment, or conversion of part thereof to be less

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than \$250,000, such LIBOR Loans shall automatically convert into Floating Rate Loans, and on and after such date the right of Borrower to continue such LIBOR Loans as, and convert such LIBOR Loans into, LIBOR Loans shall terminate.

(b) Borrower shall deliver a Notice of Conversion/Continuation to be received by Lender not later than 10:00 a.m. (Chicago time) at least (i) two Business Days in advance of the Conversion/ Continuation Date, if the Loans are to be converted into or continued as LIBOR Loans and (ii) on the date of the Conversion/Continuation Date, if the Loans are to be converted into Floating Rate Loans, specifying:

(i) the proposed Conversion/Continuation Date;

(ii) the aggregate amount of Loans to be converted or continued;

(iii) the type of Loans resulting from the proposed conversion or continuation; and

(iv) other than in the case of conversions into Floating Rate Loans, the duration of the requested LIBOR Period.

(c) If upon the expiration of any LIBOR Period applicable to LIBOR

Loans, Borrowers have failed to select a new LIBOR Period to be applicable to such LIBOR Loans by the time specified in Section 2.14(b), or if any Event of Default then exists, Borrowers shall be deemed to have elected to convert such LIBOR Loans into Federal Funds Rate Loans effective as of the expiration date of such LIBOR Period.

3. CONDITIONS PRECEDENT.

3.1. Conditions to the Initial Advance. Notwithstanding any other provision of this Agreement and without affecting in any manner the rights of Lender hereunder, Borrowers shall have no rights under this Agreement (but shall have all applicable obligations hereunder), and Lender shall not be obligated to make any Advance or to incur any Letter of Credit Obligation, or to take, fulfill, or perform any other action hereunder, until the following conditions have been satisfied, in Lender's sole discretion, or waived in writing by Lender:

(a) Credit Agreement. This Agreement or counterparts hereof shall have been duly executed by, and delivered to, Borrowers and Lender.

(b) Loan Documents. Lender shall have received such guaranties, documents, instruments, agreements and legal opinions as Lender shall request in connection with the transactions contemplated by this Agreement and the other Loan Documents, including all guaranties, documents, instruments, agreements and legal opinions listed in the Schedule of Documents attached hereto as Schedule B, each in form and substance satisfactory to Lender.

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(c) Governmental Approvals. Evidence satisfactory to Lender that Borrowers have obtained consents and acknowledgments of all Persons whose consents and acknowledgments may be required, including, but not limited to, all requisite Governmental Authorities, to the terms, and to the execution and delivery, of this Agreement, the other Loan Documents, and the consummation of the transactions contemplated hereby and thereby.

(d) Insurance. Evidence satisfactory to Lender that the insurance policies provided for in Section 6.6 are in full force and effect, together with appropriate evidence showing loss payable and/or additional insured clauses or endorsements, as requested by Lender, in favor of Lender, and in form and substance satisfactory to Lender.

(e) Officer's Certificate. Lender shall have received duly executed originals of a certificate of the chief executive officer or chief financial officer of Akorn, dated the date hereof, certifying, to the best of his knowledge after diligent inquiry, to the fulfillment of all conditions precedent to closing of this Agreement and to the truth and accuracy, as of such date, of the representations and warranties of Borrowers contained in this Agreement and each other Loan Document.

(f) Compliance with Laws. Lender shall have received evidence satisfactory to Lender and its counsel that each Borrower and each of its Subsidiaries are in compliance in all material respects, with all applicable foreign, federal, state and local laws and regulations, including those relating to labor and environmental matters and ERISA.

(g) Participant Consent. The Lender shall have received the written consent of its participant to this Agreement.

3.2. Further Conditions. It shall be a further condition to the initial and each subsequent Advance and to the incurrence of any Letter of Credit Obligation that the following statements shall be true on the date of each such Advance or

funding, as the case may be:

(i) All of each Borrower's representations and warranties contained herein or in any of the other Loan Documents shall be true and correct on and as of the Closing Date and the date on which each such Advance is made (or such Letter of Credit Obligation is incurred) as though made on and as of such date, except, to the extent that any such representation or warranty expressly relates to an earlier date and except for changes therein expressly permitted or expressly contemplated by this Agreement.

(ii) No Material Adverse Effect shall have occurred since the date hereof.

(iii) No event shall have occurred and be continuing, or would result from the making of any Advance (or the incurrence of any Letter of Credit Obligation), which constitutes or would constitute a Default or an Event of Default.

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The request and acceptance by any Borrower of the proceeds of any Advance or the incurrence of any Letter of Credit Obligation shall be deemed to constitute, as of the date of such request or acceptance, a representation and warranty by Borrowers that the conditions in this Section 3.2 have been satisfied.

4. REPRESENTATIONS AND WARRANTIES.

To induce Lender to make the Loans and to incur any Letter of Credit Obligation, Borrowers make the following representations and warranties to Lender, each and all of which shall survive the execution and delivery of this Agreement:

4.1. Corporate Existence; Compliance with Law. Each Borrower and each Subsidiary thereof (a) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has been duly qualified to conduct business and is in good standing in each other jurisdiction where its ownership or lease of property or the conduct of its business requires such qualifications; (b) has the requisite corporate power and authority and the legal right to own, pledge, mortgage or otherwise encumber and operate its properties, to lease the property it operates under lease and to conduct its business as now, heretofore and proposed to be conducted; (c) has all licenses, permits, consents or approvals from or by, and has made all filings with, and has given all notices to, all Governmental Authorities, including but not limited to, FDA and DEA, having jurisdiction, to the extent required for such ownership, operation and conduct; (d) is in compliance with its certificate or articles of incorporation and by-laws; and (e) is in compliance with all applicable provisions of law, including but not limited to, the Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other United States federal statutes and regulations, issued by the FDA and DEA. On or prior to the Closing Date, Taylor has merged into Akorn; Akorn is the surviving corporation and has assumed all the rights and obligations of Taylor, including any Prior Obligations. Akorn NJ is a wholly-owned Subsidiary of Akorn.

4.2. Executive Offices. The current location of each Borrower's chief executive office and principal place of business is set forth in Schedule 4.2 and, as of the Closing Date, none of such locations have changed within the past three (3) months.

4.3. Corporate Power Authorization, Enforceable Obligations. The execution, delivery and performance by each Borrower of the Loan Documents and all

instruments and documents to be delivered by such Person and the creation of all Liens provided for therein: (a) are within such Person's corporate power; (b) have been duly authorized by all necessary or proper corporate and shareholder action; (c) are not in contravention of any provision of such Person's certificate or articles of incorporation or bylaws; (d) will not violate any law or regulation, or any order or decree of any court or governmental instrumentality; (e) will not conflict with or result in the breach or termination of, constitute a default under or accelerate any performance required by, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which such Person is a party or by which such Person or any of its property is bound; (f) will not result in the creation or imposition of any Lien upon any of the property of such Person other than those in favor of Lender pursuant to the Loan Documents; and (g) do not

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require the consent or approval of any Governmental Authority or any other Person. On or prior to the Closing Date, each of the Loan Documents shall have been duly executed and delivered for the benefit of or on behalf of each Borrower and each Loan Document shall then constitute a legal, valid and binding obligation of such Borrower, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally or by application of general principles of equity.

4.4. Financial Statements. All financial statements (the "Financial Statements"), of the Borrowers and their respective Subsidiaries which have been delivered to the Lender, have been prepared in accordance with GAAP consistently applied throughout the periods involved (except as disclosed therein and except, with respect to unaudited financial statements, for the absence of footnotes and normal year-end audit adjustments) and do present fairly in all material respects the financial condition of the corporations covered thereby as at the dates thereof and the results of their operations for the periods then ended.

4.5. Material Adverse Effect. Since September 30, 1998, none of the Borrowers and no Subsidiary thereof has incurred any obligations, contingent liabilities, or liabilities for Charges, long-term leases or unusual forward or long-term commitments which are not reflected in the Financial Statements of Borrowers and their Subsidiaries and which could, alone or in the aggregate, have or result in a Material Adverse Effect. No Material Adverse Effect has occurred between September 30, 1998 and the Closing Date.

4.6. Title and Liens. All Collateral is and will continue to be owned by the Borrowers. None of the Collateral or other property or assets of the Borrowers or any Subsidiary is subject to any Lien (including but not limited to Liens pursuant to Capitalized Leases under which any Borrower or any Subsidiary is a lessee) except: (a) Liens in favor of the Lender and (b) Permitted Encumbrances.

4.7. Restrictions; No Default. No contract, lease, agreement or other instrument to which any Borrower is a party or by which it or any of its properties or assets is bound or affected, and no provision of applicable law or governmental regulation, has or results in a Material Adverse Effect, or could have or result in a Material Adverse Effect. None of the Borrowers and no Subsidiary thereof is in default, and to such Borrower's or such Subsidiary's knowledge no third party is in default, under or with respect to any material contract, agreement, lease or other instrument to which it is a party.

4.8. Labor Matters. No strikes or other labor disputes against any Borrower or any Subsidiary thereof are pending or, to any Borrower's knowledge, threatened. Hours worked by and payment made to employees of each Borrower and the Subsidiaries thereof have not been, to any Borrower's knowledge, in violation of the Fair Labor Standards Act or any other applicable federal,

state, local or foreign law dealing with such matters. All payments due from such Borrower or any Subsidiary thereof on account of employee health and welfare insurance have been paid or accrued as a liability on the books of Borrowers. Except as set forth in Schedule 4.8, there are no material employment, consulting or management agreements covering any management employee or Affiliate of any Borrower or any Subsidiary thereof. A true and

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complete copy of each such material agreement has been furnished to Lender. Except as set forth in Schedule 4.8, none of the Borrowers and none of the Subsidiaries thereof have any obligation under any collective bargaining agreement, management agreement, consulting agreement or any employment agreement. There is no organizing activity involving any Borrower or any Subsidiary thereof pending or, to any Borrower's knowledge, threatened by any labor union or group of employees. Except as set forth in Schedule 4.8, there are no representation proceedings pending or, to any Borrower's knowledge, threatened with the National Labor Relations Board, and no labor organization or group of employees of any Borrower or any Subsidiary thereof has made a pending demand for recognition. Except as set forth in Schedule 4.8, there are no complaints or charges against any Borrower or any Subsidiary thereof pending or threatened to be filed with any federal, state, local or foreign court, governmental agency or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment by any Borrower or any Subsidiary thereof of any individual.

