AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 29, 1998
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AKORN, INC.
(Exact name of registrant as specified in its charter)

LOUISIANA	2834	72-0717400
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

---

100 TRI-STATE INTERNATIONAL
SUITE 100
LINCOLNSHIRE, ILLINOIS 60069
(847) 236-3800

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

JOHN N. KAPOOR, PH.D.
CHIEF EXECUTIVE OFFICER
100 TRI-STATE INTERNATIONAL
SUITE 100
LINCOLNSHIRE, ILLINOIS 60069
(847) 236-3800

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

COPIES TO:

JOHN L. MACCARTHY	J. VAUGHAN CURTIS
Winston & Strawn	Alston & Bird LLP
35 West Wacker Drive	One Atlantic Center
Chicago, Illinois 60601	1201 West Peachtree Street
(312) 558-5600	Atlanta, Georgia 30309-3424
	(404) 881-7000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
Common Stock, no par value per share.....	$45,000,000	$13,275

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(o) under the Securities Act.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

- ---
- ---

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO
BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO THE REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION
JULY 29, 1998

5,540,000 Shares

AKORN, INC.

Common Stock

Of the 5,540,000 shares of common stock, no par value (the "Common Stock") offered hereby (the "Offering"), 5,000,000 shares are being sold by Akorn, Inc. ("Akorn" or the "Company") and 540,000 shares are being sold by certain stockholders of the Company (the "Selling Stockholders"). See "Principal and Selling Stockholders." The Company will not receive any of the proceeds from the sale of shares by the Selling Stockholders. The Common Stock is traded on the Nasdaq National Market under the symbol "AKRN." On July 27, 1998, the last reported sale price of the Common Stock was $6.41 per share.

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK.
SEE "RISK FACTORS" BEGINNING ON PAGE 5.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE

SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO COMPANY(1)	PROCEEDS TO SELLING STOCKHOLDERS
Per Share.....	$	$	$	$
Total(2).....	$	$	$	$

(1) Before deducting expenses of the Offering estimated at $550,000 payable by the Company.

(2) The Company has granted to the Underwriters a 30-day option to purchase up to 831,000 additional shares of Common Stock solely to cover over-allotments, if any. To the extent the option is exercised, the Underwriters will offer the additional shares at the Price to Public shown above. If the option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be $, $ and $, respectively.

The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if delivered to and accepted by them, and subject to the right of the Underwriters to reject any order in whole or in part. It is expected that delivery of the Common Stock will be made at the offices of BT Alex. Brown Incorporated, Baltimore, Maryland, on or about , 1998.

BT Alex. Brown Warburg Dillon Read LLC

THE DATE OF THIS PROSPECTUS IS , 1998.

[INSIDE COVER ART WORK]

PICTURE OF CERTAIN STERILE SPECIALTY PHARMACEUTICAL PRODUCTS MARKETED BY THE COMPANY WITH CAPTION WHICH READS "PICTURED ABOVE ARE CERTAIN OF THE MORE THAN 90 STERILE SPECIALITY PHARMACEUTICAL PRODUCTS MARKETED BY AKORN."

PICTURE OF MANUFACTURING FACILITY OF THE COMPANY WITH CAPTION WHICH READS "PICTURED ABOVE IS ONE OF AKORN'S ASEPTIC FILLING LINES FOR THE MANUFACTURING OF OPHTHALMIC AND INJECTABLE STERILE SOLUTIONS."

Alftena-TM-, Sufenta-TM-, Pilo-20-TM-, Pilo-40-TM-, Indocyanine Green-TM-, Fluress-TM-, Fluoracaine-TM-, Gentak-TM-, BAL in Oil-TM-, Aurolate-TM-, Ful-Glo Strips-TM-, Rose Bengal Strips-TM-, Paremyd-TM-, Inapsine-TM-, Sublimaze-TM- and Piroxicam-TM- are trademarks of the Company.

THE UNDERWRITERS AND OTHER PERSONS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS (AND SELLING GROUP MEMBERS) MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMMON STOCK OF THE COMPANY ON NASDAQ IN ACCORDANCE WITH REGULATION M OR ANY SUCCESSOR RULES UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SEE "UNDERWRITING."

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS AND NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, ALL REFERENCES HEREIN TO "AKORN" OR THE "COMPANY" REFER TO AKORN, INC. AND ITS SUBSIDIARIES.

THE COMPANY

Akorn is a specialty pharmaceutical company that develops, manufactures and markets ophthalmic and injectable sterile pharmaceutical products in the United States. The Company sells more than 90 diagnostic and therapeutic pharmaceutical

products focused primarily on ophthalmology, anesthesia, antidotes and rheumatology. The Company also markets ophthalmic surgical instruments and other supplies and provides contract manufacturing for third parties. The Company is one of a limited number of U.S. specialty pharmaceutical companies with sterile manufacturing capabilities. Akorn believes that its sterile manufacturing capabilities, combined with its ability to manufacture a variety of dosage forms (solutions, suspensions and ointments), afford it a competitive advantage. Many of the Company's ophthalmic pharmaceuticals are marketed under its well-recognized "Akorn" label. For the twelve months ended June 30, 1998, Akorn's net sales and net income were approximately $49.3 million and $3.8 million, respectively.

While the $110 billion U.S. pharmaceutical market is dominated by large multinational pharmaceutical companies that conduct substantial research and development, significant sales are derived from specialty pharmaceutical products. The Company believes that pricing and profit pressures are causing major pharmaceutical companies to focus on developing new pharmaceuticals and marketing existing proprietary products, while considering divestitures or licensing of non-core products as a more effective means of realizing value from such products. The Company defines specialty pharmaceutical products as those products which share several, but not necessarily all, of the following characteristics: (i) products which no longer fit the strategic focus of major pharmaceutical companies; (ii) products with annual sales typically between $1 and $50 million; (iii) products which receive minimal promotion from major pharmaceutical companies but which compete in promotion-sensitive markets; (iv) products which have sales levels that are less likely to become targets of pricing pressure from managed care or other third-party payors, or which have a clear price advantage over alternative treatments; and (v) products which can leverage the existing sales force, manufacturing operations and marketing efforts of specialty pharmaceutical companies.

Sterile pharmaceutical products consist of pharmaceuticals produced using sterile manufacturing techniques, such as aseptic filling technologies and heat sterilization. The manufacture of sterile pharmaceutical products, as compared to the production of non-sterile products such as tablets, requires more technologically sophisticated processes and personnel with technical expertise. In 1997, the U.S. ophthalmic and injectable sterile pharmaceutical markets had total U.S. sales of approximately $2.0 billion and $8.2 billion, respectively, which represent increases of approximately 10.0% and 12.0%, respectively, from 1996.

To capitalize on the trend of major pharmaceutical companies devoting less resources to specialty pharmaceutical products, the Company focuses on sterile specialty pharmaceutical products that generally face limited competition. The Company's objective is to become a leading sterile specialty pharmaceutical company. To achieve this objective, the Company seeks to: (i) pursue strategic acquisitions of branded sterile specialty pharmaceutical products; (ii) internally develop sterile specialty pharmaceutical products; (iii) leverage its existing infrastructure and increase operating efficiencies; and (iv) expand its sterile manufacturing and technical capabilities. As part of this strategy, the Company is developing the capability to manufacture controlled-release and lyophilized (freeze-dried) pharmaceuticals in order to expand the dosage forms of its current products and pursue other markets.

Since January 1, 1996, the Company has acquired or licensed 18 specialty pharmaceutical products. In acquiring or licensing pharmaceutical products, the Company targets products which complement its existing product lines and enable it to leverage its existing manufacturing, marketing and distribution capabilities. After acquiring or licensing a specialty pharmaceutical product, the Company generally focuses on increasing the marketing and promotion of the product and integrating it into the Company's existing product lines.

The Company also develops pharmaceutical products internally. Since January 1, 1996, the Company has received approval for nine ANDAs and one NDA for internally developed sterile pharmaceutical products. In connection with its strategy to continue to internally develop sterile pharmaceutical products, Akorn currently has ten ANDAs submitted to the FDA for new products. In addition, over the next three years, the Company anticipates filing ANDAs for more than ten additional sterile pharmaceutical products and NDAs for three proprietary pharmaceutical products which are in various stages of development.

THE OFFERING

Common Stock offered by the Company.....	5,000,000 shares
Common Stock offered by the Selling Stockholders.....	540,000 shares
Common Stock to be outstanding after the offering.....	22,952,063 shares(1)
Use of proceeds.....	To repay certain indebtedness; for the acquisition and development of products; for the expansion of manufacturing facilities; and for working capital and general corporate purposes. See "Use of Proceeds."
Nasdaq National Market symbol.....	AKRN

- ------------------------------

(1) Excludes 1,929,238 shares of Common Stock issuable upon exercise of options outstanding as of June 30, 1998, with a weighted average exercise price of $2.79 per share. See Note K of the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

SUMMARY CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED JUNE 30,				SIX MONTHS ENDED DECEMBER	YEAR ENDED DECEMBER 31,	SIX MONTHS ENDED JUNE 30,	
	1993(1)	1994	1995	1996	31, 1996(2)	1997	1997	1998
							(UNAUDITED)	
INCOME STATEMENTS:								
Net sales.....	$ 23,612	$ 31,266	$ 37,505	$ 33,925	$ 16,519	$ 42,323	$ 19,044	$ 26,038
Cost of goods sold.....	13,913	18,048	23,328	21,972	10,761	23,547	10,700	12,775
Gross profit.....	9,699	13,218	15,177	11,953	5,758	18,776	8,344	13,263
Selling, general and administrative expenses....	7,534	9,643	10,376	8,974	4,819	12,287	5,804	7,420
Research and development.....	453	921	891	1,213	809	1,873	729	1,974
Relocation costs.....	--	--	--	--	--	1,451	1,451	--
Acquisition and severance costs.....	--	--	--	677	--	--	--	--
Operating income.....	1,712	2,654	3,910	1,089	130	3,165	360	3,869
Interest income.....	25	84	106	113	33	41	27	1
Interest expense.....	(288)	(181)	(25)	(441)	(243)	(497)	(254)	(492)
Gain (loss) on marketable equity securities.....	--	--	(308)	80	--	--	--	
Other income, net.....	69	16	55	136	150	135	128	
Pretax income.....	1,518	2,573	3,738	977	70	2,844	261	
Income taxes (benefit).....	(263)	158	1,232	189	26	1,052	97	
Net income.....	$ 1,781	$ 2,415	$ 2,506	$ 788	$ 44	$ 1,792	$ 164	
Net income per share:								
Basic.....	$ 0.12	$ 0.14	$ 0.15	$ 0.05	$ 0.00	$ 0.11	$ 0.01	
Diluted.....	0.12	0.14	0.15	0.05	0.00	0.11	0.01	
Weighted average shares outstanding:								
Basic.....	14,159	16,185	16,236	16,383	16,580	16,614	16,596	
Diluted.....	14,955	16,711	16,799	16,788	16,763	16,925	16,802	

Gain (loss) on marketable equity securities	--
Other income, net	1
Pretax income	3,379
Income taxes (benefit)	1,230
Net income	$ 2,149
Net income per share:	
Basic	$ 0.12
Diluted	0.11
Weighted average shares outstanding:	
Basic	17,769
Diluted	18,837

	JUNE 30, 1998	
	ACTUAL	AS ADJUSTED(3)
	(UNAUDITED)	
BALANCE SHEET DATA:		
Cash and cash equivalents	$ 594	$ 21,193
Working capital	11,430	32,029
Total assets	48,220	68,819
Total debt	17,735	8,935
Shareholders' equity	23,262	52,661

- ---

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

(2) In October 1996, the Company changed its fiscal year from the year ending June 30 to a calendar year.

(3) Adjusted to give effect to the sale by the Company of 5,000,000 shares of Common Stock offered hereby (based on an assumed public offering price of $6.41 per share) and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this document, the words "anticipate," "believe," "estimate" and "expect" and similar expressions are generally intended to identify forward-looking statements. Prospective investors are cautioned that any forward-looking statements, including statements regarding the intent, belief or expectations of the Company or its management are not guarantees of future performance and involve risks and uncertainties and that actual results may differ materially from those in the forward-looking statements as a result of various factors, including but not limited to: (i) the effects of federal, state and other governmental regulation of the Company's business; (ii) the Company's success in acquiring, developing, manufacturing and marketing new products; (iii) implementation of the Company's growth strategy; (iv) the effects of competition from generic pharmaceuticals and from other pharmaceutical companies; and (v) other factors referred to in this Prospectus. See "Risk Factors." The Company does not intend to update these forward-looking statements.

UNLESS OTHERWISE INDICATED, ALL SHARE AND FINANCIAL INFORMATION SET FORTH HEREIN REFLECT NO EXERCISE OF THE UNDERWRITERS' OVER-ALLOTMENT OPTION. SEE "UNDERWRITING."

RISK FACTORS

IN ADDITION TO THE OTHER INFORMATION IN THIS PROSPECTUS, THE FOLLOWING FACTORS SHOULD BE CONSIDERED CAREFULLY IN EVALUATING AN INVESTMENT IN THE SHARES OF COMMON STOCK OFFERED BY THIS PROSPECTUS.

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, 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. See "Business--Government Regulation."

DEPENDENCE ON ACQUISITION AND LICENSING OF PHARMACEUTICAL PRODUCTS

Until the Company develops and introduces a sufficient number of its own pharmaceutical products, it must rely upon the availability for purchase or licensing of 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. See "Business--Strategy." 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 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. See "Business--Strategy" and "--Product Acquisitions."

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 ten ANDAs submitted to the FDA for new sterile pharmaceutical products. In addition, over the next three years, the Company currently anticipates filing ANDAs for more than ten additional pharmaceutical products and NDAs for three proprietary pharmaceutical products which are in various stages of 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 new or previously filed 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 capability to manufacture controlled-release ophthalmic pharmaceutical products and 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. See "Business--Strategy."

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. See "--Competition; Uncertainty of Technological Change" and "Business--Competition." 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

For the six months ended June 30, 1998, the Company derived 49.8% of its net sales from the sale of generic 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. See "Business--Strategy."

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 acquiring, developing, 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 acquire or develop 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. See "--Generic Substitution" and "Business--Competition."

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 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

For the six months ended June 30, 1998, the Company derived 51.1% of its net sales from the sale of products manufactured by third parties. 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 its products a 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.

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. See "Business-- Competition" and "--Employees."

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. See "Management."

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 acquisitions, development and sales of branded pharmaceutical products, expenditures incurred to acquire and promote additional 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, delays in obtaining government approvals, including FDA approval of NDAs or ANDAs for Company products, loss of key personnel, the mix of products sold by the Company, changes in sales and marketing expenditures, competitive pricing pressures and general economic and industry conditions which affect customer demand. 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 Common Stock. Due to the foregoing factors, it is possible that in future quarters the Company's operating results will be below the expectations of investors or securities analysts. Such an event could adversely affect the market price of the Common Stock. In the past, following periods of volatility in the market price of their securities, companies have become defendants in securities class action litigation. Any such litigation initiated against the Company could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Summary of Results of Operations by Quarter."

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. See "Business--Patents and Proprietary Rights."

RELATIONSHIPS WITH OTHER ENTITIES; CONFLICTS OF INTEREST

Dr. John N. Kapoor, Ph.D., the Company's Chairman of the Board and Chief Executive Officer, is affiliated with EJ Financial Enterprises, Inc., a health care investment firm ("EJ Financial"). See "Certain Relationships and Related Transactions." 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 approximately two days per week to the business of the Company. Although such companies do not currently compete directly with the 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. See "Management."

LITIGATION INVOLVING THE COMPANY'S CHAIRMAN

Dr. Kapoor was previously the Chairman and President of Lyphomed, Inc., a manufacturer of injectable pharmaceuticals ("Lyphomed"). Fujisawa Pharmaceutical Co. Ltd. ("Fujisawa") was a major stockholder of Lyphomed from the mid-1980s until 1990, at which time Fujisawa completed a tender offer for the remaining shares of Lyphomed, including the shares held by Dr. Kapoor. Prior to and following the tender offer by Fujisawa, Lyphomed experienced regulatory difficulties with the FDA relating to the manufacturing and laboratory practices involving certain generic pharmaceutical products. In 1991, the FDA investigated and issued a Form 483 citing differences between the Company's generic drug applications and underlying raw data. Lyphomed also experienced, following the tender offer, declining results of operations. Fujisawa filed suit in federal district court in Illinois against Dr. Kapoor alleging securities fraud, racketeering, and other federal and state law claims relating to the purchase of Lyphomed. In addition to substantial monetary relief, Fujisawa also sought the imposition of a constructive trust on the assets of Dr. Kapoor, including the shares of the Common Stock, representing approximately 23.6% of the Common Stock, beneficially owned by Dr. Kapoor. The district court dismissed Fujisawa's federal claims against Dr. Kapoor and Fujisawa appealed. The appellate court affirmed the district court's dismissal of the securities fraud claim on the grounds that the statute of limitations had run, but overturned the district court's dismissal of the racketeering claims and remanded the matter, including the state law claims, to the trial court. Dr. Kapoor has denied Fujisawa's allegations and continues to defend the suit. Although the Company is not a party to these suits, these proceedings against Dr. Kapoor, the imposition of a constructive trust on the shares of the Common Stock held by Dr. Kapoor or heightened FDA scrutiny as a result of these proceedings could have a material adverse effect on the Company.

SHARES ELIGIBLE FOR FUTURE SALE

Immediately after completion of this Offering, the Company will have 22,952,063 shares of Common Stock outstanding. Of these shares, 21,952,063 shares (including the 5,540,000 shares sold pursuant to this Offering) will be freely tradable without restriction or further registration under the Securities Act other than those shares held by "affiliates" of the Company. The remaining 1,000,000 shares will become eligible for resale in December 1998, subject to the limitations set forth under Rule 144 ("Rule 144") under the Securities Act

of 1933, as amended (the "Securities Act"), as applicable. The Company, together with its executive officers and directors (holding in the aggregate approximately 5,064,793 shares of Common Stock after completion of this Offering), will enter into agreements not to, subject to certain exceptions, register the sale of, sell, offer to sell, contract to sell, grant any option to purchase or otherwise dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, other than the shares offered hereby, for a period ranging from 90 to 180 days after the date of this Prospectus, without the prior written consent of BT Alex. Brown Incorporated. However, BT Alex. Brown Incorporated may, in its discretion, waive the foregoing restrictions in whole or in part, with or without a public announcement of such action. The sale of a substantial number of shares of Common Stock, or the perception that such sales could occur, could adversely affect prevailing market prices for the Common Stock. In addition, any such sale or such perception could make it more difficult for the Company to sell equity securities or equity-related securities in the future at a time and price that the Company deems appropriate. See "Shares Eligible for Future Sale."

RISKS RELATED TO YEAR 2000 ISSUES

The "Year 2000" issue concerns the potential exposures related to the automated generation of business and financial misinformation resulting from the application of computer programs which have been written using two digits, rather than four, to define the applicable year of business transactions resulting in the year 2000 being recognized as the year 1900 by the computer program. The Company utilizes commercially available software to store and process its business information transactions. The Company has already begun to modify its computer systems to be Year 2000-compliant by upgrading the server software of its injectable business and completing the installations of Year 2000-compliant financial software in the ophthalmic business. The Company expects to be fully Year 2000-compliant by the end of 1998. In addition, the Company has communicated with others with whom it does significant business to determine their Year 2000-compliance readiness and the extent to which the Company is vulnerable to any third-party Year 2000 issues. Failure of the Company or its significant suppliers or customers to address adequately the Year 2000 issue could have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Year 2000 Issue."

THE COMPANY

The Company is a Louisiana corporation founded in 1971 in Abita Springs, Louisiana. In January 1992, the Company acquired Taylor Pharmacal Company, a manufacturer of specialty injectable pharmaceutical products ("Taylor Pharmaceuticals"). In June 1996, the Company acquired Pasadena Research Laboratories, Inc., a distributor and marketer of injectable products ("PRL"). In July 1998, the Company acquired assets of Advanced Remedies, Inc., used in the manufacture of sterile ophthalmic and injectable pharmaceutical products ("ARI"). In 1997, the Company moved its principal executive offices to 100 Tri-State International, Suite 100, Lincolnshire, Illinois 60069-4404. The Company's telephone number is (847) 236-3800. The Company anticipates moving its principal executive offices to 2500 Millbrook Drive, Buffalo Grove, Illinois 60089 in September 1998.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 5,000,000 shares of Common Stock offered by the Company, after deducting discounts and commissions and estimated offering expenses payable by the Company, are estimated to be $29.4 million ($34.4 million if the Underwriters' over-allotment option is exercised in full), based upon an assumed offering price of $6.41 per share.

The Company intends to use such net proceeds: (i) to repay approximately $14.8 million of indebtedness under the Company's revolving credit facility; (ii) for the acquisition and development of additional ophthalmic and injectable pharmaceutical products; (iii) for expansion of manufacturing facilities; and (iv) for working capital and general corporate purposes. The indebtedness under the Company's revolving credit facility accrues at an annual rate equal to the Federal Funds Rate plus an applicable margin. The rate on this indebtedness approximated 7.0% as of June 30, 1998. The revolving credit facility matures on December 20, 1999.

The Company will not receive any proceeds from the sale of Common Stock by the Selling Stockholders. See "Principal and Selling Stockholders."

DIVIDEND POLICY

The Company has not paid cash dividends on the Common Stock since 1991 and does not anticipate paying any cash dividends in the foreseeable future. Instead, the Company anticipates that it will retain all of its earnings for the continued operation and expansion of its business for the foreseeable future. In addition, the terms of the Company's revolving credit facility prohibit it from paying dividends or making other payments with respect to its Common Stock without bank consent. Any future payment of dividends will depend upon the Company's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the Board of Directors may deem relevant.

PRICE RANGE OF COMMON STOCK

The Common Stock is quoted on the Nasdaq National Market under the symbol "AKRN." The following table sets forth for the periods indicated the range of high and low bid prices for the Common Stock as reported on the Nasdaq National Market.

	HIGH	LOW
YEAR ENDED DECEMBER 31, 1997		
First Quarter	$ 3.00	$ 1.75
Second Quarter	2.63	1.94
Third Quarter	3.00	2.03
Fourth Quarter	4.38	2.94
YEAR ENDING DECEMBER 31, 1998		
First Quarter	6.88	2.75
Second Quarter	9.06	6.03
Third Quarter (through July 27, 1998)	8.00	6.06

On July 27, 1998, the last reported sale price of the Common Stock on the Nasdaq National Market was $6.41 per share. At June 30, 1998 the Company had approximately 700 holders of record of Common Stock.

CAPITALIZATION

The following table sets forth as of June 30, 1998: (i) the capitalization of the Company; and (ii) the capitalization of the Company as adjusted to reflect the Offering (based on an assumed offering price of $6.41 per share) and the application of the estimated net proceeds therefrom, all as if they occurred on June 30, 1998:

	JUNE 30, 1998	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
Cash and cash equivalents	$ 594	$ 21,193
Long-term obligations(1):		
Long-term debt	$ 13,638	$ 4,838
Capital lease obligations	125	125
Total long-term obligations	13,763	4,963
Shareholders' equity:		
Preferred stock, $1.00 par value; 5,000,000 shares authorized; no shares issued outstanding	--	--
Common stock, no par value; 40,000,000 shares authorized; 17,952,063 shares issued and outstanding, 22,952,063 shares issued and outstanding as adjusted(2)	17,569	46,968
Retained earnings	6,158	6,158
Treasury stock-at cost	(465)	(465)
Total shareholders' equity	23,262	52,661
Total capitalization	$ 37,025	$ 57,624

- ---

(1) Excludes current maturities.

(2) Excludes 1,929,238 shares of Common Stock issuable upon the exercise of options outstanding as of June 30, 1998 issued under the Company's 1988 Incentive Compensation Program and 1991 Stock Option Plan for Directors, with a weighted average exercise price of $2.79 per share. See "Management--1988 Incentive Compensation Program," "--1991 Stock Option Plan for Directors" and Note K of the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for the year ended December 31, 1997, as of and for the six months ended December 31, 1996 and as of and for the two fiscal years ended June 30, 1996 and 1995 have been derived from the Consolidated Financial Statements of the Company which have been audited by Deloitte & Touche LLP, independent auditors whose report appears elsewhere in this Prospectus. The following selected consolidated financial data as of and for the two fiscal years ended June 30, 1994 and 1993 are derived from the audited consolidated financial statements not included herein. The selected consolidated financial data for the six months ended June 30, 1997 and 1998 have been derived from the Company's unaudited consolidated financial statements. The unaudited consolidated financial statements reflect, in the opinion of management, all adjustments of a normally recurring nature necessary for a fair presentation of financial position and results of operations. The results for the six months ended June 30, 1998 are not necessarily indicative of the results to be expected for the entire year. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto included elsewhere in this Prospectus.

	YEAR ENDED JUNE 30,				SIX MONTHS ENDED DECEMBER 31, 1996(2)	YEAR ENDED DECEMBER 31, 1997	SIX MONTHS ENDED JUNE 30,	
	1993(1)	1994	1995	1996			1997	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)						(UNAUDITED)	
INCOME STATEMENTS:								
Net sales	$ 23,612	$ 31,266	$ 37,505	$ 33,925	$ 16,519	$ 42,323	$ 19,044	$ 26,038
Cost of goods sold	13,913	18,048	22,328	21,972	10,761	23,547	10,700	12,775
Gross profit	9,699	13,218	15,177	11,953	5,758	18,776	8,344	13,263
Selling, general and administrative expenses	7,534	9,643	10,376	8,974	4,819	12,287	5,804	7,420
Research and development	453	921	891	1,213	809	1,873	729	1,974
Relocation costs	--	--	--	--	--	1,451	1,451	--
Acquisition and severance costs	--	--	--	677	--	--	--	--
Operating income	1,712	2,654	3,910	1,089	130	3,165	360	3,869
Interest income	25	84	106	113	33	41	27	1
Interest expense	(288)	(181)	(25)	(441)	(243)	(497)	(254)	(492)
Gain (loss) on marketable equity securities	--	--	(308)	80	--	--	--	--
Other income, net	69	16	55	136	150	135	128	1
Pretax income	1,518	2,573	3,738	977	70	2,844	261	3,379
Income taxes (benefit)	(263)	158	1,232	189	26	1,052	97	1,230
Net income	$ 1,781	$ 2,415	$ 2,506	$ 788	$ 44	$ 1,792	$ 164	$ 2,149
Net income per share:								
Basic	$ 0.12	$ 0.14	$ 0.15	$ 0.05	$ 0.00	$ 0.11	$ 0.01	$ 0.12
Diluted	0.12	0.14	0.15	0.05	0.00	0.11	0.01	0.11
Weighted average shares outstanding:								
Basic	14,159	16,185	16,236	16,383	16,580	16,614	16,596	17,769
Diluted	14,955	16,711	16,799	16,788	16,763	16,925	16,802	18,837

	JUNE 30,				DECEMBER 31,		JUNE 30,	
	1993	1994	1995	1996	1996	1997	1997	1998
	(IN THOUSANDS)						(UNAUDITED)	
BALANCE SHEET DATA:								
Cash and cash equivalents	$ 1,114	$ 1,894	$ 775	$ 891	$ 1,380	$ 2,413	$ 737	$ 594
Working capital	5,445	7,938	8,458	7,650	8,204	11,021	4,963	11,430
Total assets	15,008	22,190	27,491	29,817	28,013	38,715	36,297	48,220
Total debt	3,193	1,150	4,883	5,696	5,831	10,902	7,164	17,735
Shareholders' equity	6,916	12,704	15,585	16,301	16,374	20,251	16,552	23,262

- ------------------------------

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

(2) In October 1996, the Company changed its fiscal year from the year ending June 30 to a calendar year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS PROSPECTUS. SEE "RISK FACTORS" FOR TRENDS AND UNCERTAINTIES KNOWN TO THE COMPANY THAT COULD CAUSE REPORTED FINANCIAL INFORMATION TO DIFFER MATERIALLY FROM FUTURE RESULTS.

OVERVIEW

Akorn is a speciality pharmaceutical company that develops, manufactures and markets ophthalmic and injectable sterile pharmaceutical products in the United States. The Company sells more than 90 diagnostic and therapeutic pharmaceutical products focused primarily on ophthalmology, anesthesia, antidotes and rheumatology. The Company sells branded and generic pharmaceuticals, as well as ophthalmic surgical instruments and other supplies, to hospitals, clinics, group purchasing organizations, ophthalmalogists, optometrists and other specialty physicians. The Company also provides contract manufacturing of injectable pharmaceuticals for pharmaceutical and biotechnology companies.

For the six-month period ended June 30, 1998, 53.1% of the Company's net sales were derived from the sale of ophthalmic products and 46.9% were from the sale of injectable products, including contract manufacturing for third parties. For the six-month period ended June 30, 1998, 49.8% of the Company's net sales were from the sale of generic pharmaceuticals, 30.9% were from the sale of branded pharmaceuticals, 14.4% were from its contract manufacturing operations and 4.9% were from the sale of ophthalmic surgical instruments and other supplies. In the pharmaceutical industry, prices and margins for branded pharmaceuticals are generally significantly higher than those for generic pharmaceuticals. However, most of the branded pharmaceuticals sold by the Company face competition from generic and other substitutes so these differences are not as great for pharmaceutical products sold by the Company. For the six-month period ended June 30, 1998, no single pharmaceutical product accounted for more than 10.0% of the Company's net sales and only two of these products accounted for more than 5.0% of the Company's net sales. Effective July 1, 1996, the Company changed its fiscal year from June 30 to December 31.

CHARGEBACKS

Most of the Company's products sold to group-purchasing organization members are distributed through wholesalers. The Company bills the wholesaler at the Company's list price and reserves the estimated difference between list and contract price. This reserve is carried as a reduction of accounts receivable. The Company regularly evaluates the reserve balance against actual chargebacks processed by wholesalers.

CORPORATE ACQUISITIONS

In January 1992, the Company acquired Taylor Pharmaceuticals in a pooling-of-interests transaction valued at approximately $4.0 million. Taylor Pharmaceuticals was a privately-held contract manufacturer of sterile pharmaceuticals. The acquisition enabled the Company to increase its margins and limit supply disruptions by internally manufacturing many of the ophthalmic pharmaceuticals which it previously obtained from third-party manufacturers. The acquisition also allowed the Company to diversify its revenues by contract manufacturing injectable pharmaceuticals for third parties.

In June 1996, the Company acquired PRL in a pooling-of-interests transaction valued at approximately $3.8 million. PRL was a privately-held marketer of sterile injectable pharmaceuticals primarily focused on antidotes and rheumatology. The acquisition of PRL enabled the Company to expand the customer base for its injectable pharmaceutical products.

In July 1998, the Company acquired the assets, including four approved ANDAs and five submitted ANDAs, of ARI from Sidmak, Inc. for approximately $4.0 million. The acquisition was paid for in cash and financed by the Company's existing $25.0 million revolving credit facility. The ARI acquisition provides the Company with capability to manufacture ophthalmic ointments and suspensions and will allow the Company to reduce further its dependence on third-party manufacturers.

PRODUCT ACQUISITIONS, LICENSING AND DEVELOPMENT

Since January 1, 1996, the Company has acquired or licensed 18 specialty pharmaceutical products. The Company generally seeks to acquire or license specialty pharmaceutical products which complement its existing product lines and allow it to leverage existing manufacturing and marketing capabilities. Since January 1, 1996, the Company has received FDA approval for nine ANDAs and one NDA. As of June 30, 1998, the Company had ten ANDAs submitted to the FDA for new products and had three NDAs and more than ten ANDAs in various stages of development. See "Risk Factors Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities" and "--Dependence on Acquisition and Licensing of Pharmaceutical Products."

SEASONALITY

While there is seasonal demand for some of the Company's pharmaceutical products, seasonal fluctuations in demand have not historically had a material effect on the Company's consolidated quarterly revenues.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected statements of income data as a percentage of net sales:

	YEAR ENDED JUNE 30,		SIX MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	SIX MONTHS ENDED JUNE 30,	
	1995	1996	1995	1996	1997	1997	1998
Net sales:							
Ophthalmic	63.4%	61.4%	65.6%	62.2%	58.8%	61.0%	53.1%
Injectable	36.6	38.6	34.4	37.8	41.2	39.0	46.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross profit	40.5	35.2	38.2	34.9	44.4	43.8	50.9
Selling, general and administrative expenses	27.7	26.5	27.7	29.2	29.0	30.5	28.5
Research and development	2.4	3.6	2.8	4.9	4.4	3.8	7.6
Operating income	10.4	3.2	7.7	0.8	7.5	1.9	14.9
Interest expense	(0.1)	(1.3)	(1.2)	(1.5)	(1.2)	(1.3)	(1.9)
Other income, net	0.2	0.4	0.0	0.9	0.3	0.7	0.0
Net income	6.7	2.3	4.7	0.3	4.2	0.9	8.3

SIX MONTHS ENDED JUNE 30, 1998 AND 1997

NET SALES. Consolidated net sales increased 36.7% in the six-month period ended June 30, 1998 compared to the same period in 1997. Ophthalmic-related sales increased 18.8%, reflecting new product introductions and acquisitions as well as growth in the base business. Injectable-related sales increased 64.8% compared to the same period in 1997 due primarily to product acquisitions and increased contract manufacturing activity.

GROSS PROFIT. Consolidated gross profit increased 59.0% during the period, with gross margins increasing from 43.8% to 50.9%, reflecting product acquistions.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 27.8% during the six-month period ended June 30, 1998 as compared to the same period in 1997, reflecting increased marketing and promotional activities in the ophthalmic business as well as increased amortization of intangibles related to product acquisitions. The percentage of selling, general and administrative expenses to net sales decreased from 30.5% to 28.5%.

RESEARCH AND DEVELOPMENT. Research and development expenses increased

170.8% in the period, to $2.0 million from $0.7 million in the same period in 1997. The increase reflects an increased number of products under development, including TP-1000. Improved gross profits have enabled the Company to devote substantial resources to developing patented products as part of its long-term growth strategy.

RELOCATION EXPENSES. During the six-month period ended June 30, 1997, the Company recorded $1.5 million in charges related to the relocation of the ophthalmic business and executive offices from Abita Springs, Louisiana to the Chicago area. The charges primarily relate to severance and retention bonus payments as well as a write-down of the Abita Springs facility and equipment to estimated net realizable value.

INTEREST EXPENSE. Interest expense for the six months ended June 30, 1998 was $0.5 million which represented an increase of 93.7% as compared to the same period in 1997 due to higher outstanding debt balances.

NET INCOME. The Company reported net income of $2.1 million or $0.11 per diluted share for the six months ended June 30, 1998. The net income for the comparable prior-year period was $0.2 million or $0.01 per diluted share.

YEARS ENDED DECEMBER 31, 1997 AND JUNE 30, 1996

NET SALES. Net sales increased 24.8% for the year ended December 31, 1997 compared to the year ended June 30, 1996. Ophthalmic-related sales increased 19.5%, primarily due to strong performance in the diagnostic and therapeutic product lines. The acquisition of Indocyanine Green from Becton, Dickinson & Co. in April 1997 and the introduction of the Company's generic version of Timolol Maleate also contributed to the sales increase. Injectable-related sales increased 33.1%, primarily due to penetration into the hospital market and strong performance in rheumatology and antidote products, including BAL in Oil, acquired from Becton, Dickinson & Co. in April 1997. Injectable-related sales also benefited from a continuing shortage of certain blood-derivative pharmaceuticals distributed by the Company.

GROSS PROFIT. Consolidated gross profit increased 57.0% for the year, with gross margins increasing from 35.2% to 44.4%. The increase in gross margins was caused by product acquisitions, a shift in ophthalmic sales mix to higher-margin products and the injectable business' re-engineering of production processes to reduce costs of manufacturing. Margins on the Company's generic version of Timolol Maleate have declined at a faster than anticipated rate, due to the large number of competitors offering the product.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 36.9%, reflecting increased marketing and promotional activities in the ophthalmic business, provisions for employee performance bonuses and expenses associated with the new corporate office facility.

RESEARCH AND DEVELOPMENT. Research and development expenses increased 54.4%, reflecting a greater number of products under development. Actual spending on research and development for the year included approximately $0.7 million pre-funded by Pfizer, Inc. for clinical development of Piroxicam. The pre-funded development reserve was exhausted during 1997. Additional spending for data analysis and development of the NDA filing will be reflected in 1998 research and development expenses.

RELOCATION EXPENSES. During 1997, the Company recorded $1.5 million in charges related to the relocation of the ophthalmic business and executive offices from Abita Springs, Louisiana to the Chicago area. The charges primarily relate to severance and retention bonus payments as well as a write-down of the Abita Springs facility and equipment to estimated net realizable value.

INTEREST EXPENSE. Interest expense increased 12.7%, reflecting higher average outstanding debt balances. Interest income declined 63.7% due to the liquidation of investments of Piroxicam development funds to finance clinical trials.

NET INCOME. Net income for 1997 was $1.8 million or $0.11 per diluted share compared to $0.8 million or $0.05 per diluted share for the year ended June 30, 1996. The increase in earnings resulted from the above-mentioned items.

SIX MONTHS ENDED DECEMBER 31, 1996 AND 1995

NET SALES. Net sales declined 2.5% for the six months ended December 31, 1996 as compared to the same period in 1995. Ophthalmic-related sales declined 7.6%, primarily due to the Company's decision to discontinue its practice of granting wholesaler discounts at the end of each quarter. Injectable-related sales increased 7.2%, primarily due to the acquisition of two anesthesia products from Janssen Pharmaceutica, Inc. in July 1996.

GROSS PROFIT. Consolidated gross profit declined 11.1% compared to the prior year period, with gross margins declining from 38.2% to 34.9%. The decline can be attributed to under-absorption of plant overhead expenses caused by decreased unit sales volume in contract manufacturing services.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 2.5% over the prior year period, primarily due to increased marketing and promotional activities in the ophthalmic business.

RESEARCH AND DEVELOPMENT. Research and development expenses increased 69.2%, reflecting an increased number of products in development.

INTEREST EXPENSE. Interest and other income (expense) increased due to increased interest expense on higher average outstanding debt balances.

NET INCOME. Net income for the period was $44,000 or $0.00 per diluted share compared with $0.8 million or $0.05 per diluted share in the prior year period. The decline is primarily due to the under-absorption of manufacturing overhead expenses and the increase in research and development expenditures.

YEARS ENDED JUNE 30, 1996 AND 1995

NET SALES. Consolidated net sales declined 9.5% for the year ended June 30, 1996 compared to the previous year. Ophthalmic-related sales declined 12.4%, primarily due to the loss of sales of the segment's best-selling allergy product, which was converted to over-the-counter status in October 1994, and to the Company's decision to discontinue its practice of granting wholesaler discounts at the end of each quarter. Injectable-related sales declined 4.5%, primarily due to loss of contract manufacturing customers which resulted in a reduction in manufacturing unit volume.