4.9. Ventures, Subsidiaries and Affiliates; Outstanding Stock. Except as set forth in Schedule 4.9, none of the Borrowers (a) has any Subsidiaries, (b) is engaged in any joint venture or partnership with any other Person and (c) is an Affiliate of any other Person. Except as set forth in Schedule 4.9, there are no outstanding rights to purchase, options, warrants or similar rights or agreements pursuant to which any Borrower may be required to issue or sell any Stock or other equity security of any Subsidiary.

4.10. Government Regulation. None of the Borrowers and no Subsidiary thereof is an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended. None of the Borrowers and no Subsidiary thereof is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, or any other federal or state statute that restricts or limits its ability to incur Indebtedness or to perform its obligations hereunder, and the making of the Advances by Lender, the incurrence of any Letter of Credit Obligation, the application of the proceeds and repayment thereof by such Borrower or such Subsidiary and the consummation of the transactions contemplated by this Agreement and the other Loan Documents will not violate any provision of any such statute or any rule, regulation or order issued by the Securities and Exchange Commission.

4.11. Margin Regulations. None of the Borrowers and no Subsidiary thereof is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "Margin security" as such terms are defined in Regulation U of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") as now and from time to time hereafter in effect (such securities being referred to herein as "Margin Stock"). None of the Borrowers and no Subsidiary thereof owns any Margin Stock, and the proceeds of the Advances will not be used, directly or indirectly, for the purpose of purchasing or carrying any Margin Stock, for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry any Margin Stock or for any other purpose which might cause any of the Loans or other extensions of credit under this

Agreement to be considered a "purpose credit" within the meaning of Regulation T, U or X of the Federal Reserve Board.

4.12. Taxes. All federal, state, local and foreign tax returns, reports and statements, including, but not limited to, information returns required to be filed by each Borrower or any Subsidiary thereof, have been filed with the appropriate Governmental Authority and all Charges and other impositions shown thereon to be due and payable have been paid prior to the date on which any fine, penalty, interest or late charge may be added thereto for nonpayment thereof (or any such fine, penalty, interest, late charge or loss has been paid), and each Borrower and each Subsidiary thereof has paid when due and payable all Charges required to be paid by it, except such Taxes, if any, as are being contested in good faith and by appropriate proceedings and as to which such reserves or other appropriate provisions as may be required by GAAP have been maintained. Proper and accurate amounts have been withheld by each Borrower or each Subsidiary thereof from its respective employees for all periods in full and complete compliance with the tax, social security and unemployment withholding provisions of applicable federal, state, local and foreign law and such withholdings have been timely paid to the respective Governmental Authorities.

4.13. ERISA. (a) Schedule 4.13 lists all Plans maintained or contributed to by any Borrower or any Subsidiary thereof and all Qualified Plans maintained or contributed to by any ERISA Affiliate, and separately identifies the Title IV Plans, Multiemployer Plans, any multiple employer plans subject to Section 4064 of ERISA, unfunded Pension Plans, Welfare Plans and Retiree Welfare Plans. Each Qualified Plan has been determined by the IRS to qualify under Section 401 of the IRC, and the trusts created thereunder have been determined to be exempt from tax under the provisions of Section 501 of the IRC, and to the best knowledge of each Borrower nothing has occurred which would cause the loss of such qualification or tax-exempt status. To any Borrower's knowledge, each Plan is in compliance with the applicable provisions of ERISA and the IRC, including the filing of reports required under the IRC or ERISA, and with respect to each Plan, other than a Qualified Plan, all required contributions and benefits have been paid in accordance with the provisions of each such Plan. None of the Borrowers and no Subsidiary or ERISA Affiliate thereof, with respect to any Qualified Plan, has failed to make any contribution or pay any amount due as required by Section 412 of the IRC or Section 302 of ERISA or the terms of any such Plan. With respect to all Retiree Welfare Plans, the present value of future anticipated expenses pursuant to the latest actuarial projections of liabilities does not exceed \$0; with respect to Pension Plans, other than Qualified Plans, the present value of the liabilities for current participants thereunder using PBGC interest assumptions does not exceed \$0. None of the Borrowers and no Subsidiary or ERISA Affiliate thereof has engaged in a prohibited transaction, as defined in Section 4975 of the IRC or Section 406 of ERISA, in connection with any Plan, which would subject any Borrower or any Subsidiary thereof (after giving effect to any exemption) to a material tax on prohibited transactions imposed by Section 4975 of the IRC or any other material liability.

(b) Except as set forth in Schedule 4.13: (i) no Title IV Plan has any Unfunded Pension Liability; (ii) no ERISA Event or event described in Section 4062(e) of ERISA with

respect to any Title IV Plan has occurred or is reasonably expected to occur; (iii) there are no pending, or to the knowledge of any Borrower, threatened claims, actions or lawsuits (other than claims for benefits in the normal course) , asserted or instituted against (x) any Plan or its assets, (y) any fiduciary with respect to any Plan or (z) any Borrower or any Subsidiary or ERISA Affiliate thereof with respect to any Plan; (iv) none of the Borrowers and no Subsidiary or ERISA Affiliate thereof has incurred or reasonably expects to incur any withdrawal liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 of ERISA as a result of a complete or partial withdrawal from a Multiemployer Plan; (v) within the last five years neither any Borrower nor any Subsidiary or ERISA Affiliate thereof has engaged in a transaction which resulted in a Title IV Plan with Unfunded Liabilities being transferred outside of the "controlled group" (within the meaning of Section 4001(a)(14) of ERISA) of any such entity; (vi) no Plan which is a Retiree Welfare Plan provides for continuing benefits or coverage for any participant or any beneficiary of a participant after such participant's termination of employment (except as may be required by Section 4980B of the IRC and at the sole expense of the participant or the beneficiary of the participant); (vii) each Borrower and each Subsidiary and ERISA Affiliate thereof have complied with the notice and continuation coverage requirements of Section 4980B of the IRC and the regulations thereunder except where the failure to comply could not have or result in any Material Adverse Effect; and (viii) no liability under any Plan has been funded, nor has such obligation been satisfied, with the purchase of a contract from an insurance company that is not rated AAA by the Standard & Poor's Corporation or the equivalent by another nationally recognized rating agency.

4.14. No Litigation. No action, claim or proceeding is now pending or, to the knowledge of any Borrower, threatened against such Borrower or any Subsidiary thereof, before any court, board, commission, agency or instrumentality of any federal, state, local or foreign government or of any agency or subdivision thereof, or before any arbitrator or panel of arbitrators, (a) which challenges such Borrower's or such Subsidiary's right or power to enter into or perform any of its Obligations under the Loan Documents, or the validity or enforceability of any Loan Document or any action taken thereunder, or (b) which, if determined adversely, would have or result in a Material Adverse Effect, nor to the best knowledge of any Borrower does a state of facts exist which is reasonably likely to give rise to such proceedings.

4.15. Patents, Trademarks, Copyrights and Licenses. Except as otherwise set forth in Schedule 4.15, each Borrower owns all material licenses, patents, patent applications, copyrights, service marks, trademarks, trademark applications, and trade names necessary to continue to conduct its business as heretofore conducted by it or proposed to be conducted by it, each of which is listed, together with Copyright Office or Patent and Trademark Office application or registration numbers, where applicable, on Schedule 4.15. Schedule 4.15 also lists all tradenames or other names under which any Borrower conducts business. To the best of Borrower's knowledge, neither the conduct of each Borrower's business nor the conduct of any of its Subsidiary's business infringes upon any intellectual property right of any other Person.

4.16. Full Disclosure. No information contained in this Agreement, any of the other Loan Documents, the projections, the Financial Statements, the collateral reports or any written

statement furnished by or on behalf of any Borrowers or any Subsidiary thereof pursuant to the terms of this Agreement, which has previously been delivered to Lender, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading in light of the circumstances under which they were made. The Liens granted to Lender pursuant to the Security Agreements will at the Closing Date be fully perfected first priority Liens in and to the Collateral described therein, subject only to Liens set forth in Schedule 7.7 and Permitted Encumbrances.

4.17. Hazardous Materials. Except as set forth in Schedule 4.17, (a) the real estate (the "Real Estate") owned by the Borrowers and their Subsidiaries is free of contamination from any Hazardous Material, or (b) to any Borrower's knowledge, the Real Estate leased by the Borrowers or their Subsidiaries is free of contamination from any Hazardous Material. In addition, Schedule 4.17 discloses all material environmental liabilities of any Borrower or any Subsidiary thereof of which any Borrower has knowledge (x) related to noncompliance with the Environmental Laws, or (y) associated with the Real Estate. None of the Borrowers and no Subsidiary thereof has caused or suffered to occur any Release with respect to any Hazardous Material at, under, above or upon any real property which it owns or leases. None of the Borrowers and no Subsidiary thereof is involved in operations which are likely to result in the imposition of any Lien on its assets or any material liability on such Borrower or Subsidiary thereof under any Environmental Law, and none of the Borrowers and no Subsidiary thereof has permitted any tenant or occupant of such premises to engage in any such activity. Borrowers have provided to Lender copies of all existing environmental reports, reviews and audits and all written information pertaining to actual or potential Environmental Liabilities and Costs, in each case relating to any of the Borrowers or any of the Subsidiaries thereof.

4.18. Insurance Policies. Schedule 4.18 lists all insurance of any nature maintained for current occurrences by any Borrower or any Subsidiary thereof, as well as a summary of the terms of such insurance.

4.19. Deposit and Disbursement Accounts. Schedule 4.19 lists all banks and other financial institutions at which any of the Borrowers or any Subsidiary thereof maintains deposits and/or other accounts, including any disbursement accounts, and such Schedule correctly identifies the name, address and telephone number of each depository, the name in which the account is held, a description of the purpose of the account, and the complete account number.

4.20. Customer and Trade Relations. There exists no actual or threatened termination or cancellation of, or any material adverse modification or change in: (a) the business relationship of Borrowers with any customer or group of customers which has resulted in or is reasonably likely to result in a Material Adverse Effect; or (b) the business relationship of any Borrower or any Subsidiary thereof with any supplier material to the operations of such Borrower or such Subsidiary which has resulted in or is reasonably likely to result in a Material Adverse Effect.

4.21. Indebtedness. As of the Closing Date, except for the Loans and the Letter of Credit Obligations, and as set forth in Schedule 7.3, none of the Borrowers and no Subsidiary

thereof has any Indebtedness or has granted any security interest to any Person other than Lender.

5. FINANCIAL STATEMENTS AND INFORMATION.

5.1. Reports and Notices. Borrowers each hereby covenant and agree that from and after the Closing Date and until the Termination Date, they shall deliver to Lender Financial Statements and notices as follows:

(a) Quarterly Reports of Borrowers. Within forty-five (45) days after the end of each Fiscal Quarter of Borrowers, a copy of an unaudited financial statement of Borrower prepared on a basis consistent with the audited financial statements of Borrowers previously furnished to Lender and, if requested by Lender, prepared on a consolidating and consolidated basis, signed by an authorized officer of Akorn and consisting of at least (i) a balance sheet as at the close of such quarter and (ii) a statement of earnings and cash flow for such quarter and for the period from the beginning of such fiscal year to the close of such quarter.

(b) Audit Report of Borrowers. Within one hundred twenty (120) days after the end of each Fiscal Year of Borrowers, a copy of an annual audit report of Borrowers prepared in conformity with GAAP on a basis consistent with the audited financial statements of Borrowers and any Subsidiary referred to above and, if requested by Lender, prepared on a consolidating and consolidated basis, duly certified by independent certified public accountants of recognized standing satisfactory to Lender, accompanied by an opinion without significant qualification.

(c) Certificates. Contemporaneously with the furnishing of a copy of each annual audit report and of each quarterly statement provided herein, a certificate dated the date of such annual audit report or such quarterly statement and signed by either the President, the Chief Financial Officer or the Treasurer of each Borrower, to the effect that no Default or Event of Default has occurred and is continuing, or, if there is any such event, describing it and the steps, if any, being taken to cure it, and containing a computation of, and showing compliance with, any financial ratio or restriction contained in the Agreement.

(d) Notice of Default, Litigation and ERISA Matters. Immediately upon learning of the occurrence of any of the following, written notice describing the same and the steps being taken by Borrowers or any subsidiary affected in respect thereof: (i) the occurrence of a Default or an Event of Default; or (ii) the institution of, or any adverse determination in, any litigation, arbitration or governmental proceeding which is material to any Borrower; (iii) receipt of any notice or communication that the operations of the Borrowers or any Subsidiary are not in compliance in all material respects with

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requirements of any applicable Governmental Authority, including but not limited to, FDA and DEA, or (iv) the occurrence of any ERISA Event.

(e) Other Information. Such other information, financial or otherwise, as Lender may from time to time request in its reasonable discretion.

(f) Reports of Akorn (i) Within forty-five (45) days after the end of each fiscal quarter of Akorn, a copy of Form 10-Q as filed by or on behalf of Akorn with the Securities and Exchange Commission, and (ii) within one hundred twenty (120) days after the end of each fiscal year of Akorn, a copy of Form 10-K as filed by or on behalf of Akorn with the Securities and Exchange Commission.

5.2. Communication with Accountants. Each Borrower authorizes Lender to communicate directly with its independent certified public accountants and authorizes those accountants and advisors to disclose to Lender any and all Financial Statements and other supporting financial documents and schedules relating to any Borrower and its Subsidiaries (including, without limitation, copies of any issued management letters) with respect to the business, financial condition and other affairs of any Borrower and its Subsidiaries.

6. AFFIRMATIVE COVENANTS.

Each Borrower jointly and severally covenants and agrees that, unless Lender shall otherwise consent in writing, from and after the date hereof and until the Termination Date:

6.1. Maintenance of Existence and Conduct of Business. Each Borrower shall, and shall cause each Subsidiary thereof to: (a) do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and its rights and franchises; (b) continue to conduct its business substantially as now conducted or as otherwise permitted hereunder; (c) at all times maintain, preserve and protect all of its copyrights, patents, trademarks, trade names and all other intellectual property and rights as licensee or licensor thereof and preserve all the remainder of its assets and properties, used or useful in the conduct of its business, and keep the same in good repair, working order and condition (taking into consideration ordinary wear and tear) and from time to time make, or cause to be made, all necessary or appropriate repairs, replacements and improvements thereto consistent with industry practices; and (d) transact business only in such corporate and trade names as are set forth in Schedule 4.15.

6.2. Payment of Obligations. (a) Each Borrower shall pay and discharge or cause to be paid and discharged promptly all (i) Charges imposed upon it, its income and profits, or any of its property (real, personal or mixed), and (ii) lawful claims for labor, materials, supplies and services or otherwise, before any thereof shall become past due.

(b) Each Borrower may in good faith contest, by appropriate proceedings, the validity or amount of any Charges or claims; provided, that at the time of commencement of any such action or proceeding, and during the pendency thereof (i) no Default or Event of Default shall have occurred and be continuing, (ii) adequate reserves with respect

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thereto are maintained on the books of such Borrower, in accordance with GAAP, (iii) such contest is maintained and prosecuted continuously and with diligence, (iv) none of the Collateral becomes subject to forfeiture or loss as a result of such Charges or claims, (v) no Lien shall be imposed to secure payment of such Charges or claims other than inchoate tax liens, and (vi) such Borrower shall promptly pay or discharge such contested Charges and all additional charges, interest, penalties and expenses, if any, and shall deliver to Lender evidence acceptable to Lender of such compliance, payment or discharge, if such contest is terminated or discontinued adversely to such Borrower or the conditions set forth in this Section 6.2(b) are no longer met.

6.3. Books and Records. Borrowers shall keep adequate records and books of account with respect to each Borrower's and each of its Subsidiaries' business activities, in which proper entries, reflecting all financial transactions, are made in accordance with GAAP and on a basis consistent with the Financial Statements.

6.4. Audits. Commencing with the Fiscal Year ending December 31, 1997 and in each Fiscal Year thereafter, Borrowers will engage independent certified public accountants of recognized standing satisfactory to Lender to perform an audit of their respective balance sheets and related statements of operations, shareholders' equity and cash flows and to render an opinion based upon such audit.

6.5. Litigation. Each Borrower shall notify Lender in writing, promptly upon learning thereof, of any litigation commenced or threatened against such Borrower or any Subsidiary thereof and of the institution against it of any suit or administrative proceeding that (a) seeks damages in excess of \$500,000 or (b) seeks injunctive relief.

6.6. Insurance. (a) Borrowers shall, at their sole cost and expense, maintain the policies of insurance described on Schedule 4.18 in form and with insurers rated AA or better by Bests. Such policies shall be in such amounts as are set forth in Schedule 4.18. Borrowers shall notify Lender promptly of any occurrence causing a material loss or decline in value of any real or personal property and the estimated (or actual, if available) amount of such loss or decline. So long as any Event of Default shall have occurred and be continuing or if the casualty loss exceeds \$500,000, each Borrower hereby directs all present and future insurers under its "All Risk" policies of insurance to pay all proceeds payable thereunder directly to Lender and irrevocably makes, constitutes and appoints Lender (and all officers, employees or agents designated by Lender) as such Borrower's true and lawful agent and attorney-in-fact for the purpose of making, settling and adjusting claims under such "All Risk" policies of insurance and endorsing the name of such Borrower on any check or other item of payment for the proceeds of such "All Risk" policies of insurance. In the event any Borrower at any time or times hereafter shall fail to obtain or maintain any of the policies of insurance required above or to pay any premium in whole or in part relating thereto, Lender, without waiving or releasing any obligations or Default or Event of Default hereunder, may at any time or times thereafter (but shall not be obligated to) obtain and maintain such policies of insurance and pay such premiums and take any other action with respect thereto which Lender deems advisable. All sums so disbursed, including attorneys, fees,

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court costs and other charges related thereto, shall be payable, on demand, by Borrowers to Lender and shall be additional Obligations hereunder secured by the Collateral, provided, that if and to the extent Borrowers fail to promptly pay any of such sums upon demand therefor, Lender is authorized to, and at its option may, make or cause to be made Advances on behalf of Borrowers for payment thereof.

(b) Lender reserves the right at any time, upon any change in any Borrower's risk profile (including, without limitation, any change in the product mix maintained by any Borrower or any laws affecting the potential liability of such Borrower), to require additional forms and limits of insurance to, in Lender's reasonable opinion, adequately protect Lender's interests in all or any portion of the Collateral and to ensure that each Borrower and each Subsidiary thereof is protected by insurance in amounts and with coverage customary for its industry. If requested by Lender, each Borrower shall deliver to Lender from time to time a report of a reputable insurance broker, satisfactory to Lender, with respect to its insurance policies.

(c) Borrowers shall deliver to Lender endorsements (i) to all "All Risk" and business interruption insurance naming Lender as loss payee, and (ii) to all

general liability and other liability policies naming Lender as additional insured.

(d) The loss, if any, under any property insurance required to be carried by this Section 6.6 shall be adjusted with the insurance companies or otherwise collected, including the filing of appropriate proceedings by Borrowers or their Subsidiaries, subject to the reasonable approval of the Lender in the case of claims in excess of \$500,000. If the proceeds payable under any policy of property insurance are \$500,000 or less, Borrowers or their Subsidiaries shall have the right to use such proceeds to repair or replace the damaged or destroyed property, provided, that a Default or an Event of Default shall not have occurred and be continuing at the time the proceeds are paid.

6.7. Compliance with Laws. Each Borrower shall, and shall cause each Subsidiary thereof to, comply in all material respects with all federal, state and local laws and regulations applicable to it, including but not limited to, (i) the Federal Food, Drug and Cosmetic Act, the Controlled Substances Act and other United States federal statutes and regulations, issued by FDA and DEA, and (ii) those relating to licensing, ERISA and labor matters.

6.8. Supplemental Disclosure. On the request of Lender (in the event that such information is not otherwise delivered by Borrowers to Lender pursuant to this Agreement), so long as there are Obligations outstanding hereunder, but not more frequently than quarterly absent the occurrence and continuance of a Default or an Event of Default, Borrowers will supplement each schedule or representation herein with respect to any matter hereafter arising which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in such schedule or as an exception to such representation or which is necessary to correct any information in such schedule or representation which has been rendered inaccurate thereby; provided, however, that such supplement to such schedule or representation shall not be deemed an amendment thereof unless expressly consented to in writing by Lender, and no such amendments, except as the same may be consented to in a writing which expressly

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includes a waiver, shall be or be deemed a waiver of any Default or Event of Default disclosed therein.

6.9. Employee Plans. Each Borrower shall, and shall cause each Subsidiary thereof to, notify Lender of (a) any and all claims, actions, or lawsuits asserted or instituted, and of any threatened litigation or claims, against such Borrower or against any Subsidiary or ERISA Affiliate thereof in connection with any Plan maintained, at any time, by such Borrower or such Subsidiary or ERISA Affiliate, or to which such Borrower or such Subsidiary or ERISA Affiliate has or had at any time any obligation to contribute, or/and against any such Plan itself, or against any fiduciary of or service provided to any such Plan and (b) the occurrence of any material "Reportable Event" with respect to any Pension Plan of such Borrower or any Subsidiary or ERISA Affiliate thereof.