GROSS PROFIT. Consolidated gross profit declined 21.2% compared to the prior year period, with gross margins declining from 40.5% to 35.2%. The decline can be attributed to price pressure on generic pharmaceuticals and under-absorption of manufacturing overhead due to low unit sales volume.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses declined 13.5% over the prior year period, primarily due to cost-cutting activities in the ophthalmic business in response to sales declines.

RESEARCH AND DEVELOPMENT. Research and development expenses increased 36.1%, reflecting an increased number of ophthalmic generic products in development.

ACQUISITION AND SEVERANCE COSTS. The Company incurred legal, accounting and severance costs of $0.7 million in 1996 associated with the acquisition of PRL.

INTEREST EXPENSE. Interest expense increased $0.4 million due to borrowings for the construction projects at the Company's facilities in Decatur, Illinois. In 1995, other expense included a $0.3 million charge for decline in market value of an equity investment.

NET INCOME. The Company's net income for the period was $0.8 million or $0.05 per diluted share compared with $2.5 million or $0.15 per diluted share in the prior year period. The decline is primarily due to the decline in sales, under-absorption of manufacturing overhead expenses, increased research and development expenditures and costs related to the acquisition of PRL.

SUMMARY OF RESULTS OF OPERATIONS BY QUARTER

The following table sets forth certain quarterly operating information for each of the eight quarters ending June 30, 1998. These data have been prepared on the same basis as the audited financial statements contained elsewhere in this Prospectus and include all normally recurring adjustments necessary for the

fair presentation of the information for the periods presented, when read in conjunction with the Company's Consolidated Financial Statements and related Notes thereto. Results for any previous fiscal quarter are not necessarily indicative of results for the full year or for any future quarter. See "Risk Factors--Quarterly Fluctuation of Results; Possible Volatility of Stock Price."

	QUARTER ENDED							
	SEP. 30, 1996	DEC. 31, 1996	MAR. 31, 1997	JUNE 30, 1997	SEP. 30, 1997	DEC. 31, 1997	MAR. 31, 1998	JUNE 30, 1998
	(IN THOUSANDS)							
Net sales	$ 8,101	$ 8,416	$ 8,869	$ 10,176	$ 11,058	$ 12,220	$ 12,051	$ 13,987
Gross profit	2,969	2,789	3,428	4,916	4,745	5,687	6,242	7,021
Selling, general and administrative expenses	2,433	2,386	2,558	3,246	2,993	3,489	3,745	3,675
Research and development	515	294	361	368	342	803	728	1,246
Operating income	21	109	(942)	1,302	1,410	1,395	1,769	2,100
Interest expense	(128)	(115)	(116)	(138)	(115)	(129)	(190)	(301)
Other income, net	150	--	128	--	--	--	--	--
Net income (loss)	$ 35	$ 9	$ (577)	$ 742	$ 825	$ 802	$ 1,048	$ 1,101

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 1998, the Company had cash and cash equivalents of $0.6 million. Working capital at that date was $11.4 million versus $5.0 million at June 30, 1997. At June 30, 1998, the Company had $10.3 million of financing available under its $25.0 million revolving credit facility.

During the year ended December 31, 1997, the Company generated sufficient cash from operations to finance its working capital requirements, primarily an increase in accounts receivable and inventories related to increased sales volume. Management anticipates additional investment in working capital to finance continued sales growth. Investing activities, which include purchases of property, plant and equipment as well as the purchase of product-related intangible assets, required $6.3 million in cash. Investing activities were funded through issuance of long-term debt of $4.0 million short-term borrowings of $1.8 million and proceeds from the sale of stock of $2.1 million. In 1997, the Company entered into a $15.0 million revolving credit facility, subject to certain financial covenants. In June 1998,

the aggregate borrowing commitment under such revolving credit facility was increased to $25.0 million. Management believes that cash flow from operations, in conjunction with borrowing availability under its revolving credit facility, will be sufficient to meet the cash needs of the business for the next twelve months.

For the six-month period ended December 31, 1996, the Company generated cash from operations in excess of working capital requirements. For the period, net cash provided by operating activities was $2.5 million. The increase in cash provided by operating activities was primarily related to the increase in accruals for wholesaler chargebacks. Net cash utilized for investing activities during the period was approximately $2.0 million which included purchases of property, plant and equipment as well as the purchase of certain product lines. These investing activities were partially funded through net sales of investments and short-term borrowings of $1.5 million.

For the twelve-month period ended June 30, 1996, the Company generated cash from operations in excess of working capital requirements. For the period, net cash provided by operating activities was $10,000 as compared to $0.7 million for the same period in 1995. The decline in cash provided by operating activities was primarily related to the increase in inventory associated with new product acquisitions and other factors. Net cash utilized for investing activities during the period was approximately $0.9 million which included purchases of property, plant and equipment and product licensing costs. These investing activities were partially funded through net sales of investments.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting

Comprehensive Income," which requires all items of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Other comprehensive income may include foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. The accumulated balance of other comprehensive income must be displayed separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company has adopted this accounting standard effective as of January 1, 1998. Because the Company had no other items of comprehensive income, reclassification of financial statements for earlier periods was not required.

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a Company's operating segments. The Company will adopt this accounting standard as of December 31, 1998, as required. The Company expects to continue reporting on ophthalmic and injectable segments.

YEAR 2000 ISSUE

The Company utilizes commercially available software to store and process its business information and transactions. The Company's plans to become Year 2000-compliant involve upgrading the server software of its injectable business and completing the installation of Year 2000-compliant financial software in the ophthalmic business. The Company expects to be fully compliant by the end of 1998. The cost of this software upgrade and conversion is estimated at less than $0.5 million, of which approximately $0.3 million was incurred in 1997. In addition, the Company has communicated with companies with whom it does significant business to determine their Year 2000-compliance readiness and the extent to which the Company is vulnerable to any third-party Year 2000 issues. Based on these communications, the Company does not believe that such companies' Year 2000-compliance readiness will have a material adverse effect on the Company. See "Risk Factors--Risks Related to Year 2000 Issues."

BUSINESS

OVERVIEW

Akorn is a specialty pharmaceutical company that develops, manufactures and markets ophthalmic and injectable sterile pharmaceutical products in the United States. The Company sells more than 90 diagnostic and therapeutic pharmaceutical products focused primarily on ophthalmology, anesthesia, antidotes and rheumatology. The Company also markets ophthalmic surgical instruments and other supplies and provides contract manufacturing for third parties. The Company is one of a limited number of U.S. specialty pharmaceutical companies with sterile manufacturing capabilities. Akorn believes that its sterile manufacturing capabilities, combined with its ability to manufacture a variety of dosage forms (solutions, suspensions and ointments), afford it a competitive advantage. Many of the Company's ophthalmic pharmaceuticals are marketed under its well-recognized "Akorn" label. For the twelve months ended June 30, 1998, Akorn's net sales and net income were approximately $49.3 million and $3.8 million, respectively.

Since January 1, 1996, the Company has acquired or licensed 18 specialty pharmaceutical products. In acquiring or licensing pharmaceutical products, the Company targets products which complement its existing product lines and enable it to leverage its existing manufacturing, marketing and distribution capabilities. After acquiring or licensing a specialty pharmaceutical product, the Company generally focuses on increasing the marketing and promotion of the product and integrating it into the Company's existing product lines.

The Company also develops pharmaceutical products internally. Since January 1, 1996, the Company has received approval for nine ANDAs and one NDA for internally developed sterile pharmaceutical products. In connection with its strategy to continue to internally develop sterile pharmaceutical products, Akorn currently has ten ANDAs submitted to the FDA for new products. In addition, over the next three years, the Company anticipates filing ANDAs for more than ten additional sterile pharmaceutical products and NDAs for three proprietary pharmaceutical products which are in various stages of development.

INDUSTRY OVERVIEW

UNITED STATES PHARMACEUTICAL MARKET. In 1997, sales of pharmaceuticals in the U.S. were approximately $110 billion. While the market is dominated by large multinational pharmaceutical companies which conduct substantial research and development on new pharmaceuticals, significant sales are derived from specialty pharmaceutical products. Industry consolidation and pricing pressures from cost-containment initiatives have raised the threshold level of sales necessary for an individual product to justify significant research and development expenditures and active marketing and promotion from a major pharmaceutical company. As a result, major pharmaceutical companies have generally elected to focus on existing proprietary product lines and develop new branded pharmaceutical products rather than compete in specialty pharmaceutical product lines. Further, the Company believes that pricing and profit pressures are leading major pharmaceutical companies to consider divestitures or licensing of non-core products as a more effective means of realizing value from such products. Major pharmaceutical companies may choose not to market specialty pharmaceutical products because: (i) the market size for an individual product may be too small; (ii) most of such products are no longer subject to patent protection; (iii) continuing to manufacture such products may no longer be cost-effective; and (iv) raw materials may be difficult to obtain.

The result of the foregoing factors has been the emergence of pharmaceutical companies that acquire, license or develop specialty pharmaceutical products. The Company defines specialty pharmaceutical products as those products which share several, but not necessarily all, of the following characteristics: (i) products which no longer fit the strategic focus of major pharmaceutical companies; (ii) products with annual sales typically in the range of $1 to $50 million; (iii) products which receive

minimal promotion from major pharmaceutical companies but compete in promotion-sensitive markets; (iv) products which have sales levels that are less likely to become targets of pricing pressure from managed care or third-party payors, or which have a clear price advantage over alternative treatments; and (v) products which can leverage the existing sales force, manufacturing operations and marketing efforts of specialty pharmaceutical companies.

STERILE PHARMACEUTICAL PRODUCTS. Sterile pharmaceutical products consist of pharmaceuticals produced using sterile manufacturing techniques, such as aseptic filling technologies and heat sterilization. Sterile pharmaceutical products are typically administered in non-solid dosage forms through the injection of solutions or the application of ointments or suspensions. Several factors limit the number of specialty pharmaceutical companies that manufacture sterile pharmaceutical products. The manufacture of sterile pharmaceutical products, as compared to the production of non-sterile pharmaceutical products such as tablets, requires more technologically sophisticated processes and personnel with technical expertise. In addition, substantial capital expenditures are required to develop and maintain the capability to manufacture sterile products. Furthermore, the manufacturing and marketing of sterile pharmaceutical products is subject to extensive governmental regulation. See "--Government Regulation."

All ophthalmic and injectable pharmaceutical products are required to be manufactured in a sterile process because of the way they are administered to patients (I.E., through application to the eye or injection). In 1997, the U.S. ophthalmic and injectable sterile pharmaceutical markets had total sales of approximately $2.0 billion and $8.2 billion, respectively, which represent increases of approximately 10.0% and 12.0%, respectively, from 1996. The Company believes that U.S. sales of ophthalmic and injectable sterile pharmaceutical products will continue to grow due to a significant number of products coming off patent and increasing demand due to the aging of the U.S. population.

STRATEGY

To capitalize on the trend of major pharmaceutical companies devoting less resources to specialty pharmaceutical products, the Company focuses on sterile specialty pharmaceutical products that generally face limited competition. The Company's objective is to leverage its manufacturing and marketing strengths to become a leading specialty sterile pharmaceutical products company. To achieve this objective, the Company seeks to:

PURSUE STRATEGIC ACQUISITIONS OF BRANDED STERILE SPECIALTY PHARMACEUTICAL PRODUCTS. In order to expand or complement its ophthalmic and injectable product lines, the Company intends to continue to pursue strategic acquisitions of branded sterile specialty pharmaceutical products. The Company focuses on the acquisition of products that it believes are capable of achieving a substantial

market presence. Since January 1, 1996, the Company has acquired or licensed 14 branded specialty pharmaceutical products. Such products include: (i) Alfenta and Sufenta, anesthesia-related pharmaceutical products acquired from Janssen Pharmaceutica, Inc.; (ii) Pilo-20 and Pilo-40, therapeutic glaucoma products acquired from ALZA Corporation; and (iii) Indocyanine Green, a diagnostic retinal product acquired from Becton, Dickinson & Co. In addition, the Company enters into licensing arrangements with respect to third-party products such as Biolon-TM-, a product used in ophthalmic surgery to which the Company obtained marketing and distribution rights from Bio-Technology General Ltd. The Company has dedicated personnel who identify and evaluate potential product acquisitions and licensing opportunities. After acquiring or licensing a branded specialty pharmaceutical product, the Company generally focuses on increasing the marketing and promotion of such product and integrating it into its existing product lines.

INTERNALLY DEVELOP STERILE SPECIALTY PHARMACEUTICAL PRODUCTS. The Company intends to capitalize on its existing research and development expertise to continue to internally develop sterile specialty pharmaceutical products. Since January 1, 1996, the Company has received FDA approval for nine ANDAs

and one NDA for internally developed pharmaceutical products. The Company currently has ten ANDAs submitted to the FDA for new products. In addition, over the next three years, the Company anticipates filing ANDAs for more than ten additional pharmaceutical products and NDAs for three proprietary pharmaceutical products which are in various stages of development. The Company's NDA filings are typically for new indications or uses for existing pharmaceutical products. These NDAs provide the Company the potential to enter new markets at a lower cost than by developing new proprietary pharmaceutical compounds. See "Risk Factors--Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities." In developing pharmaceutical products, the Company targets pharmaceuticals which complement its existing products and enable it to leverage its existing manufacturing and marketing capabilities. The Company also develops pharmaceutical products in order to eliminate the need to purchase pharmaceuticals from third-party manufacturers.

LEVERAGE EXISTING INFRASTRUCTURE AND INCREASE OPERATING EFFICIENCIES. The Company intends to improve its profitability by leveraging its existing infrastructure and increasing operating efficiencies. The Company believes that its research and development, manufacturing and marketing capabilities provide it with the ability to profitably offer a broad range of specialty sterile pharmaceutical products. The Company believes that it can use its existing marketing capabilities to increase sales of specialty pharmaceutical products with limited additional expenditures on infrastructure. The Company's existing research and development resources support both ophthalmic and injectable products. The Company's manufacturing and research and development resources, including those recently acquired from ARI, provide it with the opportunity to enhance profitability by internally manufacturing and developing substantially more of its products. Finally, the Company intends to continue to increase operating efficiencies by upgrading capital equipment and reengineering manufacturing processes.

EXPAND STERILE MANUFACTURING AND TECHNICAL CAPABILITIES. The Company intends to expand its sterile manufacturing and technical capabilities to address additional specialty markets and dosage forms. The Company is one of a limited number of specialty pharmaceutical companies with sterile product manufacturing capabilities. Through the recent acquisition of ARI, the Company added the capability to manufacture additional sterile dosage forms (suspensions and ointments). The Company is also developing the capability to manufacture controlled-release ophthalmic pharmaceutical products and lyophilized (freeze-dried) pharmaceutical products. By developing these additional manufacturing capabilities, the Company intends to expand dosage forms within existing markets and pursue other markets. See "Risk Factors--Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities."

OPHTHALMIC PRODUCTS

The Company markets therapeutic and diagnostic ophthalmic pharmaceutical products as well as ophthalmic surgical instruments and supplies. The ophthalmic business generated net sales of approximately $24.9 million in 1997, which represented 58.9% of the Company's total net sales for that year. The Company believes a significant factor in the success of its ophthalmic products has been its ability to capitalize on its extensive ophthalmic product line and well-recognized "Akorn" label. The Company attributes its name recognition

primarily to the success of its comprehensive product catalog which is distributed periodically to approximately 60,000 potential customers, including ophthalmologists, optometrists, hospitals, pharmacies and clinics. The Company has an active base of over 15,000 ophthalmic customers who have made at least one purchase in the last 12 months.

The Company believes it is a leading provider of diagnostic ophthalmic pharmaceutical products. The Company's diagnostic ophthalmic pharmaceutical products are primarily for use in physicians' offices and include a complete line of ophthalmic dilating and constricting solutions, anesthetics and topical stains. The Company's therapeutic ophthalmic pharmaceutical product line includes antibiotics, anti-inflammatories, antibiotic/anti-inflammatory combinations, glaucoma medications, steroids and decongestants/antihistamines. Currently, substantially all of the Company's diagnostic ophthalmic

pharmaceutical products consist of branded products, whereas most of the Company's therapeutic ophthalmic pharmaceutical products are generic versions of products which have come off patent. In response to the typical decline in the price of generic pharmaceutical products over time, the Company has focused additional resources on developing selected pharmaceutical products for sale under its "Akorn" label and acquiring or licensing branded ophthalmic pharmaceutical products. As of June 30, 1998, the Company manufactured approximately 44.0% of the ophthalmic pharmaceutical products that it sold, and it obtained the remainder, as well as the ophthalmic surgical instruments and supplies that it sold, from outside suppliers. As a result of the Company's acquisition of ARI in July 1998, which provides it with the ability to manufacture sterile ointments and suspensions, the Company will manufacture a greater percentage of the ophthalmic pharmaceutical products that it sells. Ophthalmic surgical instruments and supplies available from the Company include surgical knives and other surgical instruments, balanced salt solution, post-operative kits, surgical tapes, eye shields and anti-ultraviolet goggles.

The following are summary descriptions of certain of the Company's significant ophthalmic products:

FLURESS and FLUORACAINE. Fluress and Fluoracaine are diagnostic ophthalmic solutions combining fluorescein dye with alternative anesthetics. Fluress and Fluoracaine are used for procedures such as tonometry (pressure testing), removal of corneal foreign bodies and other short corneal or conjunctival procedures. Fluress and Fluoracaine are branded ophthalmic products manufactured by the Company. A number of fluorescein products with significantly lower market share compete with Fluress and Fluoracaine in the United States.

INDOCYANINE GREEN ("ICG"). ICG is a diagnostic, water-soluble dye used by ophthalmologists to study circulation in the back of the retina. ICG is a branded product subject to an NDA owned by the Company and is manufactured for it by a third-party contractor. There are no generic equivalents of ICG marketed in the United States.

GENTAK. Gentak is a broad-spectrum topical antibiotic used to treat a variety of ophthalmic bacterial infections. It is supplied in 5ml and 15ml bottles of solution and a 3.5 gram ointment tube. Gentak is a branded generic equivalent of Gentamycin Sulfate and is currently manufactured for the Company by a third-party contractor. There are a number of products competing with the Company in this market.

OPHTHALMIC PRODUCTS BY CATEGORY. The table below sets forth information concerning certain ophthalmic sterile pharmaceutical products marketed by the Company:

PRODUCT CATEGORY	NUMBER OF PRODUCTS SOLD BY THE COMPANY	U.S. MARKET SIZE(1)
		(IN MILLIONS)
Antibiotic	14	$ 122
Antibiotic/Anti-Inflammatory	10	130
Anti-Inflammatory	7	94
Diagnostic	15	33(2)
Glaucoma	7	715
Other Therapeutic	25	272

- ------------------------

(1) Based on 1997 sales as reported by IMS America (other than as set forth in footnote (2)).
(2) Based on internal Company estimates.

INJECTABLE PRODUCTS

The Company manufactures and markets a line of specialty injectable pharmaceutical products. The Company's injectable business generated net sales of $17.4 million in 1997, which represented 41.1% of the Company's total net sales for that year.

The Company utilizes its research and development, sterile manufacturing and marketing capabilities to offer a variety of specialty injectable pharmaceutical products. Pharmaceutical products manufactured and marketed by the Company include anesthetics, antidotes and pharmaceuticals used to treat rheumatoid arthritis. Currently, most of the injectable pharmaceutical products manufactured and marketed by the Company are generic products. To support its efforts to sell injectable pharmaceutical products, the Company also supplies customers with difficult-to-obtain pharmaceutical products, such as blood-derivative pharmaceuticals, from outside sources. As part of its injectable business, the Company also manufactures injectable pharmaceutical products for third parties. See "--Manufacturing."