6.10. Environmental Matters. Each Borrower shall, and shall cause each of its Subsidiaries to, (a) comply in all material respects with the Environmental Laws applicable to it, (b) notify Lender promptly after such Borrower or such Subsidiary becomes aware of any Release upon or at any premises owned or occupied by it, and (c) promptly forward to Lender a copy of any order, notice, permit, application, or any communication or report received by such Borrower or such Subsidiary in connection with any such Release or any other matter relating to the Environmental Laws that may affect such premises or such Borrower or such Subsidiary. The provisions of this Section 6.10 shall apply whether or not the Environmental Protection Agency, any other federal agency or any state, local or

foreign environmental agency has taken or threatened any action in connection with any Release or the presence of any Hazardous Materials.

6.11. Landlords' Agreements, Bailee Letters and Mortgagee Agreements. Upon the request of Lender, each Borrower shall use its best efforts to obtain a landlord's agreement in form and substance acceptable to Lender from the lessor of each leased property currently being used by such Borrower or any Subsidiary thereof where Collateral is located. Upon the request of Lender, each Borrower shall use its best efforts to obtain a bailee letter in form and substance acceptable to Lender and with respect to any warehouse where Collateral is located. Upon the request of Lender, each Borrower shall use its best efforts to obtain a mortgagee's agreement in form and substance satisfactory to Lender from the mortgagee (if other than Lender) of each property owned by such Borrower or any Subsidiary thereof where Collateral is located. No real property or warehouse space shall be leased or acquired by any Borrower or any Subsidiary thereof after the Closing Date, unless and until a landlord or mortgagee agreement or bailee letter, as appropriate, shall first have been obtained with respect to such location.

6.12. Leased Locations of Collateral. Each Borrower shall, and shall cause each Subsidiary thereof to, timely and fully pay and perform its obligations under all leases and other agreements with respect to each leased location or public warehouse where any Collateral is or may be located. Borrowers shall, and shall cause each Subsidiary thereof to, promptly deliver to Lender copies of (a) any and all default notices received under or with respect to any such leased

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location or public warehouse, and (b) such other notices or documents as Lender may request in its reasonable discretion.

7. NEGATIVE COVENANTS.

Borrowers each jointly and severally covenant and agree that, without the prior written consent of Lender, from and after the date hereof until the Termination Date:

7.1. Mergers, Subsidiaries, Etc. No Borrower shall, or shall permit any Subsidiary to:

(a) be a party to any merger or consolidation;

(b) except in the normal course of its business, sell, transfer, convey, lease or otherwise dispose of all or any substantial part of the assets of the Borrowers and their Subsidiaries taken as a whole; or

(c) purchase or otherwise acquire any assets or capital stock of any Person without the prior written consent of the Lender except where (i) the purchase price of each such acquisition is not greater than \$2,500,000 (including the value of any stock issued, assets exchanged or transaction expenses incurred to consummate such acquisition) and (ii) there is no Event of Default or Default after giving effect to such acquisition.

For purposes of this Section 7.1 only, a sale, transfer, conveyance, lease or other disposition of assets shall be deemed to be a "substantial part" of the assets of the Borrowers and its Subsidiaries only if the value of such assets, when added to the value of all other assets sold, transferred, conveyed, leased or otherwise disposed of by the Borrowers and their Subsidiaries (other than in the normal course of business) during the same Fiscal Year, exceeds ten

percent (10%) of the Borrowers' consolidated total assets determined as of the end of the immediately preceding Fiscal Year. As used in the preceding sentence, the term "value" shall mean, with respect to any asset disposed of, the greater of such asset's book or fair market value as of the date of disposition, with "book value" being the value of such asset as would appear immediately prior to such disposition on a balance sheet of the owner of such asset prepared in accordance with GAAP.

7.2. Investments; Loans and Advances. Except as otherwise permitted in this Agreement, no Borrower shall, or shall cause or permit any Subsidiary thereof to, make any investment in, or make or accrue loans or advances of money to any Person, through the direct or indirect lending of money, holding of securities or otherwise; provided, that so long as no Default or Event of Default shall have occurred or be continuing, Borrowers may make investments in (a) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency thereof maturing within one year from the date of acquisition thereof, (b) commercial paper maturing no more than one year from the date of creation thereof and currently having the highest rating obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., (c) certificates of deposit, maturing no more

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than one year from the date of creation thereof, issued by commercial banks incorporated under the laws of the United States of America, each having combined capital, surplus and undivided profits of not less than \$300,000,000 and having a senior secured rating of "A" or better by a nationally recognized rating agency, provided, that the aggregate amount invested in such certificates of deposit shall not at any time exceed \$100,000 for any one such bank, and (d) time deposits, maturing no more than thirty (30) days from the date of creation thereof with commercial banks or savings banks or savings and loan associations each having membership in the Federal Deposit Insurance Corporation and in amounts not exceeding the maximum amounts of insurance thereunder, except that in the case of time deposits and certificates of deposit maintained with The Northern Trust Company or its successors so long as such successors meet the criteria in this Section 7.3, such limitations of amounts shall not apply unless notice thereof shall be provided by Lender to Akorn (collectively, the "Investments").

7.3. Indebtedness. No Borrower shall, or shall cause or permit any Subsidiary thereof to, create, incur, assume or permit to exist any Indebtedness, except (a) Indebtedness secured by Liens permitted under Section 7.7, (b) the Loans and the other Obligations, (c) deferred taxes, (d) unfunded pension fund and other employee benefit plan obligations and liabilities to the extent they are permitted to remain unfunded under applicable law, (e) existing Indebtedness set forth in Schedule 7.3 and refinancings thereof on terms and conditions acceptable to Lender, in its reasonable discretion, which shall in any event be on terms no less favorable to any Borrower or Lender than the terms of the Indebtedness being refinanced, (f) any financing secured by any real estate owned by the Borrowers and their Subsidiaries, and (g) the unsecured financing by a seller of product lines to Borrowers.

7.4. Employee Loans and Affiliate Transactions. (a) No Borrower shall, or shall cause or permit any Subsidiary thereof to, enter into or be a party to any transaction with an Affiliate except in the ordinary course of, and pursuant to the reasonable requirements of, such Borrower's or such Subsidiary's business and upon fair and reasonable terms that are fully disclosed to Lender in advance and are no less favorable to such Borrower or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of such Borrower or such Subsidiary. All such transactions existing as of the

date hereof are described on Schedule 7.4(a).

(b) No Borrower shall, or shall cause or permit any Subsidiary thereof to, enter into any lending or borrowing transaction with any of its employees, except loans to its employees on an arm's-length basis in the ordinary course of business consistent with past practice up to a maximum of \$250,000 in the aggregate at any one time outstanding.

7.5. Capital Structure and Business. No Borrower shall, or shall cause or permit any Subsidiary thereof to, (a) make any changes in any of its business objectives, purposes or operations which could in any way adversely affect the repayment of the Loans or any of the other Obligations or could have or result in a Material Adverse Effect, (b) make any change in its capital structure as described on Schedule 4.9, or (c) amend its certificate or articles of incorporation or bylaws in a manner which would adversely affect Lender or its duty or ability to repay the Obligations or change its state of incorporation. None of the Borrowers nor any

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Subsidiary thereof shall engage in any business other than the businesses currently engaged in by such Borrower or such Subsidiary or businesses reasonably related thereto.

7.6. Guaranteed Indebtedness. No Borrower shall, or shall cause or permit any Subsidiary thereof to, incur any Guaranteed Indebtedness except (a) by endorsement of instruments or items of payment for deposit to the general account of any Borrower, and (b) for Guaranteed Indebtedness incurred for the benefit of any Borrower or such Subsidiary if the primary obligation is expressly permitted by this Agreement.

7.7. Liens. No Borrower shall, or shall cause or permit any Subsidiary thereof to, create, incur, assume or permit to exist any Lien on or with respect to any of its properties or assets of any Borrower or any of their Subsidiaries, whether now owned or hereafter acquired, except (a) Permitted Encumbrances, (b) presently existing or hereinafter created Liens in favor of Lender, (c) Liens created after the date hereof by conditional sale or other title retention agreements (including, without limitation, Capital Leases) or in connection with purchase money Indebtedness with respect to properties acquired by any Borrower or any of its Subsidiaries in the ordinary course of business, involving the incurrence of an aggregate amount of purchase money Indebtedness and Capital Lease Obligations of not more than \$1,000,000 outstanding at any one time for all such Liens (provided that such Liens attach only to the assets subject to such purchase money Indebtedness and such Indebtedness is incurred within twenty (20) days following such purchase and does not exceed 100% of the purchase price of the subject assets), (d) Liens in connection with any financing secured by any real estate owned by the Borrowers and their Subsidiaries, (e) Liens not otherwise permitted by the foregoing clauses of this Section securing Indebtedness or other obligations not exceeding \$250,000 in the aggregate at any time outstanding, and (f) Liens existing on the date hereof and described in Schedule 7.7.

In addition, no Borrower shall, or shall cause or permit any Subsidiary thereof to, become a party to any agreement, note, indenture or instrument, or take any other action, which would prohibit the creation of a Lien on any of its properties or other assets in favor of Lender, as additional collateral for the Obligations, except operating leases, Capital Leases or intellectual property licenses which prohibit liens upon the assets that are

subject thereto.

7.8. Sale of Assets. No Borrower shall, or shall cause or permit any Subsidiary thereof to, sell, transfer, convey, assign or otherwise dispose of any of its properties or other assets, except in the ordinary course of its business.

7.9. ERISA. No Borrower shall, or shall cause or permit any Subsidiary or ERISA Affiliate thereof (without Lender's prior written consent) to, (a) acquire any ERISA Affiliate that maintains or has an obligation to contribute to a Pension Plan that has either an "accumulated funding deficiency," as defined in Section 302 of ERISA, or any "unfunded vested benefits," as defined in Section 4006(a)(3)(e)(iii) of ERISA, in the case of any plan other than a Multiemployer Plan, and in Section 4211 of ERISA in the case of a Multiemployer Plan, in excess of \$250,000, (b) permit or suffer any representation set forth in Schedule 4.13 to cease to be met and satisfied at any time, (c) terminate any Pension Plan that is subject to Title IV of ERISA where such termination could reasonably be anticipated to result in liability in excess of

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\$250,000 to such Person, (d) permit any accumulated funding deficiency, as defined in Section 302(a)(2) of ERISA, to be incurred with respect to any Pension Plan, in excess of \$250,000, (e) fail to make any material contributions or fail to pay any amounts due and owing as required by the terms of any Plan before such contributions or amounts become delinquent, (f) make a complete or partial withdrawal (within the meaning of Section 4201 of ERISA) from any Multiemployer Plan, or (g) fail to promptly provide Lender with copies of any Plan documents or governmental reports or filings, if requested by Lender.