The following are summary descriptions of certain of the Company's significant injectable products:

ALFENTA and SUFENTA. Alfenta and Sufenta are therapeutic injectable opioid analgesics used in inducing and maintaining general anesthesia. Each product is a branded pharmaceutical manufactured and marketed by the Company. Alfenta and Sufenta are each subject to an NDA owned by the Company and are primarily sold to hospitals and outpatient surgery centers. Alfenta is on patent until June 1999 while Sufenta is no longer protected by patent. While a number of competitors market a generic version of Sufenta, there are no generic equivalents of Alfenta marketed in the United States.

BAL IN OIL. BAL in Oil is a therapeutic dimercaprol injection used to treat arsenic, gold and mercury poisoning. BAL in Oil is a branded pharmaceutical manufactured and marketed by the Company. It is subject to an NDA owned by the Company and is primarily sold to hospitals and military health care facilities. There are no generic equivalents of BAL in Oil marketed in the United States.

CYANIDE ANTIDOTE PACKAGES. Cyanide antidote packages are therapeutic kits that contain the necessary pharmaceuticals to treat cyanide poisoning. The Company manufactures and markets the pharmaceuticals used in these kits. These kits compete in the antidote segment of the injectable pharmaceutical product market and are primarily sold to hospitals and industrial companies. While there are other products used to treat cyanide poisoning that compete with these cyanide antidote packages, there are no other kits which compete with these packages in the U.S. market.

AUROLATE (GOLD SODIUM THIOMALATE INJECTION). Aurolate is a therapeutic aqueous solution used to treat selected cases of active rheumatoid arthritis in both adults and juveniles. The product is currently manufactured and marketed by the Company and is primarily sold to rheumatology clinics and hospitals. There are no generic equivalents of Aurolate marketed in the United States.

INJECTABLE PRODUCTS BY CATEGORY. The table below sets forth information concerning certain injectable sterile pharmaceutical products marketed by the Company:

PRODUCT CATEGORY	NUMBER OF PRODUCTS SOLD BY THE COMPANY	U.S. MARKET SIZE(1)
		(IN MILLIONS)
Anesthesia	4	$ 98
Antidote	5	46
Rheumatology	1	26
Other	5	56(2)

- ------------------------

(1) Based on 1997 sales as reported by IMS America (other than with respect to footnote (2)).
(2) Based on internal Company estimates.

PRODUCT ACQUISITIONS

The Company generally seeks to acquire or license specialty pharmaceutical products which: (i) complement the Company's existing products and allow the Company to leverage its existing manufacturing and marketing capabilities; (ii) increase profitability; or (iii) establish or enhance strategic relationships with major pharmaceutical companies. The table below sets forth information concerning certain branded products acquired or licensed by the Company since January 1, 1996:

DATE	PHARMACEUTICAL PRODUCT	PRODUCT CATEGORY	SELLER
July 1998	Fluress	Diagnostic	Allergan, Inc.
	Ful-Glo Strips	Diagnostic	Allergan, Inc.
	Rose Bengal Strips	Diagnostic	Allergan, Inc.
March 1998	BioLon-TM-(1)	Other	BioTechnology General Ltd.
February 1998	Pilo-20	Glaucoma	ALZA Corporation
	Pilo-40	Glaucoma	ALZA Corporation
January 1998	Alfenta	Anesthesia	Janssen Pharmaceutica, Inc.
	Sufenta	Anesthesia	Janssen Pharmaceutica, Inc.
December 1997	Paremyd	Diagnostic	Allergan, Inc.
April 1997	BAL In Oil	Antidote	Becton, Dickinson & Co.
	ICG	Diagnostic	Becton, Dickinson & Co.
July 1996	Inapsine	Anesthesia	Janssen Pharmaceutica, Inc.
	Sublimaze	Anesthesia	Janssen Pharmaceutica, Inc.

- ---
(1) Indicates a branded pharmaceutical product that was licensed not acquired.

Since January 1, 1996, the Company has also acquired five generic pharmaceutical products.

RESEARCH AND DEVELOPMENT

In developing new sterile pharmaceutical products, the Company considers a variety of factors including: (i) existing or potential marketing opportunities for such products; (ii) the capability of the Company to manufacture such products; (iii) whether such products complement existing products of the Company; (iv) the opportunities to leverage such products with the development of additional products; and (v) the ability to develop co-marketing relationships with other pharmaceutical companies. The Company currently has 36 full-time employees that are involved in research and development. The Company's research and development expenditures for 1995, 1996, 1997 and the first six months of 1998 were $0.9 million, $1.2 million, $1.9 million and $2.0 million, respectively.

Since January 1, 1996, the Company has received FDA approval for nine ANDAs and one NDA for internally developed sterile pharmaceutical products. The Company currently has ten ANDAs submitted to the FDA for new sterile pharmaceutical products. In addition, over the next three years, the Company currently anticipates filing ANDAs for more than ten additional sterile pharmaceutical products and NDAs for three proprietary pharmaceutical products which are in various stages of development. See "Risk Factors--Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities."

Set forth below is a brief description by product category of currently submitted or contemplated ANDAs for new products and NDAs for new indications of existing products:

	UNDER DEVELOPMENT	
SUBMITTED		U.S. MARKET

	ANDAS	ANDAS	NDAS	SIZE(1)
				(IN MILLIONS)
OPHTHALMIC:				
Antibotic	2	3	--	$ 122
Antibiotic/Anti-Inflammatory	--	2	--	130
Anti-Inflammatory	--	--	1	94
Diagnostic	2	--	--	33(2)
Glaucoma	2	1	--	715
Other Therapeutic	--	2	1	272
INJECTABLE:				
Anesthesia	4	3	--	$ 98
Antidote	--	--	--	46
Rheumatology	--	--	--	26
Other	--	4	1	56(2)
TOTAL	10	15	3	

- ---

(1) Based on 1997 sales as reported by IMS America (other than with respect to footnote (2)).

(2) Based on internal Company estimates.

Set forth below is a brief description of certain proprietary products currently under development by the Company which have been publicly announced:

PIROXICAM OPHTHALMIC SOLUTION ("PIROXICAM"). Piroxicam is a non-steroidal anti-inflammatory drug to be used during cataract surgery. The Company has acquired the ophthalmic indication for this compound from Pfizer, Inc. The Company currently anticipates filing an NDA for this product in 1999. According to industry sources, U.S. sales in the non-steroidal, anti-inflammatory market were approximately $60.0 million in 1997.

COMBINATION MIOTIC LYOPHILIZED POWDER AND DILUENT ("MLPD"). MLPD is a therapeutic product to be used to reduce and control post-operative intraocular pressure increases during and following cataract surgery. The Company has licensed the world-wide rights to MLPD and currently anticipates filing an NDA for this product in 2000. According to industry sources, U.S. sales in this market were approximately $15.0 million in 1997.

TP-1000. TP-1000 is a therapeutic injectable product to be used in the treatment of migraine headaches. The Company has filed an Investigational New Drug application for this product and has completed initial dose ranging studies. The Company currently anticipates filing an NDA for this product in 1999. According to industry sources, U.S. sales in the injectable migraine treatment market were approximately $50.0 million in 1997.

SALES AND MARKETING

The Company maintains a multi-channel sales and marketing structure for its ophthalmic products. This structure includes 21 field sales representatives who, together with two district managers, make personal calls on customers, such as physicians and group practices. In addition, the Company maintains an 11-person telemarketing team that sells primarily to ophthalmologists, optometrists and clinics. The Company's eight-person customer service group is responsible for processing orders, including those originating from the Company's product catalog. This catalog features over 2,000 ophthalmic products

and is distributed to over 60,000 potential customers including ophthalmologists, optometrists, hospitals, chain-pharmacies and clinics. The catalog is widely-recognized in the ophthalmic industry and has an active base of over 15,000 customers who have made at least one purchase in the last 12 months. The Company believes that the catalog's presence with ophthalmologists, optometrists, hospitals, chain-pharmacies and other customers provides it with valuable recognition of the "Akorn" name. The Company attempts to leverage this name recognition in its sales and marketing efforts. The ophthalmic business also employs a national accounts group consisting of four persons who sell primarily to full-service wholesalers, retail chains and other group purchasing organizations.

The Company's sales and marketing efforts for its injectable pharmaceutical products include employing nine telemarketing and customer service representatives who sell through telemarketing and direct-mail activities. In

addition, the Company has entered into a significant number of contracts with national and regional group purchasing organizations to distribute its injectable products and increase its sales volume. The Company also intends to build a key-account sales force for the injectable business over the next several years as new products are introduced. The Company's customers for injectable pharmaceutical products consist primarily of individual hospitals and clinics, specialty physicians and group purchasing organizations.

MANUFACTURING

The Company's manufacturing facilities, located in Decatur, Illinois and Somerset, New Jersey, have approximately 131,000 square feet and 30,000 square feet, respectively. Each facility includes manufacturing, packaging, laboratory, office and warehouse space. The Company manufactures products in accordance with cGMP requirements and is licensed by the DEA to procure and produce controlled substances.

The Company has the ability to manufacture a diverse group of sterile pharmaceutical products which it believes provides it with a competitive advantage in the specialty pharmaceutical industry. With the acquisition of the ARI business in July 1998, the Company added two additional product dosage forms (ointments and suspensions) for which it did not previously have manufacturing capabilities. In addition, the Company anticipates adding freeze-dried (lyophilized) and control-release manufacturing capabilities. This increased manufacturing capability will allow the Company to further reduce its dependence on third-party manufacturers and give the Company the opportunity to increase margins.

As of June 30, 1998, aggregate capacity utilization at the Company's manufacturing facilities was approximately 50.0%. In general, the Company transfers production of newly acquired pharmaceutical products and their product line extensions for which it has production capabilities to its manufacturing facilities as soon as practicable after regulatory requirements and contractual obligations are satisfied. See "Risk Factors--Government Regulation." The Company also maintains integrated manufacturing support systems including quality assurance, quality control, regulatory compliance, inventory control and packaging.

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. 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 deliver its products as planned, which could have a material adverse effect on the Company's business, financial condition and results of operations.

CONTRACT MANUFACTURING AND RELATED CAPABILITIES. The Company manufactures injectable pharmaceutical products for third parties which allows it to use excess capacity at its manufacturing facilities. The Company's third-party manufacturing and related capabilities include product development, process and product validation, manufacturing and the filing of ANDAs for its customers. These capabilities allow the Company to market its services to specialty pharmaceutical companies,

development-stage biotechnology companies and contract research organizations which do not have these capabilities. The Company also manufactures injectable pharmaceuticals for major pharmaceutical companies which the Company believes allows it to establish or enhance its relationships with these companies so that when one of them decides to divest or license a specialty pharmaceutical product, it is more likely to give the Company an opportunity to acquire or license the product. For example, the Company manufactures sterile pharmaceuticals for Janssen Pharmaceutica, Inc. and Pfizer, Inc., from each of which it has acquired or licensed specialty pharmaceutical products.

The Company has historically limited its sales and marketing efforts in the contract manufacturing business to personal contacts with major pharmaceutical companies and limited trade journal advertisements. In 1997, the Company implemented an expanded marketing program emphasizing the full-service capabilities of the injectable business' third-party contract manufacturing operations. Components of this marketing program include increased print advertising, attendance at trade shows by Company personnel and contributions to industry journals and publications, as well as a continued emphasis on personal contacts and relationships with major pharmaceutical companies.

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 one U.S. patent for its ophthalmic and injectable pharmaceutical products and has two additional 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 trade secrets, unpatented proprietary know-how and continuing technological innovation to 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.

COMPETITION

The ophthalmic and injectable pharmaceutical industries are 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 a larger volume of sales, more sales personnel and larger facilities than the Company. The Company's competitors in the ophthalmic pharmaceutical industry include: Alcon Laboratories, Inc., owned by Nestle, S.A.; Allergan, Inc.; CIBA Vision, a division of Novartis, AG; and Bausch & Lomb Incorporated. The Company's competitors in the injectable pharmaceutical industry include Abbott Laboratories; Gensia Sicor Inc.; and Steris Laboratories, a division of Schein Pharmaceutical, Inc. The Company believes that competition in the sale of its products is based primarily on price, service, availability and product efficacy. See "Risk Factors--Competition; Uncertainty of Technological Change."

GOVERNMENT REGULATION

Virtually all aspects of the Company's business are regulated by federal and state statutes and government agencies. The developing, testing, manufacturing, processing, quality, safety, efficacy, formulation, 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 FDA. These activities are also regulated by various agencies of the states and localities in which the Company's products are sold.

All pharmaceutical manufacturers, including the Company, are subject to regulation by the FDA under the authority of the 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 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. The initiation of any of these 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 materially adversely affect the Company's business, financial condition and results of operations.

All "new drugs" must be the subject of an NDA, and all generic equivalents must be the subject of an ANDA, before they may be marketed in the United States. Certain prescription drugs are not currently required to be the subject of an approved NDA or ANDA 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. The FDA has the authority to withdraw existing NDA or 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 cGMPs and drug products 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.

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. The Company's and its third-party manufacturers' manufacturing facilities are continually subject to inspection by such governmental agencies and manufacturing operations could be interrupted or halted in any such facilities if such inspections prove unsatisfactory.

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 effort by

the FDA to change the status of any of its "grandfathered" products, but there is no assurance that such initiatives will not occur in the future.

ANDA PROCESS. FDA approval is required before a generic equivalent to a previously approved brand drug or new dosage form of an existing brand drug can be marketed. The Company usually receives approval for such products by submitting an ANDA to the FDA. When processing an ANDA, the FDA waives the requirement of conducting complete clinical studies, although it may require bioavailability and/or bioequivalence studies. "Bioavailability" indicates the rate and extent of absorption and levels of concentration of a drug product in the blood stream needed to produce a therapeutic effect. "Bioequivalence" compares the bioavailability of one drug product with another, and when established, indicates that the rate of absorption and levels of concentration of a generic drug in the body are substantially equivalent to the previously approved drug. An ANDA may be submitted for a drug on the basis that it is bioequivalent to a previously listed drug, contains the same active ingredient, has the same route of administration, dosage form, and strength as the listed drug, and otherwise complies with legal and regulatory requirements.

Among the requirements for drug approval by the FDA is that the Company's manufacturing procedures and operations conform to cGMPs. The cGMP regulations must be followed at all times during the manufacture, storage and distribution of pharmaceutical products. In complying with the standards set forth in the cGMP regulations, the Company must continue to expend time, money and effort in the areas of production, quality control and record keeping to ensure full compliance.

If the FDA believes a company is not in compliance with cGMPs, certain

sanctions are imposed upon that company including: (i) withholding from the company new drug approvals as well as approvals for supplemental changes to existing applications; (ii) preventing the company from receiving the necessary export licenses to export its products; and (iii) classifying the company as an "unacceptable supplier" and thereby disqualifying the company from selling products to federal agencies. The Company believes it is currently in compliance with cGMPs.

In May 1992, the Generic Drug Enforcement Act (the "Generic Act") was enacted. The Generic Act, a result of the legislative hearings and investigations into the generic drug approval process, allows the FDA to impose debarment and other penalties on individuals and companies that commit certain illegal acts relating to the generic drug approval process. In some situations, the Generic Act requires the FDA to debar (i.e., not accept or review ANDAs for a period of time) a company or an individual that has committed certain violations. It also provides for temporary denial of approval of applications during the investigation of certain violations that could lead to debarment and also, in more limited circumstances, provides for the suspension of the marketing of approved drugs by the affected company. Lastly, the Generic Act allows for civil penalties and withdrawal of previously approved applications. Neither the Company nor any of its employees have ever been subject to debarment.

NDA PROCESS. FDA approval is required before any new drug can be marketed. An NDA is a filing submitted to the FDA to obtain approval of a drug not eligible for an ANDA and must contain complete pre-clinical and clinical safety and efficacy data or a right of reference to such data. Before administering a new drug in healthy human subjects may begin, stringent government requirements for preclinical data must be satisfied. The pre-clinical data, typically obtained from studies in animal species, as well as from laboratory studies, are submitted in an Investigational New Drug ("IND") application, or its equivalent in countries outside the United States, where clinical trials are to be conducted. The preclinical data must provide an adequate basis for evaluating both the safety and the scientific rationale for the initiation of clinical trials.

Clinical trials are typically conducted in three sequential phases, although the phases may overlap. In Phase I, which frequently begins with the initial introduction of the compound into healthy human subjects prior to introduction into patients, the product is tested for safety, adverse effects, dosage, tolerance absorption, metabolism, excretion and other elements of clinical pharmacology. Phase II

typically involves studies in a small sample of the intended patient population to assess the efficacy of the compound for a specified indication, to determine dose tolerance and the optimal dose range as well as to gather additional information relating to safety and potential adverse effects. Phase III trials are undertaken to further evaluate clinical safety and efficacy in an expanded patient population at typically dispersed study sites, in order to determine the overall risk-benefit ratio of the compound, and to provide an adequate basis for product labeling. Each trial is conducted in accordance with certain standards under protocols that detail the objects of the study, the parameters to be used to monitor safety and efficacy criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND. In some cases, the FDA allows a company to rely on data developed in foreign countries and therefore not independently repeat some or all of those studies.

Data from preclinical testing and clinical trials are submitted to the FDA as an NDA for marketing approval and to other health authorities as a marketing authorization application. The process of completing clinical trials for a new drug may take several years and require the expenditure of substantial resources. Preparing an NDA or marketing authorization application involves considerable data collection, verification, analysis and expense, and there can be no assurance that approval from the FDA or any other health authority will be granted on a timely basis, if at all. The approval process is affected by a number of factors, primarily the risks and benefits demonstrated in clinical trials as well as the severity of the disease and the availability of alternative treatments. The FDA or other health authorities may deny an NDA or marketing authorization application if the regulatory criteria are not satisfied, or such authorities may require additional testing or information.

Even after initial FDA or other health authority approval has been obtained, further studies, including Phase IV post-marketing studies, may be required to

provide additional data on safety. Additional studies generally also are required to gain approval for the use of a product as a treatment for clinical indications other than those for which the product was initially tested. Also, the FDA or other regulatory authorities require post-marketing reporting to monitor the adverse effects of the drug. Results of post-marketing programs may limit or expand the further marketing of the products. Further, if there are any modifications to the drug, including changes in indication, manufacturing process or labeling or a change in the manufacturing facility, an application seeking approval of such changes must be submitted to the FDA or other regulatory authority. Additionally, the FDA regulates post-approval promotional labeling and advertising activities to assure that such activities are being conducted in conformity with statutory and regulatory requirements. Failure to adhere to such requirements can result in regulatory actions which could have a material adverse effect on the Company's business, results of operations and financial condition.

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.

EMPLOYEES

As of July 20, 1998, the Company employed 309 persons, consisting of 157 manufacturing employees, 80 sales and marketing employees, 36 research and development employees and 36 management and other employees. The Company's success depends in large part on attracting and retaining talented and experienced personnel. See "Risk Factors--Need to Attract and Retain Key Personnel in Highly Competitive Marketplace." None of the Company's employees are represented by labor unions and the Company considers its relationship with its employees to be good.