7.10. Financial Covenants. Borrowers shall not breach or fail to comply with any of the financial covenants set forth below:

(a) Minimum Net Income. Borrowers and their Subsidiaries on a consolidated basis shall maintain Net Income in each Fiscal Quarter of not less than \$1.00.

(b) Minimum Net Worth. Borrowers and their Subsidiaries on a consolidated basis shall maintain at all times Net Worth equal to or greater than the sum of (a) \$17,000,000, plus (b) an amount equal to 50% of Net Income earned during each of its Fiscal Quarters beginning with its Fiscal Quarter commencing October 1, 1997 (without reduction for net losses, if any).

(c) Cash Flow Coverage Ratio. Borrowers and their Subsidiaries on a consolidated basis shall maintain a ratio of (a) EBIT, measured at the end of each Fiscal Quarter for the four immediately preceding Fiscal Quarters then ended, to (b) Debt Service, measured as of the end of each Fiscal Quarter, of at least 1.2:1.0.

(d) Ratio of Funded Debt of EBITDA. Borrowers and their Subsidiaries on a consolidated basis shall maintain a ratio of (a) Funded Debt to (b) EBITDA, measured at the end of each Fiscal Quarter for the four immediately preceding Fiscal Quarters then ended, of not more than 3.0:1.0.

7.11. Hazardous Materials. No Borrower shall, or shall cause or permit any Subsidiary thereof or any other Person within its control to, cause or permit a

Release or the presence, use, generation, manufacture, installation, Release, discharge, storage or disposal of any Hazardous Materials on, under, in, above or about any of its real estate or the transportation of any Hazardous Materials to or from any real estate where such Release or such presence, use, generation, manufacture, installation, Release, discharge, storage or disposal would violate in any material respect, or form the basis for any material liability under, any Environmental Laws. If a Default or Event of Default shall have occurred and be continuing, each Borrower, at its own expense, shall cause the performance of such environmental audits and preparation of such environmental reports as Lender may from time to time request as to any location at which Collateral is then located, by reputable environmental consulting firms acceptable to Lender, and in form and substance acceptable to Lender.

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7.12. Sale Leasebacks. No Borrower shall, or shall cause or permit any Subsidiary thereof to, engage in any sale-leaseback or similar transaction involving any of its assets.

7.13. Cancellation of Indebtedness. No Borrower shall, or shall cause or permit any Subsidiary thereof to, cancel any claim or debt owing to it, except for reasonable consideration negotiated on an arm's-length basis and in the ordinary course of its business consistent with past practices.

7.14. Restricted Payments. No Borrower shall, or shall cause or permit any Subsidiary thereof to, make any Restricted Payment (including, but not limited to, dividends), other than payments necessary to enable such Borrower (a) to satisfy its federal, state and local income tax obligations to the extent such obligations are the result of the net consolidated income of Borrowers and their Subsidiaries being attributed to such Borrower for tax purposes, (b) to pay the necessary fees and expenses to maintain its corporate existence and good standing, (c) to pay legal and accounting fees to the extent such fees relate to legal or accounting services provided by entities which are not Affiliates of any Borrower and which services are directly related to any Borrowers or their Subsidiaries, and (d) to pay any cash dividend in respect of its common stock so long as no Event of Default or Default exists hereunder or would result after giving effect thereto.

7.15. Fiscal Year. No Borrower shall, or shall cause or permit any Subsidiary thereof to, change its Fiscal Year.

7.16. Change of Corporate Name or Location. (a) No Borrower shall, or shall cause or permit any Subsidiary thereof to, (i) change its corporate name or (ii) change its chief executive office, principal place of business, corporate offices or warehouses or Collateral locations, or the location of its records concerning the Collateral, in any case without at least fifteen (15) Business Days prior written notice to Lender and after Lender's written acknowledgment that any reasonable action requested by Lender in connection therewith, including, without limitation, to continue the perfection of any Liens in favor of Lender in any Collateral has been completed or taken, and provided that any such new location shall be in the continental United States; (b) in furtherance of and without limiting the scope of clause (a) above, no Borrower shall, or shall permit any of its Subsidiaries, to change its name, identity or corporate structure in any manner which might make any financing or continuation statement filed in connection herewith seriously misleading within the meaning of Section 9-402(7) of the Code or any other then applicable provision of the Code except upon prior written notice to Lender and after Lender's written acknowledgment that any reasonable action requested by Lender in connection therewith, including, without limitation, to continue the perfection of any Liens in favor of Lender in any Collateral has been completed or taken.

7.17. Year 2000 Compliance.

(a) Each Borrower and each Subsidiary has:

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(i) conducted an analysis of all of its products, services, business and operations, including without limitation surveys of its Systems (as defined below) and surveys of and discussions with customers, suppliers and vendors, to determine the extent to which such Borrower or such Subsidiary may be adversely affected by its failure to be Year 2000 Compliant (as defined below);

(ii) developed a plan (the "Year 2000 Plan") to become Year 2000 Compliant and remedy any material loss it may suffer if it fails to be Year 2000 Compliant on a timely basis; and

(iii) implemented and continues to proceed with the Year 2000 Plan materially in accordance with its terms and timetables.

(b) Each Borrower and each Subsidiary reasonably believes that the Year 2000 Plan, if implemented in accordance with its terms, will result in it being Year 2000 Compliant on a timely basis.

(c) Each Borrower and each Subsidiary reasonably believes that each of its customers, suppliers and vendors whose failure to be Year 2000 Compliant would have a material and adverse effect on such Borrower or such Subsidiary, is Year 2000 Compliant or has developed a plan to become Year 2000 Compliant and remedy any material loss such Person may suffer if it fails to be Year 2000 Compliant on a timely basis with respect to all of its own computer systems and applications.

The term "Year 2000 Compliant" means that all of such Person(s) computer systems and applications, including without limitation software and hardware ("Systems"), will function prior to, during, and after the calendar year 2000, and that no change in or to such calendar year will have a material adverse effect on the performance of the Systems or on the functioning of such Borrower's or such Subsidiary's business.

Each Borrower acknowledges and agrees that the foregoing representations and any other representation, warranty, schedule, certificate, statement, report, notice or other writing now or hereafter furnished by or on behalf of Borrowers or any Subsidiary to the Lender in connection with being Year 2000 Compliant or its Year 2000 Plan is material to the Lender and that the Lender has relied and will continue to rely thereon. Each Borrower agrees and shall cause each Subsidiary to provide such information, financial, technical, or otherwise, concerning such Borrower's or such Subsidiary's Year 2000 Plan as the Lender may reasonably request from time to time.

8. EVENTS OF DEFAULT: RIGHTS AND REMEDIES.

8.1. Events of Default. The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an "Event of Default" hereunder:

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(a) Any Borrower shall fail to make any payment of principal of, or interest on, or any other amount owing in respect of the Loans or any of the other Obligations (other than as set forth in clause (b) below) when due and payable or declared due and payable.

(b) Any Borrower shall fail to pay any Fees, costs or expenses payable or reimbursable by Borrowers under this Agreement or under any other Loan Document, and such failure shall have remained unremedied for a period of ten (10) days or more.

(c) Any Borrower shall fail or neglect to perform, keep or observe any of the provisions of this Agreement (and not constituting an Event of Default under any of the other subsections of this Section 8.1) and such failure shall have remained unremedied for a period of ten (10) days or more.

(d) Any Borrower shall fail or neglect to perform, keep or observe any provision of any of the other Loan Documents (other than any provision embodied in or covered by any other clause of this Section 8.1) and continuance of such default after the grace period (if any) set forth therein.

(e) A default or breach shall occur under any other agreement, document or instrument to which any Borrower or any Subsidiary thereof is a party and such default is not cured or waived within any applicable grace period and such default or breach (i) involves the failure to make any payment when due in respect of any Indebtedness (other than the Obligations) of any Borrower or any Subsidiary of any Borrower in excess of \$50,000 in the aggregate, or (ii) causes such Indebtedness or a portion thereof in excess of \$100,000 in the aggregate to become due prior to its stated maturity or prior to its regularly scheduled dates of payment, or (iii) entitles any holder of such Indebtedness or a trustee to cause such Indebtedness or a portion thereof in excess of \$100,000 in the aggregate to become due prior to its stated maturity or prior to its regularly scheduled dates of payment, regardless of whether such right is exercised or waived by such holder or trustee.

(f) Any representation or warranty herein or in any Loan Document or in any written statement, report, financial statement or certificate made or delivered to Lender by any Borrower shall be untrue or incorrect in any material respect, as of the date when made or deemed made.

(g) Assets of any Borrower or any Subsidiary thereof with a fair market value of \$500,000 or more shall be attached, seized, levied upon or subjected to a writ or distress warrant, or come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors of any Borrower or any Subsidiary thereof and shall such condition shall continue for thirty (30) days or more.

(h) A case or proceeding shall have been commenced against any Borrower or any Subsidiary thereof in a court having competent jurisdiction seeking a decree or order

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in respect of any Borrower or any Subsidiary thereof (i) under Title 11 of the United States Code, as now constituted or hereafter amended or any other applicable federal, state or foreign bankruptcy or other similar law, (ii) appointing a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for any Borrower or any Subsidiary thereof or of any substantial part of such Person's assets, or (iii) ordering the winding-up or liquidation of the affairs of any Borrower or any Subsidiary thereof and such case or proceeding shall remain undismissed or unstayed for forty-five (45) days or more or such court shall enter a decree or order granting the relief sought in such case or proceeding.

(i) Any Borrower or any Subsidiary thereof shall (i) file a petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other applicable federal, State or foreign bankruptcy or other similar law, (ii) consent to the institution of proceedings thereunder or to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) of any Borrower or any Subsidiary thereof or of any substantial part of such Person's assets, (iii) make an assignment for the benefit of creditors, or (iv) take any corporate action in furtherance of any such action.

(j) A final judgment or judgments for the payment of money in excess of \$250,000 in the aggregate shall be rendered against any Borrower or any Subsidiary thereof and the same shall not (i) be fully covered by insurance, or (ii) within thirty (30) days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been paid or otherwise discharged prior to the expiration of any such stay.