FACILITIES

The Company's headquarters and administrative, sales and marketing operations are based in approximately 11,000 square feet of leased space located in an office building in Lincolnshire, Illinois. In September 1998, the Company anticipates moving its principal executive offices to an approximately 38,000 square foot office and warehouse facility in Buffalo Grove, Illinois. The Company's former headquarters, consisting of approximately 30,000 square feet in Abita Springs, Louisiana, is currently subject to a pending contract for sale which the Company expects to close by the end of 1998.

The Company owns a 55,000 square-foot manufacturing facility in Decatur, Illinois and leases a 30,000-square foot manufacturing facility in Somerset, New Jersey. The Company also owns a 76,000 square foot facility located in Decatur, Illinois. This facility is currently used for packaging, distribution, warehousing and office space. The Company also leases approximately 7,000 square feet of office and warehousing space in San Clemente, California. The Company considers its facilities adequate to accommodate growth in the foreseeable future.

LEGAL PROCEEDINGS

From time to time, the Company is a party to legal proceedings arising in the ordinary course of business. The Company believes that it is not a party to any legal proceedings which, if adversely decided, would have a material adverse effect on the Company's business, financial condition and results of operations.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The executive officers and directors of the Company are as follows:

NAME	AGE	POSITION
John N. Kapoor, Ph.D.	54	Chairman of the Board of Directors and Chief Executive Officer
Floyd Benjamin	55	Executive Vice President and Director
R. Scott Zion	47	Senior Vice President
Rita J. McConville	40	Vice President, Chief Financial Officer, Secretary and Treasurer
Daniel E. Bruhl, M.D.(1)	56	Director
Doyle S. Gaw(1)	67	Director

(1) Member of the Compensation Committee and the Audit Committee

DR. KAPOOR has served as Chief Executive Officer of the Company since May 1996, and as Chairman of the Board of the Company since May 1995 and from December 1991 to January 1993. From April 1993 to May 1995, Dr. Kapoor served as acting Chairman of the Board of the Company. Dr. Kapoor currently serves as chairman of the board of Option Care, Inc. ("OCI"), a company specializing in infusion services and supplies, and served as OCI's chief executive officer from August 1993 to April 1996. Since April 1990, Dr. Kapoor has served as president of EJ Financial. Dr. Kapoor currently serves as a director for two specialty pharmaceutical companies, Unimed, Inc. and NeoPharm, Inc.

MR. BENJAMIN has served as Executive Vice President and a director of the Company since May 1996. Mr. Benjamin has served as President of Taylor Pharmaceuticals since May 1996. From October 1994 to May 1996, Mr. Benjamin served as president of PRL. From October 1993 to October 1994, he was a consultant to PRL. From February 1992 to October 1993, Mr. Benjamin was president and chief executive officer of Neocrin, Inc., a biomedical venture capital company. Prior to February 1992, Mr. Benjamin served as chief operating officer of Lyphomed.

MR. ZION has served as Senior Vice President of the Company since January 4, 1997. In addition, he has served as General Manager of the Company's ophthalmic business during such period. From February 1993 through November 1996, Mr. Zion was Senior Vice President of Pilkington Barnes Hind, a worldwide contact lens manufacturer and marketer. Prior to February 1993, Mr. Zion was in a variety of sales and sales management positions at Mead Johnson, a Bristol-Myers Squibb subsidiary.

MS. MCCONVILLE has served as Vice President, Chief Financial Officer, Secretary and Treasurer of the Company since March 1997. From August 1993 to March 1997, Ms. McConville served as Senior Director and Controller of OCI. From June 1990 to July 1993, she served as Controller of VideOcart, Inc., a sales and marketing company.

DR. BRUHL has served as a director of the Company since 1983. Dr. Bruhl is an ophthalmologist who serves as president of the Surgery Center of Fort Worth and as a director of Medsynergies, Inc., a private ophthalmology practice management company. From 1983 to 1996, Dr. Bruhl served as a director of Surgical Care Affiliates until it merged with HEALTHSOUTH Corporation.

MR. GAW has served as a director of the Company since 1977. From 1988 to 1990, Mr. Gaw served as Chairman of the Board of Directors of the Company. Mr. Gaw is a private investor focusing on real estate investments.

The Company's executive officers are appointed annually by, and serve at the discretion of, the Board of Directors. Other than Dr. Kapoor, each executive officer is a full-time employee of the Company.

Dr. Kapoor devotes approximately two days per week to his duties as Chief Executive Officer. See "Risk Factors--Relationships With Other Entities; Conflicts of Interest." There are no family relationships between any director or executive officer of the Company.

COMMITTEES OF THE BOARD OF DIRECTORS

COMPENSATION COMMITTEE. The members of the Compensation Committee are Daniel E. Bruhl, M.D. and Doyle S. Gaw, both of whom are non-employee directors. The Compensation Committee reviews various compensation matters with respect to the executive officers and directors of the Company.

AUDIT COMMITTEE. The members of the Audit Committee are Dr. Bruhl and Mr. Gaw, both of whom are non-employee directors. The Audit Committee is responsible for consulting with the independent auditors and discussing audit recommendations with management and reporting the results of its reviews to the Board of Directors.

DIRECTOR COMPENSATION

For services as Chairman of the Board of the Company, John N. Kapoor, Ph.D. receives a fee of $50,000 per year, which is included in the Summary Compensation Table. Each other director who is not a salaried officer or consultant of the Company receives a fee for his services as a director of $1,000 per regular meeting of the Board of Directors, $250 per telephone meeting and $500 per committee meeting, plus reimbursement of his expenses related to those services. In addition, the chairman of each committee (other than Dr. Kapoor) receives an annual fee of $2,500.

All directors of the Company participate in the Company's Stock Option Plan for Directors, pursuant to which each director of the Company is granted an option to acquire 5,000 shares of Common Stock on the day after each annual meeting of shareholder at which he is elected to serve as a director. Any director appointed between annual meetings is entitled to receive a pro rata portion of an option to acquire 5,000 shares. The Compensation Committee may, in its sole discretion, grant an option to purchase up to 100,000 shares to a person who is not already a director and who becomes a director at any time. No member of the Compensation Committee is eligible to be granted such an option and any director who has been granted such an option is not permitted to serve on the Compensation Committee for one year after such grant. Options granted under the plan expire five years from the date of grant. The option exercise price for all options granted under the plan is the fair market value of the shares covered by the option at the time of the grant.

EXECUTIVE COMPENSATION

The following table summarizes the compensation paid by the Company for services rendered during fiscal years 1996 and 1997 and the six-month interim period ended December 31, 1996 to the Company's chief executive officer and to each other executive officer of the Company whose total annual salary and bonus for such year exceeded $100,000 (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
NAME AND PRINCIPAL POSITION	FISCAL YEAR ENDED	SALARY	BONUS	NUMBER OF SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION(1)
John N. Kapoor, Ph.D.(2).....	December 31, 1997	$ 78,750	$ 21,000(3)	5,000	$ 40,000
Chairman and Chief	December 31, 1996(4)	34,375	--	85,938	--
Executive Officer	June 30, 1996	10,000	--	5,000	40,000
Floyd Benjamin(5).....	December 31, 1997	200,000	--	5,000	2,250
Executive Vice President	December 31, 1996(4)	100,000	--	50,000	--
	June 30, 1996	16,667	--	3,750	--
R. Scott Zion(6).....	December 31, 1997	175,774	54,000(3)	125,000	101,183
Senior Vice President					
Rita J. McConville(7).....	December 31, 1997	87,351	26,250(3)	45,000	688
Vice President, Chief Financial Officer, Secretary and Treasurer					

- ---

(1) Represents contributions to the Company's 401(k) Plan, except as indicated in notes (2) and (6).

(2) During the years ended June 30, 1996 and December 31, 1997, Dr. Kapoor received $50,000 for his services as Chairman of the Board, $40,000 of which was waived in exchange for other consideration, as described under "Certain Relationships and Related Transactions." Dr. Kapoor became Chief Executive Officer on May 31, 1996. Beginning in July 1996, Dr. Kapoor has received

$68,750 annually for his services as Chief Executive Officer.
(3) Represents bonuses awarded for 1997 performance paid in 1998.
(4) Represents the six months ended December 31, 1996. In October 1996, the Company changed its fiscal year from the year ending June 30 to a calendar year.
(5) Mr. Benjamin became an executive officer of the Company on May 31, 1996.
(6) Mr. Zion became an executive officer of the Company on January 4, 1997. His other compensation includes $98,739 for reimbursement of relocation expenses and $2,444 for an automobile allowance.
(7) Ms. McConville became an executive officer of the Company on February 28, 1997.

The table below sets forth information as to options granted during fiscal year 1997 to the Named Executive Officers:

OPTIONS GRANTS IN 1997

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1997	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
John N. Kapoor, Ph.D.	5,000	1%	$ 2.28	2/28/02	$ 3,150	$ 6,960
Floyd Benjamin.....	5,000	1%	2.28	2/28/02	3,150	6,960
R. Scott Zion.....	125,000	13%	2.38	2/28/02	82,021	181,245
Rita J. McConville.....	45,000	5%	2.38	2/28/02	29,528	65,248

The table below sets forth information as to options exercised during fiscal year 1997 by the Named Executive Officers:

AGGREGATED OPTION EXERCISES IN 1997 AND FISCAL YEAR-END OPTION VALUES

	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1997		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1997	
NAME	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
John N. Kapoor, Ph.D.	67,969	42,969	$ 84,401	$ 64,239
Floyd Benjamin.....	33,750	25,000	47,381	37,375
R. Scott Zion.....	31,250	93,750	39,063	117,188
Rita J. McConville.....	11,250	33,750	14,063	42,188

1988 INCENTIVE COMPENSATION PROGRAM

Under the 1988 Incentive Compensation Program (the "Incentive Program") any officer or key employee of the Company is eligible to receive non-qualified options as designated by the Board of Directors. Currently, 4,500,000 shares of the Common Stock are reserved to be issued under the Incentive Program of which approximately 2.3 million shares were still available as of June 30, 1998. The exercise price of the options granted under the Incentive Program may not be less than 50% 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 year ended December 31, 1997, the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995 have exercise prices equivalent to the market value of the 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.

1991 STOCK OPTION PLAN FOR DIRECTORS

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 the option on the date of the grant. Each director of the Company is automatically granted an option each year to acquire 5,000 shares under the Directors' Plan on the day following the annual meeting of shareholders. As of December 31, 1997, 500,000 shares of the Common Stock were reserved to be issued under the Directors' Plan. Options

granted under the Directors' Plan are exercisable six months after the date of grant and expire five years from the date of grant.

EMPLOYEE STOCK PURCHASE PLAN

The Akorn, Inc. Employee Stock Purchase Plan (the "Stock Purchase Plan") permits eligible employees to acquire shares of the Company's common stock through payroll deductions not exceeding 15.0% of gross compensation, at a 15.0% 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 Stock Purchase Plan. Purchases of shares were issued from treasury stock and approximated 56,000, 18,000 and 9,000 shares, respectively, during the fiscal year ended June 30, 1996, the six months ended December 31, 1996 and the fiscal year ended December 31, 1997.

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 Company's matching contribution is a discretionary percentage of the amount contributed by each employee.

EMPLOYMENT AGREEMENTS

In May 1996, the Company entered into an employment agreement with Floyd Benjamin providing for an annual salary of $200,000, plus bonuses determined by a formula stated in the agreement. The Board of Directors has the discretion to increase Mr. Benjamin's annual salary. Mr. Benjamin's current annual salary is $212,000.

The agreement terminates three years from inception. If Mr. Benjamin's employment is otherwise terminated by the Company without "cause" as defined in the agreement, he is entitled to a lump sum payment equal to his salary through the remainder of the employment term, plus any performance-based bonus to which he would have been entitled had the performance goals been achieved. Mr. Benjamin is also subject to non-compete and confidentiality provisions pursuant to the terms of his employment agreement.

The Company may pay up to 50.0% of any of Mr. Benjamin's bonuses in options to purchase Common Stock, with such options being valued at 25.0% of the market price at the time the options are issued. The options will be issued under the Incentive Program, on terms similar to other options issued under the Incentive Program.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For services performed by John N. Kapoor, Ph.D. in connection with the Company's acquisition of Taylor Pharmaceuticals, the John N. Kapoor Trust, an entity controlled by Dr. Kapoor (the "Kapoor Trust"), received 125,000 shares of Common Stock which were subject to forfeiture if the market price of the Common Stock did not reach $5.00 by January 15, 1996. In August 1995, the Company, the Kapoor Trust and Dr. Kapoor entered into an agreement under which: (i) the forfeiture period was extended to January 15, 1998; (ii) the forfeiture would not occur in the event that persons unaffiliated with Dr. Kapoor acquired beneficial ownership of more than 50% of the outstanding common stock of the Company; and (iii) Dr. Kapoor waived his right to receive $40,000 otherwise payable to him by the Company for serving as Chairman of the Board in fiscal 1996. On May 23, 1997, the Company, the Kapoor Trust and Dr. Kapoor entered into an agreement under which (i) the forfeiture period was extended to January 15, 2000; and (ii) Dr. Kapoor waived his right to receive $40,000 otherwise payable to him by the Company for serving as Chairman of the Board in fiscal 1997. On February 20, 1998, the Common Stock closed at $5.1875 with the result that the above described forfeiture provision was terminated.

Under agreements between the Company and the Kapoor Trust, the Kapoor Trust is entitled to designate up to two individuals to be nominated and recommended by the Board of Directors for election as a director. In 1998, Dr. Kapoor was nominated by the Kapoor Trust.

In November 1991, the Company and EJ Financial entered into a consulting agreement whereby EJ Financial serves as an independent consultant which

provides management consulting services relating to the Company's strategic corporate objectives, primarily in the area of new product opportunities. In exchange for these services, EJ Financial is paid a consulting fee in the amount of $1,500 per month in addition to reimbursement by the Company of certain related expenses.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of June 30, 1998, and as adjusted to reflect the sale of the Common Stock offered hereby, by: (i) all persons known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock; (ii) each director of the Company, each Named Executive Officer, and each Selling Stockholder; and (iii) all directors and executive officers as a group. Unless otherwise indicated, each of the stockholders has sole voting and investment power with respect to the shares of Common Stock beneficially owned by them.

DIRECTORS, EXECUTIVE OFFICERS AND SELLING STOCKHOLDERS	SHARES BENEFICIALLY OWNED PRIOR TO THE OFFERING(1)		SHARES TO BE SOLD IN THE OFFERING	SHARES BENEFICIALLY OWNED AFTER THE OFFERING(1)	
	NUMBER	PERCENT		NUMBER	PERCENT
John N. Kapoor, Ph.D.(2)(3)	4,313,494	23.9%	--	4,313,494	18.7%
Floyd Benjamin(4)	521,667	2.9%	--	521,667	2.3%
R. Scott Zion(5)	87,150	*	--	87,150	*
Rita J. McConville	30,199	*	--	30,199	*
Daniel E. Bruhl, M.D.	301,767	1.7%	--	301,767	*
Doyle S. Gaw	120,360	*	--	120,360	*
Yankoff Revocable Living Trust	412,667	2.3%	200,000	212,667	*
Gencarella Revocable Living Trust	340,000	1.9%	340,000	--	--
All Directors and Executive Officers as a group (6 persons)(6)	5,374,637	29.4%	--	5,374,637	23.1%

- ---

* Less than 1%.

(1) Beneficial ownership of shares, as determined in accordance with applicable Commission rules, includes shares as to which a person has or shares voting power and/or investment power. Except as set forth in the accompanying footnotes, the named persons have sole voting power and sole investment power over the shares shown as beneficially owned by them. Beneficial ownership also includes shares issuable upon exercise of options currently vested or vesting within 60 days of June 30, 1998.

(2) Dr. Kapoor is the only person known to the Company to be the beneficial owner of 5% or more of the Common Stock. His address is 225 East Deerpath, Suite 250, Lake Forest, Illinois 60045.

(3) Of such 4,313,494 shares: (i) 4,207,400 are owned directly by the Kapoor Trust of which Dr. Kapoor is the sole trustee and beneficiary; (ii) 30,000 are owned by a trust, the trustee of which is Dr. Kapoor's wife and the beneficiaries of which are their children; and (iii) 76,094 are issuable pursuant to options granted by the Company directly to Dr. Kapoor.

(4) Mr. Benjamin's shares are held by a trust of which Mr. Benjamin and his wife are trustees and their child is beneficiary. Includes 55,000 shares issuable pursuant to options granted by the Company directly to Mr. Benjamin.

(5) Of such 87,150 shares, 20,400 are owned by Mr. Zion's minor children.

(6) Of such 5,374,637 shares, 181,094 are not presently outstanding, but are issuable pursuant to option rights described in the preceding footnotes and 108,750 are issuable pursuant to options held by Named Executive Officers who are not also directors.

DESCRIPTION OF CAPITAL STOCK

GENERAL

The authorized capital stock of the Company consists of 40,000,000 shares of Common Stock, no par value, and 5,000,000 shares of Preferred Stock, par value $1.00 per share (the "Preferred Stock"). Prior to the consummation of this Offering, the Company will have outstanding 17,952,063 shares of Common Stock and no shares of Preferred Stock. Upon completion of this Offering, the Company will have outstanding 22,952,063 shares of Common Stock and no shares of Preferred Stock.

COMMON STOCK

Holders of Common Stock are entitled to one vote per share for the election of directors and all other matters submitted for stockholder vote, except matters submitted to the vote of another class or series of shares. Holders of Common Stock are not entitled to cumulative voting rights. Therefore, the holders of a majority of the shares voting for the election of directors can elect all of the directors if they choose to do so. The holders of Common Stock are entitled to dividends in such amounts and at such times, if any, as may be declared by the Board of Directors out of funds legally available therefor. The Company has not paid any dividends on its Common Stock since 1991 and does not anticipate paying any cash dividends on such Common Stock in the foreseeable future. See "Dividend Policy." Upon liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all net assets available for distribution to stockholders after payments to creditors. The Common Stock is not redeemable and has no preemptive or conversion rights.

The rights of the holders of Common Stock are subject to the rights of the holders of any Preferred Stock which may, in the future, be issued. All outstanding shares of Common Stock are, and the shares of Common Stock to be sold by the Company in this Offering when issued will be, duly authorized, validly issued, fully paid and nonassessable.

PREFERRED STOCK

The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of Common Stock. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others.

LIMITATION OF LIABILITY AND INDEMNIFICATION

LIMITATION OF LIABILITY. As permitted by the Business Corporation Law of Louisiana (the "BCLL"), the Company's Articles of Incorporation provides that no director or officer of the Company shall be personally liable for monetary damages to the Company or its shareholders for breach of fiduciary duty as a director or officer except for: (i) any breach of the director's or officer's duty of loyalty to the Company or its shareholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law; (iii) authorizing illegal dividends or redemptions; or (iv) any transaction from which the director or officer derived an improper personal benefit. In addition, the provision applies only to claims against a director or officer arising out of his or her role as a director or officer and not in any other capacity. Further, liability of a director for violations of the federal securities laws will not be limited by this provision. Directors and officers will, however, no longer be liable for monetary damages arising from decisions involving violations of the duty of care which could be deemed grossly negligent.