(k) With respect to any Plan: (i) which is a defined contribution plan or Welfare Plan, any Borrower or any Subsidiary or ERISA Affiliate thereof or any other party-in-interest or disqualified Person shall engage in any transactions which in the aggregate results in a final assessment to any Borrower or any Subsidiary thereof in excess of \$250,000 under Section 409 or 502 of ERISA or IRC Section 4975 which assessment has not been paid within 30 days of final assessment and which is not being contested pursuant to Section 6.2 hereof; (ii) any Borrower or any Subsidiary or ERISA Affiliate thereof shall incur any accumulated funding deficiency, as defined in IRC Section 412, in the aggregate in excess of \$100,000, or request a funding waiver from the IRS for contributions in the aggregate in excess of \$100,000; (iii) any Borrower or any Subsidiary or ERISA Affiliate thereof shall not pay any withdrawal liability which involves annual withdrawal liability payments which exceed \$100,000 as a result of a complete or partial withdrawal within the meaning of Section 4203 or 4205 of ERISA, within 30 days after the date such payment becomes due; (iv) any Borrower or any Subsidiary or ERISA Affiliate thereof shall fail to make a required contribution by the due date under Section 412 of the IRC or Section 302 of ERISA which would result in the imposition of a Lien under Section 412 of the IRC or Section 302 of ERISA within thirty (30) days after the date such payment becomes due; or (v) an ERISA Event (other

than an event described in 29 CFR Section 2615.23) with respect to a Plan has occurred, and within thirty (30) days Borrowers have not contested such ERISA Event by appropriate proceedings.

(l) Any material provision of any Loan Document shall for any reason cease to be valid or enforceable in accordance with its terms (or any Borrower or any Subsidiary thereof shall challenge the enforceability of

any Loan Document), or any security interest created under any Loan Document shall cease to be a valid and perfected first priority security interest or Lien (except as otherwise permitted herein or therein) in any of the Collateral purported to be covered thereby.

(m) Lien Priority. Lender fails to have an enforceable first priority Lien (except for any prior Liens to which Lender has consented in writing) on, or security interest in, any property given as security for the Obligations.

8.2. Remedies. If any Default or Event of Default shall have occurred and be continuing, Lender may, without notice, terminate this facility with respect to further Advances, whereupon any further Advances shall be made in Lender's sole discretion. If any Event of Default shall have occurred and be continuing, Lender may, without notice, (a) declare all or any portion of the Obligations to be forthwith due and payable and require that any Letter of Credit Obligation be cash collateralized, all without presentment, demand, protest or further notice of any kind, all of which are expressly waived by Borrowers; (b) increase the rate of interest applicable to the Loan to the Default Rate; and (c) exercise any rights and remedies provided to Lender under the Loan Documents and/or at law or equity, including all remedies provided under the Code; provided, however, that upon the occurrence of an Event of Default specified in Sections 8.1(h) or (i) or, all of the Obligations shall become immediately due and payable without declaration, notice or demand by Lender.

8.3. Waivers by Borrowers. Except as otherwise provided for in this Agreement or by applicable law, each of the Borrowers, jointly and severally, waive: (a) presentment, demand and protest and notice of presentment, dishonor, notice of intent to accelerate, notice of acceleration, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Lender on which any Borrower may in any way be liable, and hereby ratifies and confirms whatever Lender may do in this regard, (b) all rights to notice and a hearing prior to Lender's taking possession or control of, or to Lender's replevy, attachment or levy upon, the Collateral or any bond or security which might be required by any court prior to allowing Lender to exercise any of its remedies, and (c) the benefit of all valuation, appraisal and exemption laws. Each of the Borrowers acknowledges that it has been advised by counsel of its choice with respect to this Agreement, the other Loan Documents and the transactions evidenced by this Agreement and the other Loan Documents.

9. SUCCESSORS AND ASSIGNS.

9.1. Successors and Assigns. This Agreement and the other Loan Documents shall be binding on and shall inure to the benefit of Borrowers, Lender and their respective successors and assigns, except as otherwise provided herein or therein. None of the Borrowers may assign, transfer, hypothecate or otherwise convey its rights, benefits, obligations or duties hereunder or under any of the other Loan Documents without the prior express written consent of Lender. Any such purported assignment, transfer, hypothecation or other conveyance by any Borrower without the prior express written consent of Lender shall be void. The terms and provisions of this Agreement are for the purpose of defining the relative rights and obligations of Borrowers and Lender with respect to the transactions contemplated hereby and there shall be no third party beneficiaries of any of the terms and provisions of this Agreement or any of the other Loan

Documents.

10. MISCELLANEOUS.

10.1. Setoff. In addition to any rights now or hereafter granted under applicable law and not by way of limitation of any such rights, upon the occurrence and during the continuance of any Event of Default, Lender and each holder of any Note is hereby authorized at any time or from time to time, without notice to any Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and to apply any and all balances held by it at any of its offices for the account of Borrowers (regardless of whether such balances are then due to Borrowers) and any other properties or assets any time held or owing by Lender or such holder to or for the credit or for the account of Borrowers against and on account of any of the Obligations which are not paid when due.

10.2. Complete Agreement; Modification of Agreement. The Loan Documents constitute the complete agreement between the parties with respect to the subject matter thereof and may not be modified, altered or amended except as set forth in Section 10.3 below. Any letter of interest or commitment letter and/or fee letter between Borrowers and Lender or any of their respective Affiliates, predating this Agreement and relating to a financing of substantially similar form, purpose or effect shall be superseded by this Agreement.

10.3. Amendments and Waivers. (a) Except as otherwise provided herein, no amendment, modification, termination or waiver of any provision of this Agreement or any of the other Loan Documents or consent to any departure by any Borrower or any of its Subsidiaries therefrom shall in any event be effective unless the same shall be in writing and signed by Lender and Borrowers.

(b) Each amendment, modification, termination or waiver shall be effective only in the specific instance and for the specific purpose for which it was given. No amendment, modification, termination or waiver shall be required for Lender to take additional Collateral pursuant to any Loan Document. No notice to or demand on any Borrower in any case shall entitle any Borrower to any other or further notice or demand in similar or other circumstances.

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10.4. Fees and Expenses. Borrowers shall reimburse Lender for all reasonable out-of-pocket expenses, incurred in connection with the preparation of the Loan Documents (including the reasonable fees and expenses of all of its special loan counsel, advisors, consultants and auditors retained in connection with the Loan Documents and the transactions contemplated thereby and advice in connection therewith). In addition, Borrowers shall reimburse Lender for all fees, costs and expenses, including the fees, costs and expenses of counsel or other advisors (including environmental and management consultants) for advice, assistance, or other representation in connection with:

(a) any amendment, modification or waiver of, or consent with respect to, any of the Loan Documents or, advice in connection with the administration of the Loans made pursuant hereto or its rights hereunder or thereunder;

(b) any litigation, contest, dispute, suit, proceeding or action (whether instituted by Lender, any Borrower or any other Person) in any way relating to the Collateral, any of the Loan Documents or any other agreement to be executed or delivered in connection therewith or herewith, whether as party, witness, or otherwise, including any litigation, contest, dispute, suit, case, proceeding or action, and any appeal or review thereof, in connection with a case commenced by or against any or all of

Borrowers or any other Person that may be obligated to Lender by virtue of the Loan Documents;

(c) any attempt to enforce any rights of Lender against any or all of Borrowers or any other Person that may be obligated to Lender by virtue of any of the Loan Documents; and

(d) efforts to verify, protect, evaluate, assess, appraise, collect, sell, liquidate or otherwise dispose of any of the Collateral;

including, without limitation, all reasonable attorneys' and other professional and service providers' fees arising from such services, including those in connection with any appellate proceedings; and all reasonable expenses, costs, charges and other fees incurred by such counsel and others in any way or respect arising in connection with or relating to any of the events or actions described in this Section 10.4 shall be payable, on demand, by Borrowers to Lender. Without limiting the generality of the foregoing, such expenses, costs, charges and fees may include: fees, costs and expenses of accountants, environmental advisors, appraisers, investment bankers, management and other consultants and paralegals; court costs and expenses; photocopying and duplication expenses; court reporter fees, costs and expenses; long distance telephone charges; air express charges; telegram charges; secretarial overtime charges; and reasonable expenses for travel, lodging and food paid or incurred in connection with the performance of such legal or other advisory services.

10.5. No Waiver. Lender's failure at any time or times, to require strict performance by Borrowers of any provision of this Agreement and any of the other Loan Documents shall not waive, affect or diminish any right of Lender thereafter to demand strict compliance and

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performance therewith. Any suspension or waiver of an Event of Default under this Agreement or any of the other Loan Documents shall not suspend, waive or affect any other Event of Default under this Agreement and any of the other Loan Documents whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of any Borrower contained in this Agreement or any of the other Loan Documents and no Default or Event of Default by any Borrower under this Agreement and no defaults by any Borrower under any of the other Loan Documents shall be deemed to have been suspended or waived by Lender unless such waiver or suspension is by an instrument in writing signed by an officer of or other authorized employee of Lender and directed to Borrowers specifying such suspension or waiver.

10.6. Remedies. Lender's rights and remedies under this Agreement shall be cumulative and nonexclusive of any other rights and remedies which Lender may have under any other agreement, including the other Loan Documents, by operation of law or otherwise. Recourse to the Collateral shall not be required.

10.7. Survival of Obligations upon Termination of Financing Agreements. Except as otherwise expressly provided for in the Loan Documents, no termination or cancellation (regardless of cause or procedure) of any financing arrangement under this Agreement shall in any way affect or impair the obligations, duties and liabilities of Borrowers or the rights of Lender relating to any unpaid portion of the Loan or any other Obligation, due or not due, liquidated, contingent or unliquidated or any transaction or event occurring prior to such termination, or any transaction or event, the performance of which is required after the Termination Date. Except as otherwise expressly provided herein or in any other Loan Document, all undertakings, agreements, covenants, warranties and

representations of or binding upon Borrowers, and all rights of Lender, all as contained in the Loan Documents shall not terminate or expire, but rather shall survive such termination or cancellation and shall continue in full force and effect until such time as all of the obligations have been paid in full in accordance with the terms of the agreements creating such obligations.

10.8. Severability. Wherever possible, each provision of this Agreement and the other Loan Documents shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

10.9. Conflict of Terms. Except as otherwise provided in this Agreement or any of the other Loan Documents by specific reference to the applicable provisions of this Agreement, if any provision contained in this Agreement is in conflict with, or inconsistent with, any provision in any of the other Loan Documents, the provision contained in this Agreement shall govern and control.