INDEMNIFICATION. The Company's By-laws provide that any person shall be indemnified who was or is a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (including any action by or in the right of the Company) by reason of the fact that he or she is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of the Company of another entity, against expenses

actually and reasonably incurred by him or her in connection with such action, suit or proceeding, if he or she acted in good faith and in a manner reasonably believed to be in or not opposed to the best interest of the corporation or had no reason to believe his or her conduct was unlawful. In accordance with the BCLL, indemnification shall be made by the Company only as authorized in a specific case upon a determination that the applicable standard has been met. Such determination may be made: (i) by a majority vote of a quorum of the board of directors who are disinterested; (ii) by independent counsel; or (iii) by the shareholders. The Company's By-laws permit the Company to procure insurance on behalf of any person who is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of the Company of another entity, against liability asserted against him or her in any such capacity, or arising out of his or her status as such, whether or not the Company would have the power to indemnify him or her against such liability under the BCLL. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

REGISTRATION RIGHTS

Pursuant to a Stock Registration Rights Agreement dated as of November 15, 1990, between the Company and the Kapoor Trust, the Company has granted the Kapoor Trust certain "demand" and "piggyback" registration rights (collectively, the "Kapoor Registration Rights") with respect to any shares of Common Stock held by the Kapoor Trust (4,207,400 shares as of June 30, 1998). Subject to certain conditions, the demand registration rights permit the Kapoor Trust to request one demand registration. Subject to certain conditions, the piggyback registration rights permit the Kapoor Trust to include its shares of Common Stock in a registration of Common Stock (except pursuant to Form S-4 or Form S-8) or in connection with an exchange offering or offering of securities solely to existing holders of the Company's securities. The Company will bear expenses arising from exercise of the Kapoor Registration Rights, except that the Company shall not pay any underwriting discounts or commissions.

In connection with the acquisition of PRL in May 1996, the Company granted the Benjamin Family Trust, the Yankoff Revocable Living Trust and the Gencarella Revocable Living Trust (collectively, the "PRL Shareholders") certain "piggyback" registration rights with respect to 1,400,000 shares of Common Stock that were issued in the acquisition. Subject to certain conditions, the piggyback registration rights permit the PRL Shareholders to include their shares of Common Stock in a registration of Common Stock (except pursuant to Form S-4 or S-8). The PRL Shareholders are responsible for any underwriting discounts and selling commissions and must pay their pro rata share of all filing fees and blue-sky expenses.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is Harris Trust and Savings Bank, Chicago, Illinois.

SHARES ELIGIBLE FOR FUTURE SALE

Immediately after completion of this Offering, the Company will have 22,952,063 shares of Common Stock outstanding. Of these shares, 21,952,063 shares (including the 5,540,000 shares sold pursuant to this Offering) will be freely tradable without restriction or further registration under the Securities Act other than those shares held by "affiliates" of the Company. The remaining 1,000,000 shares will become eligible for resale in December 1998, subject to the limitations set forth under Rule 144 under the Securities Act, as applicable.

Shares of Common Stock in the hands of "affiliates" are generally deemed "restricted shares" under Rule 144. The number of shares of Common Stock available for sale in the public market is limited by restrictions under the Securities Act and lock-up agreements under which certain holders of such shares have agreed not to sell or otherwise dispose of any of their shares for a period ranging from 90 to 180 days after the effective date of this Offering without the prior written consent of BT Alex. Brown Incorporated. All of the "restricted shares" in the hands of "affiliates" of the Company are eligible for sale by the holders thereof (other than 1,000,000 shares held by the Kapoor Trust) subject,

however, to the manner of sale, volume, notice information requirements and other restrictions (other than the holding period) of Rule 144, as applicable.

In general, under Rule 144 of the Securities Act as currently in effect, beginning 90 days after this Offering, a person (or persons whose shares are aggregated) who has beneficially owned "restricted shares" for at least one year, including a person who may be deemed an "affiliate" of the Company, is entitled to sell within any three-month period a number of shares of Common Stock that does not exceed the greater of 1% of the then-outstanding shares of Common Stock of the Company (229,520 shares after giving effect to this Offering) or the average weekly trading volume of the Common Stock as reported through the Nasdaq National Market during the four calendar weeks preceding such sale. Sales under Rule 144 of the Securities Act are subject to certain restrictions relating to manner of sale, notice and the availability of current public information about the Company. In addition, under Rule 144(k) of the Securities Act, a person who is not an "affiliate" of the Company at any time 90 days preceding a sale, and who has beneficially owned shares for at least two years, would be entitled to sell such shares immediately following this Offering without regard to the volume limitations, manner of sale provisions or notice or other requirements of Rule 144 of the Securities Act.

The Company is party to a registration rights agreement with the Kapoor Trust pursuant to which the Kapoor Trust was granted certain "demand" and "piggyback" registration rights with respect to any shares of Common Stock held by the Kapoor Trust (4,207,400 shares as of June 30, 1998). In addition, certain shareholders of the Company received "piggyback" registration rights in connection with the acquisition of PRL in 1996 relating to the 1,400,000 shares of Common Stock issued in such acquisitions. See "Description of Capital Stock--Registration Rights." Options to purchase approximately 1,088,894 shares of Common Stock will be exercisable upon consummation of the Offering. No prediction can be made as to the effect, if any, that sales of additional shares or the availability of such additional shares for sale will have on the market price of the Common Stock. Sales of substantial amounts of Common Stock in the public market could have an adverse effect on the market price of the Common Stock.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters named below (the "Underwriters"), through their Representatives, BT Alex. Brown Incorporated and Warburg Dillon Read LLC, have severally agreed to purchase from the Company and the Selling Stockholders the following respective number of shares of Common Stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus:

UNDERWRITER	NUMBER OF SHARES
BT Alex. Brown Incorporated	
Warburg Dillon Read LLC	
Total	5,540,000

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will purchase all shares of the Common Stock offered hereby if any of such shares are purchased.

The Company has been advised by the Representatives of the Underwriters that the Underwriters propose to offer the shares of Common Stock to the public at the public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain other dealers. After the public offering, the offering price and other selling terms may be changed by the Representatives of the Underwriters.

The Company has granted to the Underwriters an option, exercisable not later than 30 days after the date of this Prospectus, to purchase up to 831,000

additional shares of Common Stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus. To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof that the number of shares of Common Stock to be purchased by it in the above table bears to 5,540,000 and the Company will be obligated, pursuant to the option, to sell such shares to the Underwriters. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of the Common Stock offered hereby. If purchased, the Underwriters will offer such additional shares on the same terms as those on which the 5,540,000 shares are being offered.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act.

The Company and holders of approximately 5,064,793 shares of Common Stock have agreed not to offer, sell or otherwise dispose of any of such Common Stock for a period ranging from 90 to 180 days after the date of this Prospectus without the prior consent of BT Alex. Brown Incorporated on behalf of the Representatives of the Underwriters.

The Underwriters have advised the Company that, pursuant to Regulation M under the Securities Exchange Act of 1934, as amended, certain persons participating in this Offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids, which may have the effect of stabilizing or maintaining the market price of the Common Stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of the Common Stock on behalf of the Underwriters for the purpose of fixing or maintaining the price of the Common Stock. A "syndicate covering transaction" is the bid for the purchase of the Common Stock on behalf of the Underwriters to reduce a short position incurred by the Underwriters in connection with this Offering. A "penalty bid" is an arrangement permitting the Underwriters to reclaim

the selling concession otherwise accruing to an Underwriter or dealer in connection with this Offering if the Common Stock originally sold by such Underwriter or dealer is purchased by the Underwriters in a syndicate covering transaction and has therefore not been effectively placed by such Underwriter or dealer. The Underwriters have advised the Company that such transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

As permitted by Rule 103 under the Securities Exchange Act of 1934, as amended, Underwriters or prospective underwriters that are market makers ("passive market makers") in the Common Stock may make bids for or purchases of Common Stock on the Nasdaq National Market until such time, if any, when a stabilizing bid for such securities has been made. Rule 103 generally provides that: (i) a passive market maker's net daily purchases of the Common Stock may not exceed 30% of its average daily trading volume in such securities for the two full consecutive calendar months (or any 60 consecutive days ending within the ten days) immediately preceding the filing date of the Registration Statement of which this Prospectus forms a part; (ii) a passive market maker may not effect transactions or display bids for the Common Stock at a price that exceeds the highest independent bid for the Common Stock by persons who are not passive market makers; and (iii) bids made by passive market makers must be identified as such.

LEGAL MATTERS

Certain legal matters in connection with the Common Stock offered hereby are being passed upon for the Company by Winston & Strawn, Chicago, Illinois and Jones Walker Walchter Poitevent Carrere & Denegre, LLP, New Orleans, Louisiana. Certain legal matters will be passed upon for the Underwriters by Alston & Bird LLP, Atlanta, Georgia.

EXPERTS

The financial statements of the Company included in this Prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company is subject to the informational requirements of the Exchange Act and, in accordance therewith, is required to file reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information can be inspected and copied at the Public Reference Section of the Commission at Room 1024, 540 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, Suite 1300, New York, New York 10048. Copies of the reports, proxy statements and other information can be obtained from the Public Reference Section of the Commission, Washington, D.C. 20549, upon payment of prescribed rates and, in certain cases, by accessing the Commission's World Wide Web site at http://www.sec.gov.

The Company has filed with the Commission a Registration Statement on Form S-1 under the Securities Act (together with all amendments, exhibits, schedules and supplements thereto, the "Registration Statement"), of which this Prospectus forms a part, with respect to the shares of Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement. Certain items are omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits thereto. Statements contained in this Prospectus regarding the contents of any contract or any other document to which reference is made are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all

respects by such reference. A copy of the Registration Statement may be inspected without charge at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048, and copies of all or any part of the Registration Statement may be obtained from such offices upon the payment of the fees prescribed by the Commission. The Registration Statement can also be inspected by accessing the Commission's World Wide Web site at http://www.sec.gov.

AKORN, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for the year ended December 31, 1997, the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995. 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, 1997 and 1996, and the results of their operations and their cash flows for the year ended December 31, 1997, the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

Chicago, Illinois
February 27, 1998

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

	JUNE 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 594	$ 2,413
Short-term investments	--	96
Accounts receivable, net	8,908	5,429
Inventory	11,922	9,955
Deferred income taxes	517	1,350
Prepaid expenses and other assets	387	390
Total current assets	22,328	19,633
Product licenses and other assets	13,373	6,687
Property, plant and equipment, net	12,519	12,395
Total assets	$ 48,220	$ 38,715
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 250	$ 1,750
Current installments of long-term debt and capital lease obligations	3,722	149
Trade accounts payable	3,680	3,447
Income taxes payable	333	462
Accrued compensation	881	985
Accrued expenses and other liabilities	2,032	1,819
Total current liabilities	10,898	8,612

Long-term debt and capital lease obligations	13,763	9,003
Other liabilities	297	849
Shareholders' equity:		
Common stock	17,104	16,241
Retained earnings	6,158	4,010
Total shareholders' equity	23,262	20,251
Total liabilities and shareholders' equity	$ 48,220	$ 38,715

See notes to condensed consolidated financial statements.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
Net sales	$ 13,987	$ 10,176	$ 26,038	$ 19,044
Cost of goods sold	6,966	5,260	12,775	10,700
Gross profit	7,021	4,916	13,263	8,344
Selling, general and administrative expenses	3,675	3,246	7,420	5,804
Research and development	1,246	368	1,974	729
Relocation charges	--	--	--	1,451
	4,921	3,614	9,394	7,984
Operating income	2,100	1,302	3,869	360
Interest expense	(301)	(138)	(492)	(254)
Interest and other income, net	--	14	2	155
	(301)	(124)	(490)	(99)
Income before income taxes	1,799	1,178	3,379	261
Income taxes	698	436	1,230	97
Net income	$ 1,101	$ 742	$ 2,149	$ 164
Net income per share:				
Basic	$ 0.06	$ 0.04	$ 0.12	$ 0.01
Diluted	0.06	0.04	0.11	0.01
Weighted average shares outstanding:				
Basic	17,850	16,598	17,769	16,596
Diluted	19,094	16,800	18,837	16,802

See notes to condensed consolidated financial statements.

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

	SIX MONTHS ENDED JUNE 30,	
	1998	1997
OPERATING ACTIVITIES		
Net income	$ 2,149	$ 164
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	1,846	809
Building and equipment write down	--	400
Changes in operating assets and liabilities	(4,669)	1,724
Net cash (used) provided by operating activities	(674)	3,097

INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(950)	(981)
Product license acquisitions	(7,580)	(4,305)
Net maturities of investments	96	--
Net cash used in investing activities	(8,434)	(5,286)
FINANCING ACTIVITIES		
Repayment of long-term debt	--	(21)
Issuance of long-term debt	8,405	1,500
Proceeds from sale of stock	583	13
Reductions in capital lease obligations	(73)	(78)
Short-term borrowings, net	(1,500)	132
Debt acquisition costs	(126)	--
Net cash provided by financing activities	7,289	1,546
Increase (decrease) in cash and cash equivalents	(1,819)	(643)
Cash and cash equivalents at beginning of period	2,413	1,380
Cash and cash equivalents at end of period	$ 594	$ 737

See notes to condensed consolidated financial statements.

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

NOTE A--BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Akorn, Inc. and its wholly owned subsidiaries (the Company). Intercompany transactions and balances have been eliminated in consolidation. These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and accordingly do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and six-month periods ended June 30, 1998 are not necessarily indicative of the results that may be expected for a full year. For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 1997, included in the Company's Annual Report on Form 10-K.

NOTE B--NONCASH TRANSACTIONS

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.

NOTE C--SUBSEQUENT EVENTS

On July 14, 1998, the Company announced the acquisition of three ophthalmic diagnostic products from Allergan, Inc. The Company paid Allergan $4.65 million, with $2.0 million paid upon closing, $1.5 million payable one year from the closing and $1.15 million payable two years from the closing.

On July 16, 1998, the Company announced the acquisition of the Advanced Remedies, Inc. ophthalmic manufacturing and development operation from Sidmak Laboratories, Inc. The Company paid Sidmak approximately $4.0 million cash, financed through the Company's line of credit.

NOTE D--RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," which requires all items of comprehensive income be reported in a financial statement that is displayed with the same prominence as

other financial statements. Other comprehensive income may include foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. The accumulated balance of other comprehensive income must be displayed separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company has adopted this accounting standard January 1, 1998, as required. Currently, the Company does not have any items that qualify as "other comprehensive income." Accordingly, no separate statement has been presented herein.

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. The Company will adopt this accounting standard as of December 31, 1998, as required. The Company expects to continue reporting on ophthalmic and injectable segments.

AKORN, INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	DECEMBER 31,	
	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,413	$ 1,380
Certificates of deposit	96	576
Trade accounts receivable (less allowances for uncollectibles of $522 and $359 at December 31, 1997 and 1996, respectively)	5,429	1,544
Inventory	9,955	8,838
Deferred income taxes	1,350	1,101
Prepaid expenses and other assets	390	401
Total current assets	19,633	13,840
Other assets:		
Intangibles, net	6,588	1,162
Other	99	178
Total other assets	6,687	1,340
Property, plant and equipment, net	12,395	12,833
Total assets	$ 38,715	$ 28,013
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 1,750	$ 250
Current installments of long-term debt	--	19
Current portion of capital lease obligations	149	151
Pre-funded development costs	--	685
Trade accounts payable	3,447	1,892
Income taxes payable	462	1
Accrued compensation	985	885
Accrued reorganization costs	83	108
Deferred royalties	--	167
Accrued expenses and other liabilities	1,736	1,478
Total current liabilities	8,612	5,636
Long-term debt	8,800	4,858
Capital lease obligations	203	353
Deferred income taxes	849	792
Commitments and contingencies (see Note P)	--	--
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 17,630,076 shares in 1997 and 16,600,927 shares in 1996; outstanding 17,630,076 and 16,591,918 shares at December 31, 1997 and 1996, respectively	16,241	14,174
Treasury stock, at cost--9,009 shares at December 31, 1996	--	(31)
Retained earnings	4,010	2,231
Total shareholders' equity	20,251	16,374
Total liabilities and shareholders' equity	$ 38,715	$ 28,013

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31, 1997	SIX MONTHS ENDED DECEMBER 31, 1996	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Net sales	$ 42,323	$ 16,519	$ 33,925	$ 37,505
Cost of goods sold	23,547	10,761	21,972	22,328
Gross profit	18,776	5,758	11,953	15,177
Selling, general and administrative expenses	12,287	4,819	8,974	10,376
Research and development	1,873	809	1,213	891
Relocation costs	1,451	--	--	--
Acquisition and severance costs	--	--	677	--
	15,611	5,628	10,864	11,267
Operating income	3,165	130	1,089	3,910
Interest and other income (expense):				
Interest income	41	33	113	106
Interest expense	(497)	(243)	(441)	(25)
Gain (loss) on marketable equity securities	--	--	80	(308)
Other income, net	135	150	136	55
	(321)	(60)	(112)	(172)
Income before income taxes	2,844	70	977	3,738
Income taxes	1,052	26	189	1,232
Net income	$ 1,792	$ 44	$ 788	$ 2,506
Net income per share:				
Basic	$ 0.11	$ 0.00	$ 0.05	$ 0.15
Diluted	0.11	0.00	0.05	0.15
Weighted average shares outstanding:				
Basic	16,614	16,580	16,383	16,236
Diluted	16,925	16,763	16,788	16,799

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN THOUSANDS)

	COMMON STOCK		RETAINED EARNINGS (DEFICIT)	TREASURY STOCK	UNREALIZED GAIN (LOSS) ON MARKETABLE EQUITY SECURITIES	TOTAL
	SHARES OUTSTANDING	AMOUNT				
Balances at July 1, 1994	16,198	$ 13,959	$ (719)	$ (503)	$ (32)	$ 12,705
Net income			2,506			2,506
Exercise of stock options	35		8	70		78
Unrealized loss on marketable equity securities					(276)	(276)
Reversal of unrealized loss on marketable equity securities, net of tax					308	308
Unrealized gain on marketable equity securities, net of tax					87	87
Treasury stock reissued	72		35	142		177
Balances at June 30, 1995	16,305	13,959	1,830	(291)	87	15,585
Net income			788			788
Exercise of stock options	249	215	186	198		599
Treasury stock received in lieu of cash	(36)			(123)		(123)
Dividends paid to Subchapter S shareholders			(583)			(583)
Reversal of unrealized gain on marketable equity securities, net of tax					(87)	(87)
Treasury stock reissued	56		(2)	124		122
Balances at June 30, 1996	16,574	14,174	2,219	(92)	--	16,301

Net income			44			44
Treasury stock reissued	18		(32)	61		29
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

See notes to consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1997	SIX MONTHS ENDED DECEMBER 31, 1996	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
OPERATING ACTIVITIES				
Net income	$ 1,792	$ 44	$ 788	$ 2,506
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,515	720	984	980
(Gain) loss on marketable equity securities	--	--	(80)	308
Provision for losses on accounts receivable and inventory	1,188	303	825	160
Deferred income taxes	34	651	(578)	2
Write down of building and equipment	400	--	--	--
Other	43	26	--	(1)
Changes in operating assets and liabilities:				
Accounts receivable	(4,170)	267	424	(350)
Inventory, prepaid expenses and other assets	(2,235)	(132)	(3,129)	(1,420)
Trade accounts payable and accrued expenses	1,721	1,438	1,229	(1,514)
Income taxes payable	461	(625)	(155)	70
Pre-funded development costs	(685)	(139)	(298)	(29)
Net cash provided by operating activities	64	2,553	10	712
INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(1,154)	(1,986)	(1,360)	(4,818)
Product licensing costs	(68)	(28)	(172)	(421)
Purchases of investments	--	(576)	(1,173)	(2,023)
Sales of investments	480	902	1,832	2,319
Purchase of product intangibles	(5,645)	(340)	--	--
Net cash used in investing activities	(6,387)	(2,028)	(873)	(4,943)
FINANCING ACTIVITIES				
Proceeds from sale of stock	2,085	29	599	256
Repayments of long-term debt	(33)	(447)	(442)	(944)
Proceeds from issuance of long-term debt	3,955	1,500	400	3,900
Pre-funded development costs	--	--	150	--
Principal payments under capital lease obligations	(151)	(74)	(151)	(58)
Short-term borrowings, net	1,500	(1,044)	1,006	128
Dividends paid	--	--	(583)	--
Debt acquisition costs	--	--	--	(170)
Net cash provided by (used in) financing activities	7,356	(36)	979	3,112
Increase (decrease) in cash and cash equivalents	1,033	489	116	(1,119)
Cash and cash equivalents at beginning of year	1,380	891	775	1,894
Cash and cash equivalents at end of year	$ 2,413	$ 1,380	$ 891	$ 775

See notes to consolidated financial statements.