10.10. Authorized Signature. Until Lender shall be notified by Akorn to the contrary, the signature upon any document or instrument delivered pursuant hereto of an officer of any

Borrower listed on Schedule 10.10 shall bind such Borrower and be deemed to be the act of such Borrower affixed pursuant to and in accordance with resolutions duly adopted by such Borrower's Board of Directors.

10.11. GOVERNING LAW. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN ANY OF THE LOAN DOCUMENTS, IN ALL RESPECTS, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS AGREEMENT AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS (WITHOUT REGARD TO CONFLICT OF LAW PROVISIONS) OF THE STATE OF ILLINOIS APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE, AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. EACH BORROWER HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN COOK COUNTY, CITY OF CHICAGO, ILLINOIS, SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN BORROWER AND LENDER PERTAINING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, PROVIDED, THAT LENDER AND BORROWERS ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF COOK COUNTY, CITY OF CHICAGO, ILLINOIS AND, PROVIDED, THAT NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE LENDER FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF LENDER. EACH BORROWER EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND BORROWER HEREBY WAIVES ANY OBJECTION WHICH SUCH BORROWER MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. EACH BORROWER HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS AND OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO SUCH BORROWER AT THE ADDRESS SET FORTH IN SECTION 10.12 OF THIS AGREEMENT AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE EARLIER OF SUCH BORROWER'S ACTUAL RECEIPT THEREOF OR THREE (3) DAYS AFTER DEPOSIT IN THE U.S. MAILS, PROPER POSTAGE PREPAID.

10.12. Notices. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon either of the

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parties by the other party, or whenever either of the parties desires to give or serve upon the other party any communication with respect to this Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and shall be deemed to have been validly served, given or delivered (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the United States mail, registered or certified mail, return receipt requested, with proper postage prepaid, (b) upon transmission, when sent by telecopy or other similar facsimile transmission (with such telecopy or facsimile promptly confirmed by delivery of a copy by personal delivery or United States Mail as otherwise provided in this Section 10.12), (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address or facsimile number indicated on this Section 10.12 or to such other address (or facsimile number) as may be substituted by notice given as herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration or other communication to any Person (other than Borrowers or Lender) designated on this Section 10.12 to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

If to Lender, at

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60675
Attention: Brian D. Beitz, Vice President
Telecopier No.: (312) 444-7028
Telephone No.: (312) 444-3987

with copies to:

Gardner, Carton & Douglas
321 North Clark Street
Suite 3400
Chicago, Illinois 60610
Attention: Edward J. Tabaczyk
Telecopier No.: (312) 644-3381
Telephone No: (312) 245-8873

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If to any Borrower, at

Akorn, Inc.
2500 Millbrook Drive
Buffalo Grove, Illinois 60089-4694
Attention: Rita J. McConville, Vice President/Chief Financial Officer
Telecopier No.: (847) 279-6123
Telephone No.: (847) 279-6151

With copies to:

Burke, Warren, MacKay & Serritella
330 North Wabash Avenue
Suite 2200
Chicago, Illinois 60611
Attention: Christopher Manning, Esq.
Telecopier No.: (312) 840-7900
Telephone No.: (312) 840-7010

10.13. Section Titles. The Section titles and Table of Contents contained in this Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

10.14. Counterparts. This Agreement may be executed in any number of separate counterparts, each of which shall collectively and separately constitute one agreement.

10.15. WAIVER OF JURY TRIAL. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG LENDER AND BORROWERS ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS RELATED THERETO.

10.16. Reinstatement. This Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Borrower for liquidation or reorganization, should any Borrower become insolvent or make an assignment for the benefit of

any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any Borrower's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced,

restored or returned.

11. CROSS-GUARANTY.

11.1. Cross-Guaranty. Each Borrower hereby acknowledges and agrees that such Borrower is jointly and severally liable for, and hereby absolutely and unconditionally guarantees to each other Borrower and Lender the full and prompt payment of, all Obligations owed or hereafter owing to Lender by each other Borrowers.

11.2. Obligations Absolute. The liability of each Borrower to Lender hereunder shall not be affected or impaired by any of the following acts by Lender: (a) any acceptance of collateral security, guarantors, accommodation parties or sureties for any or all Obligations; (b) one or more extensions or renewals of Obligations (whether or not for longer than the original period) or any modification of the interest rates, fees, maturities or principal amount of, or other contractual terms applicable to any Obligations; (c) any waiver or indulgence granted to a Borrower, any delay or lack of diligence in the enforcement of Obligations, or any failure to institute proceedings, file a claim, give any required notices or otherwise protect any Obligations; (d) any full or partial release of, compromise or settlement with, or agreement not to sue a Borrower or any guarantor or other person liable in respect of any Obligations; (e) any release, surrender, cancellation or other discharge of any evidence of Obligations or the acceptance of any instrument in renewal or substitution therefore; (f) any failure to obtain collateral security (including rights of setoff) for Obligations, or to obtain or maintain the proper or sufficient creation and perfection thereof, or to establish the priority thereof, or to preserve, protect, insure, care for, exercise or enforce any collateral security; or any modification, alteration, substitution, exchange, surrender, cancellation, termination, release or other change, impairment, limitation, loss or discharge of any collateral security; (g) any collection, sale, lease or disposition of, or any other foreclosure or enforcement of or realization on, any collateral security; (h) any assignment, pledge or other transfer of any Obligations or any evidence thereof; or (i) any manner, order or method of application of any payments or credits upon Obligations. Each Borrower hereby waives any and all defenses and discharges available to a surety, guarantor, or accommodation co-obligor.

11.3. WAIVER. EACH BORROWER HEREBY WAIVES PRESENTMENT, DEMAND FOR PAYMENT, NOTICE OF DISHONOR OR NONPAYMENT, AND PROTEST OF ANY INSTRUMENT EVIDENCING OBLIGATIONS.

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11.4. Recovery. If any payment is applied by Lender to the Obligations and is thereafter set aside, recovered, rescinded or required to be returned for any reason (including, without limitation, the bankruptcy, insolvency or reorganization of a Borrower or any other obligor), the Obligations to which such payment was applied shall for the purposes of this Section 11 be deemed to have continued in existence, notwithstanding such payment and application and this cross guaranty shall be enforceable as to such Obligations as fully as if such payment and application had never been made.

11.5. Liability Cumulative. The liability of Borrowers under this Section 11 is in addition to and shall be cumulative with all liabilities of each Borrower to Lender under this Agreement and the other Loan Documents to which such Borrower is a party or in respect of any Obligations or Obligation of the other Borrower, without any limitation as to amount, unless the instrument or

agreement evidencing or creating such other liability specifically provides to the contrary.

[signature page(s) follow]

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IN WITNESS WHEREOF, this Agreement has been duly executed as of the date first written above.

AKORN, INC.

By:

Title:

AKORN NEW JERSEY, INC.

By:

Title:

THE NORTHERN TRUST COMPANY

By:

Title:

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FIRST AMENDMENT DATED
AS OF DECEMBER 28, 1999
TO AMENDED AND RESTATED CREDIT AGREEMENT
DATED AS OF SEPTEMBER 15, 1999

THIS FIRST AMENDMENT, dated as of December 28, 1999 (this "Amendment"), is entered into among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN NEW JERSEY, INC. ("Akorn NJ"; collectively with Akorn, the "Borrowers" and each a "Borrower") and THE NORTHERN TRUST COMPANY, an Illinois banking corporation having its principal office at 50 South LaSalle Street, Chicago, Illinois 60675 (the "Lender").

RECITALS:

A. The Borrowers and the Lender have entered into an Amended and Restated Credit Agreement dated as of September 15, 1999 (said Amended and Restated Credit Agreement, as so amended, shall hereinafter be referred to as the "Agreement"; the terms defined in the Agreement and not otherwise defined herein shall be used herein as defined in the Agreement).

B. The Borrowers and the Lender wish to increase the Lender's Commitment, extend the term of the Agreement and to otherwise amend certain provisions of the Agreement.

C. Therefore, the parties hereto agree as follows:

1. AMENDMENTS TO THE AGREEMENT.

1.1. Section 1.1 of the Agreement. The definition of "Commitment" in Section 1.1 of the Agreement is hereby amended as of the date hereof by deleting the dollar amount "Twenty-Five Million United State [sic] Dollars (\$25,000,000)" appearing therein and substituting the dollar amount "Forty-Five Million United States Dollars (\$45,000,000)" therefor.

1.2. Section 1.1 of the Agreement. The definition of "Termination Date" in Section 1.1 of the Agreement is hereby amended as of the date hereof by deleting the date "December 29, 2000" appearing therein and substituting the date "December 29, 2001" therefor.

1.3. Section 7.10(c) of the Agreement. Section 7.10(c) of the Agreement is hereby amended and restated in its entirety as of the date hereof as follows:

"Cash Flow Coverage Ratio. Borrowers and their Subsidiaries on a consolidated basis shall maintain a ratio of (a) EBITDA, measured at the end of each Fiscal Quarter for the four immediately preceding Fiscal Quarters then ended to (b) the sum of (i) Debt Service, measured as of the end of such Fiscal Quarter plus (ii) capital expenditures (determined in accordance with GAAP) for the four immediately preceding Fiscal Quarters then ended, measured at the end of such Fiscal Quarter, of at least 1.25:1.0."

1.4. Exhibit B to the Agreement. Exhibit B to the Agreement is hereby amended as of the date hereof to be in the form set forth as Exhibit B hereto.

2. WARRANTIES. To induce the Lender to enter into this Amendment, each Borrower warrants that:

2.1. Authorization. Such Borrower is duly authorized to execute and

deliver this Amendment and the Replacement Note (as hereinafter defined) and is and will continue to be duly authorized to borrow monies under the Agreement, as amended hereby, and to perform its obligations under the Agreement, as amended hereby, and under the Replacement Note.

2.2. No Conflicts. The execution and delivery of this Amendment and the Replacement Note, and the performance by such Borrower of its obligations under the Agreement, as amended hereby, and under the Replacement Note, do not and will not conflict with any provision of law or of the charter or by-laws of such Borrower or of any agreement binding upon such Borrower.

2.3. Validity and Binding Effect. The Agreement, as amended hereby, is, and the Replacement Note when duly executed and delivered will be, a legal, valid and binding obligation of such Borrower, enforceable against such Borrower in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws of general application affecting the enforcement of creditors' rights or by general principles of equity limiting the availability of equitable remedies.

3. CONDITIONS PRECEDENT TO AMENDMENTS. The amendments contemplated by Section 1 hereof are subject to the satisfaction of each of the following conditions precedent:

3.1. Documentation. The Borrowers shall have delivered to the Lender all of the following, each duly executed and dated the closing date hereof, in form and substance satisfactory to the Lender:

(a) Replacement Note. A promissory note of the Borrowers (the "Replacement Note"), substantially in the form set forth as Exhibit B hereto.

Upon receipt of the Replacement Note, the Lender will: (i) record the aggregate unpaid principal amount of the Note dated September 15, 1999 (the "Original Note") issued under the Agreement in its records or, at its option, on the schedule attached to the Replacement Note as the aggregate unpaid principal amount of the Replacement Note; (ii) mark the Original Note as replaced by the Replacement Note; and (iii) return the Original Note to Akorn upon Akorn's request. Thereafter, all references in the Agreement and in any and all instruments or documents provided for therein or delivered or to be delivered thereunder or in connection therewith to the Original Note shall be deemed references to the Replacement Note. The replacement of the Original Note with the Replacement Note shall not be construed (i) to deem paid or forgiven the unpaid principal amount of, or unpaid accrued interest on, the Original Note outstanding at the time of replacement, or (ii) to release, cancel, terminate or otherwise adversely affect all or any part of any lien, mortgage, deed of trust, assignment, security interest or other

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encumbrance heretofore granted to or for the benefit of the payee of the Original Note which has not otherwise been expressly released.

(b) Resolutions. A copy, duly certified by the secretary or an assistant secretary of each Borrower, of (i) resolutions of such Borrower's Board of Directors authorizing or ratifying the execution and delivery of this Amendment and the Replacement Note and authorizing the borrowings under the Agreement, as amended hereby, (ii) all documents evidencing other necessary corporate action, and (iii) all approvals or consents, if any, with respect to this Amendment and the Replacement Note.

(c) Incumbency Certificate. A certificate of the secretary or an assistant secretary of each Borrower certifying the names of such Borrower's

officers authorized to sign this Amendment, the Replacement Note and all other documents or certificates to be delivered hereunder, together with the true signatures of such officers.

(d) Opinion. An opinion of Burke, Warren, MacKay & Serritella, counsel to the Borrowers, addressed to the Lender, in substantially the form of Exhibit C hereto.

(e) Certificate. A certificate of the president or chief financial officer of each Borrower as to the matters set out in Sections 3.2 and 3.3 hereof.

(f) Participant Consent. The Lender shall have obtained the consents of its existing participants to the execution, delivery and performance of this Amendment.

(g) Bank of America. The Lender and Bank of America, National Association shall have entered a participation agreement in form and substance satisfactory to the Lender.

(h) Other. Such other documents as the Lender may reasonably request.

3.2. No Default. As of the closing date hereof, no Event of Default or Default under the Loan Documents shall have occurred and be continuing.

3.3. Warranties. As of the closing date hereof, the warranties in the Loan Documents and in Section 2 of this Amendment shall be true and correct as though made on such date, except for such changes as are specifically permitted under the Agreement.

4. GENERAL.

4.1. Expenses. Each Borrower agrees to pay the Lender upon demand for all reasonable expenses, including reasonable attorneys' and legal assistants' fees (which attorneys and legal assistants may be employees of the Lender), incurred by the Lender in connection with the preparation, negotiation and execution of this Amendment, the Replacement Note and any document required to be furnished therewith.

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4.2. Law. THIS AMENDMENT AND THE REPLACEMENT NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF ILLINOIS.

4.3. Successors. This Amendment shall be binding upon each Borrower and the Lender and their respective successors and assigns, and shall inure to the benefit of each Borrower and the Lender and the successors and assigns of the Lender.

4.4. Confirmation of the Agreement. The Agreement, as amended hereby, shall remain in full force and effect and is hereby ratified and confirmed in all respects.

4.5. References to the Agreement. Each reference in the Agreement to "this Agreement," "hereunder," "hereof," or words of similar import in instruments or documents provided for in the Agreement or delivered or to be delivered thereunder or in connection therewith, shall, except where the context otherwise requires, be deemed a reference to the Agreement as amended hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed at Chicago, Illinois by their respective officers thereunto duly

authorized as of the date first written above.

AKORN, INC.

By:

Title

AKORN NEW JERSEY, INC.

By:

Title

THE NORTHERN TRUST COMPANY

By:

Title

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EXHIBIT B

NOTE

\$45,000,000

Chicago, Illinois
December 28, 1999

FOR VALUE RECEIVED, the undersigned, AKORN, INC., a Louisiana corporation ("Akorn"), and AKORN NEW JERSEY, INC., an Illinois corporation ("Akorn NJ"), jointly and severally, promise to pay to the order of THE NORTHERN TRUST COMPANY (the "Lender") on or before the Termination Date, the principal amount of FORTY-FIVE MILLION DOLLARS (\$45,000,000), or the amount outstanding as endorsed on the grid attached to this Note (or recorded in the Lender's books and records, if the Lender is the holder hereof). Such endorsement or recording by the Lender shall, absent manifest error, be rebuttably presumptive evidence of the principal balance due on this Note.

This Note evidences indebtedness incurred under that certain Amended and Restated Credit Agreement, dated as of September 15, 1999 (as the same may be subsequently amended, restated, supplemented or otherwise modified, the "Credit Agreement"), among Akorn, Akorn NJ and the Lender, to which Credit Agreement reference is hereby made for a statement of its terms and provisions, including those under which this Note may be paid prior to its due date or have its due date accelerated, and pursuant to which the applicable interest rate herein set forth may be reduced. All capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the Credit Agreement. This Note constitutes a renewal and restatement of, and a replacement and substitute for, the Note dated September 15, 1999, of Akorn and Akorn NJ payable to the order of the Lender in the principal amount of \$25,000,000 (the "Original Note"). The indebtedness under the Original Note is continuing indebtedness

hereunder, and nothing herein shall be deemed to release or otherwise adversely affect any lien, mortgage or security interest securing such indebtedness or any rights of the Lender against any guarantor, surety or other party primarily or secondarily liable for such indebtedness.

Unless or until this Note shall sooner become due and payable, whether by acceleration or otherwise, the principal amount outstanding hereunder shall be paid in accordance with the terms and conditions of the Credit Agreement. The unpaid principal amount of this Note from time to time outstanding shall bear interest from the date of this Note at the rate per annum set forth in the Credit Agreement. Accrued interest on this Note shall be payable in accordance with the terms of the Credit Agreement. After maturity, whether by acceleration or otherwise, accrued interest shall be payable on demand. Interest on this Note shall be computed for the actual number of days elapsed on the basis of a year consisting of 360 days. Payments of both principal and interest are to be made in immediately available funds in lawful money of the United States of America.

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Subject to the terms and conditions of the Credit Agreement, the undersigned agree to pay all reasonable expenses, including reasonable attorneys' fees and legal expenses, incurred by the holder of this Note in attempting to collect any amounts payable hereunder. The undersigned irrevocably waive presentment, protest, demand and notice of any kind in connection herewith.

This Note is made under and governed by the internal laws of the State of Illinois (without regard to conflict of laws provisions thereof), and shall be deemed to have been executed in the State of Illinois.

AKORN, INC.,
a Louisiana corporation

By: _____
Title: _____

AKORN NEW JERSEY, INC.,
an Illinois corporation

By: _____
Title: _____

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Schedule attached to Note dated December 28, 1999 of AKORN, INC. and AKORN NEW JERSEY, INC., payable to the order of THE NORTHERN TRUST COMPANY.

Amendment and to perform its obligations under the Agreement, as amended by the Amendment, and under the Replacement Note.

3. The execution and delivery of the Amendment and the Replacement Note, the performance by each Borrower of its obligations under the Agreement, as amended by the Amendment, and under Replacement Note, and the borrowings by each Borrower under the Agreement, as amended by the Amendment, have been duly authorized by all necessary corporate action, and the Amendment and the Replacement Note have been duly executed and delivered on behalf of each Borrower and constitute valid and binding obligations of such Borrower, enforceable in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency or other similar laws of general application affecting the

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enforcement of creditors' rights or by general principles of equity limiting the availability of equitable remedies.

4. There is no provision in such Borrower's articles of incorporation or by-laws, nor any provision in any indenture, mortgage, contract or agreement to which such Borrower is a party or by which it or its properties may be bound and of which we have knowledge, nor any law, statute, rule or regulation, nor any writ, order or decision of any court or governmental instrumentality binding on such Borrower which would be contravened by the execution and delivery of the Amendment or the Replacement Note, nor do any of the foregoing prohibit such Borrower's performance of any term, provision, condition, covenant or any other obligation of such Borrower contained in the Agreement, as amended by the Amendment, or in the Replacement Note.

5. Neither the making of the Amendment or the Replacement Note nor performance of the Agreement, as amended by the Amendment, or the Replacement Note, nor the borrowing under the Agreement, as amended by the Amendment, requires the consent or approval of any governmental instrumentality.

Very truly yours,

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The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60675

Re: First Amendment dated as of December 28, 1999 (the "Amendment") to Amended and Restated Agreement dated as of September 15, 1999 (the "Agreement"), among Akorn, Inc. and Akorn New Jersey, Inc. (the "Borrowers") and The Northern Trust Company (the "Lender")

Ladies and Gentlemen:

This certificate is being delivered to the Lender pursuant to Section 3.1(e) of the Amendment. Terms used in this certificate which are defined in the Agreement shall have the same meaning herein as therein.

In connection with the closing today of the Amendment, the undersigned officer of each Borrower hereby certifies as follows:

1. No Event of Default or Default under the Loan Documents has occurred and is continuing.

2. The warranties in the Loan Documents and in Section 2 of the Amendment are true and correct as of the date hereof as though made on the date hereof, except for such changes as are specifically permitted under the Agreement.

Very truly yours,

Dated December 28, 1999

AKORN, INC.

By: _____
Title: Chief Financial Officer

AKORN NEW JERSEY, INC.

By: _____
Title: Chief Financial Officer

SUBSIDIARIES OF THE COMPANY

Name	State of Incorporation
-----	-----
Akorn (New Jersey), Inc.	Illinois
Spectrum Scientific Pharmaceuticals, Inc.	Louisiana
Walnut Pharmaceuticals, Inc.	Louisiana
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 February 25, 2000 (which expresses an unqualified opinion), appearing in this Annual Report on Form 10-K of Akorn, Inc. for the year ended December 31, 1999.

Deloitte & Touche LLP
Chicago, Illinois
March 28, 2000

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FROM CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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