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. (the Company) and its wholly owned subsidiaries,

Compass Vision, Inc. (Compass), Spectrum Scientific Pharmaceuticals, Inc. (Spectrum), Walnut Pharmaceuticals, Inc. (Walnut) and Taylor Pharmaceuticals, Inc. (Taylor). Balances and activities of Compass, Spectrum and Walnut are immaterial. Intercompany transactions and balances have been eliminated in consolidation.

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

CHANGE IN FISCAL YEAR END: Effective July 1, 1996, the Company changed its fiscal year end from June 30 to December 31. The following table sets forth the results of operations for the transition period ended December 31, 1996 and the unaudited results of operations for the six months ended December 31, 1995, the prior period comparable to the transition period:

	SIX MONTHS ENDED DECEMBER 31, 1996	SIX MONTHS ENDED DECEMBER 31, 1995 (UNAUDITED)
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Net sales	$ 16,519	$ 16,949
Gross profit	5,758	6,477
Income before income taxes	70	1,289
Provision for income taxes	26	493
Net income	44	796
Net income per share--basic	$ 0.00	$ 0.05
Net income per share--diluted	$ 0.00	$ 0.05

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 to 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 F). 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.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
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. Accumulated amortization at December 31, 1997 and 1996 was $661,432 and

$323,829, 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 carried as a reduction of accounts receivable.

INTEREST CAPITALIZATION: The Company capitalizes interest during periods of construction of qualifying assets. For the six months ended December 31, 1996 and the year ended June 30, 1995, the Company capitalized interest costs of $39,880 and $282,007, respectively. No interest was capitalized during the years ended December 31, 1997 and June 30, 1996.

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 short 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 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: In February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings per Share," which requires presentation of basic and diluted earnings per 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. All prior period amounts have been restated to conform to current reporting requirements.

NOTE B--ACQUISITION OF PASADENA RESEARCH LABORATORIES, INC.

On May 31, 1996, the Company acquired Pasadena Research Laboratories, Inc. (PRL) in a business combination accounted for as a pooling of interests. The Company issued 1.4 million shares of its common stock in exchange for all of the outstanding shares of PRL. PRL was merged into the operations of Taylor and the Company was realigned into an ophthalmic division and an injectable division.

The Company's financial statements for each of the two years in the period ended June 30, 1996, as contained herein, have been restated to include the results of PRL for all periods presented. Combined and separate results of operations of the Company and PRL during the periods preceding the merger are presented below.

	AKORN	PRL	COMBINED
	(IN THOUSANDS)		

Eleven months ended May 31, 1996 (unaudited):			
Net sales	$ 27,361	$ 3,684	$ 31,045
Net income	675	409	1,084
Fiscal year ended June 30, 1995:			
Net sales	32,863	4,642	37,505
Net income	2,280	226	2,506

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

In connection with the merger, the Company recorded certain charges in the fourth quarter of the fiscal year ended June 30, 1996 for transaction costs ($109,534) and transitional costs ($567,772) associated with the realignment of the company into two separate reporting divisions. The transaction costs include legal, accounting and other directly related acquisition costs. Transitional costs consist primarily of provisions for severance related costs.

NOTE C--REORGANIZATION OF MANUFACTURING OPERATIONS

On January 15, 1992, the Company acquired Taylor Pharmacal Company in a business combination accounted for as a pooling of interests. Taylor was a contract manufacturer of sterile pharmaceuticals, which it produced and delivered pursuant to contracts with third parties.

As part of the acquisition of Taylor in 1992, the Company paid a finder's fee to an affiliate of Dr. John N. Kapoor, Chairman of the Board and Chief Executive Officer (the affiliate). This finder's fee was in the form of 250,000 shares of Company Common Stock valued at $3.50 per share. Of the total shares issued, 125,000 were subject to forfeiture if the market price of the Company's Common Stock did not reach at least $5.00 per share by January 15, 1996. In August 1995, the Company, the affiliate and Dr. Kapoor entered into an agreement under which (i) the forfeiture period was extended to January 15, 1998, (ii) forfeiture would not occur in the event that persons unaffiliated with Dr. Kapoor acquire beneficial ownership of more than 50% of the outstanding common stock of the Company and (iii) Dr. Kapoor waived his right to receive $40,000 otherwise payable to him by the Company for serving as Chairman of the Board in fiscal 1996. In May 1997 the Company extended the forfeiture period to January 15, 2000 in consideration for which Dr. Kapoor waived his right to receive $40,000 otherwise payable to him for serving as Chairman of the Board in 1997.

NOTE D--PRODUCT ACQUISITIONS

Effective December 15, 1997, the Company entered into an agreement with Advanced Remedies, Inc. (ARI), a subsidiary of Sidmak Laboratories, Inc., to acquire the ANDAs of two ophthalmic ointments, "Erythromycin Ophthalmic Ointment USP, 0.5%" and "Bacitracin Zinc & Polymyxin B Sulfate Ophthalmic Ointment USP". These products were previously purchased by the Company from third party manufacturers. The total acquisition cost was $1.75 million, payable in seven equal monthly installments, and is included in the accompanying Balance Sheet as short term borrowings at December 31, 1997. The acquisition cost has been allocated to intangibles and will be amortized over 15 years.

Effective April 1, 1997, the Company entered into an agreement with Becton-Dickinson and Company to acquire the NDAs, ANDAs and the trademarks and trade names of three products. As part of this agreement, the Company also acquired certain product inventory. The total acquisition cost was $4.0 million, of which $2.5 million was paid in cash financed through the Company's revolving line of credit and $1.5 million was paid with a non-interest bearing note maturing in April 1999, secured by an irrevocable bank line of credit. The Company has imputed interest on the note at an annual rate of 7.5%. The portion of the acquisition costs allocated to intangibles amounted to $3,725,000 and will be amortized over 18 years.

Effective July 1, 1996, the Company entered into an agreement with Janssen Pharmaceutica, Inc. (Janssen) to acquire the NDAs and the U.S. trademarks and trade names of two injectable products, as well as certain high-speed inspection equipment. In exchange, the Company paid Janssen $1.6 million, financed primarily through a $1.5 million commercial credit facility. The portion of the

acquisition costs allocated to intangibles amounted to $340,000 and will be amortized over 15 years.

NOTE E--ALLOWANCE FOR UNCOLLECTIBLES

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

	YEAR ENDED DECEMBER 31, 1997	SIX MONTHS ENDED DECEMBER 31, 1996	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Balance at beginning of year	$ 359	$ 339	$ 291	$ 272
Provision for bad debts	285	24	124	60
Accounts written off	(122)	(4)	(76)	(41)
Balance at end of year	$ 522	$ 359	$ 339	$ 291

NOTE F--INVENTORY

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

	DECEMBER 31, 1997	DECEMBER 31, 1996
Finished goods	$ 6,774	$ 5,181
Work in process	1,093	1,375
Raw materials and supplies	2,088	2,282
	$ 9,955	$ 8,838

Inventory at December 31, 1997 and 1996 is reported net of reserves for slow-moving, unsalable and obsolete items of $709,957 and $589,007, respectively.

NOTE G--PROPERTY, PLANT AND EQUIPMENT

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

	DECEMBER 31, 1997	DECEMBER 31, 1996
Land	$ 479	$ 479
Buildings and leasehold improvements	8,031	8,217
Furniture and equipment	12,723	11,238
Automobiles	133	135
	21,366	20,069
Accumulated depreciation	(9,606)	(8,415)
	11,760	11,654
Construction in progress	635	1,179

	$ 12,395	$ 12,833

NOTE H--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 six months ended December 31, 1996 and during fiscal 1996 and 1995, the Company incurred development costs of $534,696, $138,829, $297,463 and $29,012, respectively, which were charged against the pre-funded balance.

As part of the same agreement, Pfizer paid the Company an advance royalty of $1 million. The Company recognized this deferred revenue over a one year period beginning in March 1996.

NOTE I--FINANCING ARRANGEMENTS

The Company's short-term borrowings are summarized as follows (in thousands):

	DECEMBER 31,	
	1997	1996
Payable under bank and other notes	$ 1,750	$ 250
	$ 1,750	$ 250

Long-term debt consists of (in thousands):

	DECEMBER 31,	
	1997	1996
Payable under lines of credit	$ 7,300	$ --
Notes payable secured by various assets, with maturities through 2000 at interest rates ranging from 8% to 10.25%	1,500	4,855
Other obligations	--	22
	8,800	4,877
Less current portion	--	(19)
Long-term debt	$ 8,800	$ 4,858

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

Years ending December 31:	
1998	$ --
1999	8,800

Total	$8,800

In April 1997, the Company entered into an agreement to purchase certain products from Becton-Dickinson and Company (See Note D). As consideration for this purchase, the Company issued a $1,500,000 non-interest bearing note secured by an irrevocable bank letter of credit. The Company recognizes interest expense on the note at an imputed rate of 7.5 percent.

In December 1997, the Company entered into a $15,000,000 revolving credit agreement with The Northern Trust Company, of which there were outstanding borrowings of $7,300,000 and the above discussed $1,500,000 letter of credit at December 31, 1997. The total outstanding principal balance is payable in full on December 29, 1999. Outstanding borrowings under this facility currently bear interest at the federal funds rate plus 1.25 percent, which interest rate was 7.09 percent at December 31, 1997. The Company is in compliance with its financial covenants under the revolving credit facility.

The agreement provides that an annual commitment fee be paid by the Company based on 0.25 percent 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.

NOTE J--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,	
	1997	1996
Furniture and equipment	$ 806	$ 806
Less accumulated depreciation	(383)	(226)
	$ 423	$ 580

Depreciation expense provided on these assets was $157,034, $78,517, $94,254 and $25,822 for the year ended December 31, 1997, the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995, respectively. 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).

Years ending December 31:	
1998	$ 173
1999	173
2000	43
Total Minimum Lease Payments	389
Less: Amount Representing Interest	(37)

Present Value of Net Minimum Lease Payments	$ 352

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 $289,276, $38,051, $73,196 and $169,825 for the year ended December 31, 1997, the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995, respectively. The

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

Years ending December 31:	
1998	$ 326
1999	317
2000	315
2001	311
2002	317
2003	71
Total Minimum Payments Required	$ 1,657

NOTE K--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 nonqualified options as designated by the Company's Board of Directors. As of December 31, 1997, 3,000,000 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 year ended December 31, 1997, the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995 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, 1997, 500,000 shares of the Company's Common Stock are reserved to be issued under the Directors' Plan. Options granted under the Directors' Plan are exercisable six months after the date of grant and expire five years from the date of grant.

A summary of the status of the Company's stock options as of December 31, 1997 and 1996 and June 30, 1996 and 1995 and changes during the year ended December 31, 1997, the six months ended

NOTE K--STOCK OPTIONS AND EMPLOYEE STOCK PURCHASE PLAN (CONTINUED)
December 31, 1996 and the years ended June 30, 1996 and 1995 is presented below (shares in thousands):

	YEAR ENDED DECEMBER 31, 1997		SIX MONTHS ENDED DECEMBER 31, 1996		YEAR ENDED JUNE 30, 1996		1995
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES
Outstanding at beginning of period	1,281	$ 2.35	1,243	$ 2.57	1,624	$ 2.56	1,459
Granted	927	$ 2.38	401	$ 2.19	215	$ 2.75	238
Exercised	(22)	$ 2.13	--	--	(250)	$ 2.40	(73)
Expired/Canceled	(287)	$ 2.46	(363)	$ 3.00	(346)	$ 3.00	--
Outstanding at end of period	1,899	$ 2.35	1,281	$ 2.35	1,243	$ 2.57	1,624
Options exercisable at end of period	1,086	$ 2.35	870	$ 2.33	1,134	$ 2.56	1,348
Options available for future grant	1,246		886		924		793
Weighted average fair value of options granted during the period		$ 1.04		$ 0.83		$ 1.04	

	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of period	$ 2.51
Granted	$ 2.93
Exercised	$ 2.34
Expired/Canceled	$ --
Outstanding at end of period	$ 2.56
Options exercisable at end of period	$ 2.67
Options available for future grant	
Weighted average fair value of options granted during the period	

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 fair value of each option granted during the six months ended December 31, 1996 and the year ended June 30, 1996 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 28%, (iii) risk-free interest rate of 6.5% and (iv) expected life of 5 years.

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

The following table summarizes information about stock options outstanding at December 31, 1997 (shares in thousands):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 1997	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 1997	WEIGHTED AVERAGE EXERCISE PRICE
-					

$1.50	88	2.4 years	$ 1.50	88	$ 1.50
$1.75 - $2.12	306	0.6 years	$ 1.90	306	$ 1.90
$2.13 - $2.20	692	4.2 years	$ 2.14	248	$ 2.14
$2.28 - $2.54	410	4.3 years	$ 2.37	132	$ 2.36
$2.63 - $2.81	185	3.1 years	$ 2.75	131	$ 2.76
$2.88 - $3.94	218	2.3 years	$ 3.59	181	$ 3.52
	1,899			1,086	

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

Had compensation cost for the Company's stock-based compensation plans been determined based on SFAS No. 123, the Company's net income and earnings per share for the year ended December 31, 1997, the six months ended December 31, 1996 and the year ended June 30, 1996 would have been the pro forma amounts indicated below (in thousands, except per share amounts).

	YEAR ENDED DECEMBER 31, 1997		SIX MONTHS ENDED DECEMBER 31, 1996		YEAR ENDED JUNE 30, 1996	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
Net income, (loss)	$ 1,792	$ 1,441	$ 44	$ (40)	$ 788	$ 769
Net income per share--basic	$ 0.11	$ 0.09	$ 0.00	$ 0.00	$ 0.05	$ 0.05
Net income per share--diluted	$ 0.11	$ 0.09	$ 0.00	$ 0.00	$ 0.05	$ 0.05

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 gross compensation, 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 were issued from treasury stock through the first half of 1997 and approximated 9,000, 18,000, 56,000 and 72,000 shares, respectively, during the year ended December 31, 1997, the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995. New shares issued under the plan approximated 11,000 in 1997.

NOTE L--INCOME TAXES

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

	CURRENT	DEFERRED	TOTAL
Year ended December 31, 1997:			
Federal	$ 1,005	$ (79)	$ 926
State	13	113	126
	$ 1,018	$ 34	$ 1,052
Six months ended December 31, 1996:			
Federal	$ (557)	$ 581	$ 24
State	(68)	70	2

	$ (625)	$ 651	$ 26
Year ended June 30, 1996:			
Federal	$ 756	$ (516)	$ 240
State	11	(62)	(51)
	$ 767	$ (578)	$ 189
Year ended June 30, 1995:			
Federal	$ 1,177	$ 2	$ 1,179
State	53	--	53
	$ 1,230	$ 2	$ 1,232

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):

	YEAR ENDED DECEMBER 31, 1997	SIX MONTHS ENDED DECEMBER 31, 1996	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Computed "expected" tax expense	$ 947	$ 24	$ 332	$ 1,271
Increase in income taxes resulting from:				
State income taxes, net of federal income tax benefits	85	2	4	32
Pre-merger earnings of PRL	--	--	(139)	(84)
Other, net	20	--	(8)	13
Income tax expense	$ 1,052	$ 26	$ 189	$ 1,232

NOTE L--INCOME TAXES (CONTINUED)

Deferred tax assets (liabilities) at December 31, 1997 and 1996 include (in thousands):

	DECEMBER 31, 1997	DECEMBER 31, 1996
Accrued reorganization costs	$ --	$ 40
Other accrued expenses	517	711
Pre-funded development costs	--	253
Intangible assets, net	(288)	(99)
Property, plant and equipment, net	(374)	(537)
Other, net	646	(59)
	$ 501	$ 309

The net deferred tax asset is classified in the accompanying balance sheets as follows (in thousands):

	DECEMBER 31, 1997	DECEMBER 31, 1996

Deferred tax asset--current	$ 1,350	$ 1,101
Deferred tax liability--noncurrent	(849)	(792)
	$ 501	$ 309

NOTE M--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 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. During the fourth quarter of the year ended June 30, 1996, the Company revised its assumptions underlying the reserve for chargebacks, resulting in a reduction of net sales of $250,000.

The Company records a reserve for slow-moving and obsolete inventory based upon evaluation of product dating and unit sales forecasts. During the fourth quarter of the year ended December 31, 1997, the Company increased its estimate for unsalable inventory by approximately $900,000. During the quarters ended March 31, June 30 and December 31, 1996, the Company increased its estimate for unsalable inventory by approximately $300,000, $200,000 and $260,000, respectively. These changes in estimate are reported as an increase in cost of goods sold.

NOTE M--CHANGES IN ACCOUNTING ESTIMATES (CONTINUED)

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

NOTE N--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 year ended December 31, 1997, the six months ended December 31, 1996 and the years ended June 30, 1996 and 1995 totaled $65,704, $34,805, $100,615 and $86,296, respectively. The employer's matching contribution is a discretionary percentage of the amount contributed by each employee and is funded on a current basis.

NOTE O--INDUSTRY SEGMENT INFORMATION

The Company classifies its operations into two business segments, ophthalmic and injectable. The ophthalmic segment markets and distributes diagnostic and therapeutic pharmaceuticals and surgical instruments and related supplies. The injectable segment markets and distributes injectable pharmaceuticals, primarily in niche markets. Selected financial information by industry segment is presented below (in thousands).

	SIX MONTHS		
YEAR ENDED DECEMBER 31, 1997	ENDED DECEMBER 31, 1996	YEAR ENDED JUNE 30, 1996	1995

NET SALES				
Ophthalmic	$ 24,901	$ 10,271	$ 20,833	$ 23,791
Injectable	17,422	6,248	13,092	13,714
Total net sales	$ 42,323	$ 16,519	$ 33,925	$ 37,505
OPERATING INCOME				
Ophthalmic	$ 1,598	$ 691	$ 1,037	$ 3,515
Injectable	2,428	(192)	994	1,466
General Corporate	(861)	(369)	(942)	(1,071)
Total operating income	3,165	130	1,089	3,910
Interest and other (expense), net	(321)	(60)	(112)	(172)
Income before income taxes	$ 2,844	$ 70	$ 977	$ 3,738
IDENTIFIABLE ASSETS				
Ophthalmic	$ 20,957	$ 12,293	$ 13,179	$ 13,171
Injectable	17,758	15,720	16,388	14,320
Total identifiable assets	$ 38,715	$ 28,013	$ 29,567	$ 27,491
DEPRECIATION AND AMORTIZATION				
Ophthalmic	$ 516	$ 214	$ 331	$ 395
Injectable	999	506	653	585
Total depreciation and amortization	$ 1,515	$ 720	$ 984	$ 980

NOTE O--INDUSTRY SEGMENT INFORMATION (CONTINUED)

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. 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.

For the year ended June 30, 1996, operating income for the ophthalmic and injectable segments includes non-recurring charges of $385,000 and $292,000, respectively, related to the acquisition of PRL and the realignment of the Company into two separate divisions.

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

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

	YEAR ENDED DECEMBER 31, 1997	SIX MONTHS ENDED DECEMBER 31, 1996	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Interest and taxes paid:				
Interest	$ 592	$ 189	$ 442	$ 25
Income taxes	788	--	867	1,150

Noncash investing and financing activities:				
Treasury stock received for exercise of stock options	--	--	123	--
Notes issued for product acquisitions	3,250	--	--	--
Additions to capital lease obligations	--	--	--	706

NOTE R--SUBSEQUENT EVENTS

On January 21, 1998, the Company announced the purchase of the NDA, trademark and U.S. trade name rights to Paremyd, a topical mydriatic combination product, from Allergan. Paremyd has been off the market for all of 1997 due to a raw material shortage. The Company will, with Allergan's assistance, move quickly to obtain FDA approval to manufacture the product at Taylor. 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 from closing, whichever is sooner.

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 are 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

NOTE R--SUBSEQUENT EVENTS (CONTINUED)
closing date and on December 29, 1999, respectively. The second two payments are secured by irrevocable bank letters of credit, which are issued under the revolving credit facility (see Note I).

NOTE S--RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which requires all items of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Other comprehensive income may include foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. The accumulated balance of other comprehensive income must be displayed separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company adopted this accounting standard on January 1, 1998, as required. Because the Company had no other items of comprehensive income, reclassification of financial statements for earlier periods was not required.

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a Company's operating segments. The Company will adopt this accounting standard as of December 31, 1998, as required. The Company expects to continue reporting on ophthalmic and injectable segments.

- ---
- ---

TABLE OF CONTENTS

5,540,000 Shares

AKORN, INC.

Common Stock

PROSPECTUS

BT Alex. Brown
Warburg Dillon Read LLC

, 1998

- ---
- ---

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth fees payable by the Company incurred in connection with the issuance and distribution of the Common Stock. All such fees and expenses, except the Securities and Exchange Commission registration fee, are estimated:

Securities and Exchange Commission Registration Fee	$ 13,275
NASD Fee	5,000
Nasdaq Stock Market Listing Fee	2,000
Transfer Agent Fees and Expenses	
Printing Engraving Fees and Expenses	
Legal Fees and Expenses	250,000

Accounting Fees and Expenses.....	
Miscellaneous.....	
Total.....	$

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 83 of the Business Corporation Law of Louisiana (the "BCLL") and the Company's By-laws provide for the indemnification of directors and officers under certain circumstances, on a case by case basis, against expenses actually and reasonably incurred by a director or officer who was or is a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (including any action by or in the right of the Company) by reason of the fact that he or she is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of the Company of another entity. In accordance with the BCLL, indemnification shall be made by the Company only as authorized in a specific case upon a determination that the applicable standard has been met. Such determination may be made (a) by a majority vote of a quorum of the board of directors who are disinterested, (b) by independent counsel or (c) by the shareholders.

The Company's By-laws permit the Company to procure insurance on behalf of any current or former director, officer, employee or agent of the Company, or person who is or was serving at the request of the Company as a director, officer, employee or agent of the Company of another entity, against liability asserted against him or her in any such capacity, or arising out of his or her status as such, whether or not the Company would have the power to indemnify him or her against such liability under the BCLL.

As permitted by the BCLL, the Articles of Incorporation provide that directors and officers of the Company shall have no personal liability to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director or officer, except for (i) any breach of the director's or officer's duty of loyalty to the Company or its shareholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) authorizing illegal dividends or redemptions or (iv) any transaction from which the director or officer derived an improper personal benefit.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

On December 13, 1997, the John N. Kapoor Trust dated September 20, 1989 (the "Kapoor Trust"), of which John N. Kapoor, the Chairman and Chief Executive Officer of the Company, is sole trustee and beneficiary, purchased 1,000,000 shares of Common Stock. The price per share was $2.00 per share and

the aggregate purchase price was $2.0 million. The shares were purchased in connection with the exercise of a warrant originally issued to the Kapoor Trust on September 3, 1992.

In connection with the acquisition of PRL on May 31, 1996, the Company issued to the Benjamin Family Trust, the Yankoff Revocable Living Trust and the Gencarella Revocable Living Trust, as selling shareholders of PRL, 1,400,000 shares of Common Stock as consideration for all of the outstanding shares of PRL. The conversion rate was 14,814.815 shares of Common Stock for each share of PRL stock outstanding at the time of conversion.

As to all such transactions described above, an exemption is claimed under Section 4(2) of the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) EXHIBITS

The following exhibits are filed as part of this Registration Statement:

(1.1)** Form of Underwriting Agreement.

(2.1) Agreement and Plan of Merger dated December 17, 1991, by and among Akorn, Inc., Aksub, Inc., Taylor Pharmacal Company (currently known as Taylor Pharmaceuticals, Inc. and formerly doing business as Taylor Pharmaceuticals and referred to herein as "Taylor") and certain former shareholders of Taylor, incorporated by reference to the Company's report on Form 8-K dated January 15, 1992 (file no. 000-13976) (the "1992 8-K").

(2.2) Agreement and Plan of Merger among Akorn Manufacturing, 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 (file no. 000-13976) (the "1996 10-K").

(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 (file no. 000-13976) (the "1991 10-K").

(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 (file no. 000-13976) (the "1996 Transition 10-K").

(3.3) Current Composite of By-laws of the Company, incorporated by reference to Exhibit 3.3 to the 1996 Transition 10-K.

(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 (file no. 000-13976).

(5.1)** Opinion of Jones Walker Walchter Poitevent Carrere & Denegre, LLP ("Jones Walker") as to the legality of the securities to be registered.

(10.1) Akorn, Inc. Savings and Retirement Plan effective July 1, 1984, incorporated by reference to Form 10-K for the fiscal year ended June 30, 1987 (file no. 000-13976).

(10.2) Consulting Agreement dated November 15, 1990 by and between EJ Financial Enterprises, Inc., a Delaware corporation, and the Company, incorporated by reference to Exhibit 10.24 to the 1991 10-K.

(10.3) 1991 Akorn, Inc. Stock Option Plan for Directors, incorporated by reference to Exhibit 4.3 to the Company's registration statement on Form S-8 (registration number 33-44785).

(10.4) Stock Purchase Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989 and the Company, incorporated by reference to Exhibit 10.21 to the 1991 10-K.

(10.5) Amendment dated February 15, 1991 amending Stock Purchase Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989 and the Company, incorporated by reference to Exhibit 10.25 to the 1991 10-K.

(10.6) Stock Registration Rights Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989 and the Company, incorporated by reference to Exhibit 10.24 to the 1991 10-K.

(10.7) Employment Agreement among Akorn, Inc., Taylor and Floyd Benjamin dated May 31, 1996, incorporated by reference to Exhibit 10.24 of the 1996 10-K.

(10.8)* Credit Agreement, dated as of December 29, 1997, among the Company, Taylor and The Northern Trust Company.

(10.9)* First Amendment to Credit Agreement, dated as of March 27, 1998, among the Company, Taylor and The Northern Trust Company.

(10.10)* Second Amendment to Credit Agreement, dated as of June 30, 1998, among the Company, Taylor and The Northern Trust Company.

(10.11) Amended and Restated Akorn, Inc. 1988 Incentive Compensation Program dated

February 12, 1998, incorporated by reference to Exhibit A to the Company's definitive Proxy Statement dated April 20, 1998.

(11.1)* Computation of Earnings Per Share.

(21.1)* Subsidiaries of the Company.

(23.1)* Consent of Deloitte & Touche LLP.

(23.2)** Consent of Jones Walker (contained in the opinion filed as Exhibit 5.1).

- ------------------------

* Filed herewith

** To be filed by amendment

ITEM 17. UNDERTAKINGS

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(b) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lincolnshire, in the State of Illinois, on the 28th day of July, 1998.

AKORN, INC.

By: /s/ JOHN N. KAPOOR, PH.D.

Name: John N. Kapoor, Ph.D
Title: Chief Executive Officer

POWER OF ATTORNEY

The undersigned directors and officers of Akorn, Inc. do hereby constitute

and appoint John N. Kapoor, Ph.D. and Rita J. McConville, and each of them, with full power of substitution, our true and lawful attorneys-in-fact and agents to do any and all acts and things in our name and behalf in our capacities as directors and officers, and to execute any and all instruments for us and in our names in the capacities indicated below which such person may deem necessary or advisable to enable Akorn, Inc. to comply with the Securities Act of 1933, as amended (the "Securities Act"), and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Registration Statement, including specifically, but not limited to, power and authority to sign for us, or any of us, in the capacities indicated below and any and all amendments (including pre-effective and post-effective amendments or any other registration statement filed pursuant to the provisions of Rule 462(b) under the Securities Act) hereto; and we do hereby ratify and confirm all that such person or persons shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ JOHN N. KAPOOR, PH.D. John N. Kapoor, Ph.D.	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	July 28, 1998
/s/ FLOYD BENJAMIN Floyd Benjamin	Executive Vice President and Director	July 28, 1998
/s/ R. SCOTT ZION R. Scott Zion	Senior Vice President	July 28, 1998

SIGNATURE	TITLE	DATE
/s/ RITA J. MCCONVILLE Rita J. McConville	Vice President, Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	July 28, 1998
/s/ DANIEL E. BRUHL, M.D. Daniel E. Bruhl, M.D.	Director	July 28, 1998
/s/ DOYLE S. GAW Doyle S. Gaw	Director	July 28, 1998

EXHIBIT LIST

(1.1)** Form of Underwriting Agreement.

(2.1) Agreement and Plan of Merger dated December 17, 1991, by and among Akorn, Inc., Aksub, Inc., Taylor and certain former shareholders of Taylor, incorporated by reference to the 1992 8-K.

(2.2) Agreement and Plan of Merger among Akorn Manufacturing, Inc., Taylor and Pasadena Research Laboratories, Inc. dated May 7, 1996, incorporated by reference to the 1996 10-K.

(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 the 1991 10-K.

(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 1996 Transition 10-K.

(3.3) Current Composite of By-laws of the Company, incorporated by reference to Exhibit 3.3 to the 1996 Transition 10-K.

(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 (file no. 000-13976).

(5.1)** Opinion of Jones Walker as to the legality of the securities to be registered.

(10.1) Akorn, Inc. Savings and Retirement Plan effective July 1, 1984, incorporated by reference to Form 10-K for the fiscal year ended June 30, 1987 (file no. 000-13976).

(10.2) Consulting Agreement dated November 15, 1990 by and between EJ Financial Enterprises, Inc., a Delaware corporation, and the Company, incorporated by reference to Exhibit 10.24 to the 1991 10-K.

(10.3) 1991 Akorn, Inc. Stock Option Plan for Directors, incorporated by reference to Exhibit 4.3 to the Company's registration statement on Form S-8 (registration number 33-44785).

(10.4) Stock Purchase Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989 and the Company, incorporated by reference to Exhibit 10.21 to the 1991 10-K.

(10.5) Amendment dated February 15, 1991 amending Stock Purchase Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989 and the Company, incorporated by reference to Exhibit 10.25 to the 1991 10-K.

(10.6) Stock Registration Rights Agreement dated November 15, 1990 by and between the John N. Kapoor Trust dated September 20, 1989 and the Company, incorporated by reference to Exhibit 10.24 to the 1991 10-K.

(10.7) Employment Agreement among Akorn, Inc., Taylor and Floyd Benjamin dated May 31, 1996, incorporated by reference to Exhibit 10.24 of the 1996 10-K.

(10.8)* Credit Agreement, dated as of December 29, 1997, among the Company, Taylor and The Northern Trust Company.

(10.9)* First Amendment to Credit Agreement, dated as of March 27, 1998, among the Company, Taylor and The Northern Trust Company.

(10.10)* Second Amendment to Credit Agreement, dated as of June 30, 1998, among the Company, Taylor and The Northern Trust Company.

(10.11) Amended and Restated Akorn, Inc. 1988 Incentive Compensation Program dated February 12, 1998, incorporated by reference to Exhibit A to the Company's definitive Proxy Statement dated April 20, 1998.

(11.1)* Computation of Earnings Per Share.

(21.1)* Subsidiaries of the Company.

(23.1)* Consent of Deloitte & Touche LLP.

(23.2)** Consent of Jones Walker (contained in the opinion filed as Exhibit 5.1).

- ------------------------

* Filed herewith

** To be filed by amendment

CREDIT AGREEMENT

Dated as of December 29, 1997

among

AKORN, INC.

and

TAYLOR PHARMACEUTICALS, INC.

as Borrowers,

and

THE NORTHERN TRUST COMPANY,

as Lender

TABLE OF CONTENTS

INDEX OF SCHEDULES AND EXHIBITS

CREDIT AGREEMENT

This CREDIT AGREEMENT (this "AGREEMENT"), dated as of December 29, 1997, among AKORN, INC., a Louisiana corporation ("AKORN"), TAYLOR PHARMACEUTICALS, INC., an Illinois corporation ("TAYLOR"; collectively with Akorn, the "BORROWERS", and each a "BORROWER"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "LENDER").

RECITALS

WHEREAS, the Borrowers have requested the Lender to extend a revolving credit facility to the Borrowers in the aggregate maximum principal amount of $15,000,000 to provide working capital financing for the Borrowers and funds for acquisitions and other general corporate purposes of the Borrowers;

WHEREAS, each of the Borrowers desires to guaranty the payment of each other Borrower's Obligations under the Loan Documents;

WHEREAS, the Borrowers desire to secure their obligations under the Loan Documents by granting the Lender a security interest in and lien upon certain of their respective property;

WHEREAS, the Lender is willing to extend such financial accommodations upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and undertakings herein contained, and for other good and valuable

consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrowers and the Lender hereby agree as follows:

1. DEFINITIONS AND OTHER TERMS.

1.1 DEFINITIONS. In addition to terms defined elsewhere in this Agreement or any Exhibit hereto, when used herein, the following terms shall have the following meanings (such meanings shall be equally applicable to the singular and plural forms of the terms used, as the context requires):

"ADVANCE" shall have the meaning assigned to it in SECTION 2.1(a).

"AFFILIATE" shall mean, with respect to any Person, (i) 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, (ii) each Person that controls, is controlled by or is under common control with such

Person or any Affiliate of such Person or (iii) 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	GREATER THAN 1.25x but 2.00x	1.25%
3	GREATER THAN 2.00x but 2.50x	1.50%
4	GREATER THAN 2.50x	1.625%

For purposes of the foregoing, (a) from the Closing Date until March 31, 1998, 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 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 the signer 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 the signer 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 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 (i) not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of Illinois and (ii) 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 (i) the Collateral, (ii) the Obligations, (iii) the employees, payroll, income or gross receipts of any Borrower or any of its Subsidiaries, (iv) any Borrower's or any of their Subsidiaries' ownership or use of any properties or other assets, or (v) 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 Agreement 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 Fifteen Million United State Dollars ($15,000,000) 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, 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 Persons entering into same against fluctuations in currency values.

"DEA" shall mean the Drug Enforcement Agency 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 (i) 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 (ii) 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.

"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 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, relative to the applicable real estate, 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 or entity, 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, (i) a Reportable Event with respect to a Title IV Plan or a Multiemployer Plan; (ii) 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; (iii) the complete or partial withdrawal of any Borrower or Subsidiary thereof or ERISA Affiliate from any Multiemployer Plan; (iv) 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; (v) the institution of proceedings to terminate a Title IV Plan or Multiemployer Plan by the PBGC; (vi) the failure to make required contributions to a Qualified Plan; or (vii) 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 9.1.

"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. 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, PLUS (b) the Applicable Percentage.

"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 SCHEDULE 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 other Person (i) to purchase or repurchase any such primary obligation, (ii) to advance or supply funds (a) for the purchase or payment of any such primary obligation or (b) 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, (iii) 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 (iv) 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.

"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, 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 by any Federal government authority, including, without limitation, any material or substance which is (i) 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, (ii)

petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCB's), any radioactive substance, methane, volative hydrocarbons or any industrial solvent, (iii) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. Sections 1251 ET SEQ. (33 U.S.C. Sections 1321) or listed pursuant to Section 307 of the Clean Water Act (33 U.S.C. Section 1317), (iv) 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 (v) 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 (i) 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, (ii) reimbursement and all other obligations with respect to letters of credit, bankers' acceptances and surety bonds, whether or not matured, (iii) all obligations evidenced by notes, bonds, debentures or similar Instruments, (iv) 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), (v) all Capital Lease Obligations, (vi) 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, (vii) all Indebtedness referred to in clause (i), (ii), (iii), (iv), (v) or (vi) 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 (viii) 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.

"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 Borrowers in the aggregate maximum face amount not exceeding the Commitment for which Lender has incurred any Letter of Credit Obligation pursuant thereto.

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

"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 2.6(e) hereof; PROVIDED that the foregoing provision relating to LIBOR Periods is subject to the following:

(1) 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;

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

(3) 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;

(4) 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

(5) Akorn shall select LIBOR Periods so that there shall be no more than five (5) 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 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).

"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 Agreement, 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 (i) the business, assets, operations, prospects or financial or other condition of Borrowers and their Subsidiaries considered as a whole, (ii) Borrowers' ability to pay the Loans or any of the other Obligations in accordance with the terms thereof, (iii) the Collateral or Lender's Liens on the Collateral or the priority of any such Lien, or (iv) 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(f).

"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 (i) 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 (ii) 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 (i) 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 (ii) 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.

"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 (i) reserves applicable thereto, and (ii) 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(b).

"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: (i) Liens for taxes or assessments or other governmental Charges or levies, not yet due and payable; (ii) pledges or deposits securing obligations under workmen's compensation, unemployment insurance, social security or public liability laws or similar legislation; (iii) 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; (iv) deposits securing statutory obligations of any Borrower or any Subsidiary thereof; (v) inchoate and unperfected workers', mechanics', suppliers' or similar liens arising in the ordinary course of business; (vi) 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; (vii) deposits securing, or in lieu of, surety, appeal or customs bonds in proceedings to which any Borrower or any Subsidiary thereof is a party; (viii) 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; (ix) 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; (x) Liens existing on the Closing Date and listed on SCHEDULE 7.7 hereto; and (xi) other Liens securing Indebtedness or the purchase price permitted pursuant to the terms of this Agreement, including but not limited to, under SECTION 7.1 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 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 (i) 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, (ii) 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 (iii) 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 Guarantor.

"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 the Agreement, the other Loan Documents and the transactions contemplated thereunder, substantially in the form attached hereto as SCHEDULE B.

"SECURITY AGREEMENT" shall mean the Security Agreement of even date herewith entered into among Lender, Borrowers and their Subsidiaries, substantially in the form of EXHIBIT C, including all amendments, restatements, modifications and supplements thereto, and shall refer to the Security Agreement as the same may be in effect at the time such reference becomes operative.

"SOLVENT" shall mean, with respect to any Person, that (i) 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); (ii) such Person is able to pay its debts when due; and (iii) 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, (i) 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 (ii) 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 (i) December 29, 1999, (ii) the date of termination of Lender's obligations to advance funds or permit existing advances to remain outstanding pursuant to SECTION 8.2, and (iii) 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 (i) 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 (ii) 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 Obligation. 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 (a) the Business Day of the proposed Advance or, (b) 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) 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.

(c) 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 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 "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 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 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 wilful 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

(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). Within three (3) days from a closing date of a real estate financing by the Borrowers, the Loans shall be prepaid and the Commitment shall be permanently reduced by an amount equal to 75% of the difference of (i) the net proceeds of such financing, MINUS (ii) $1,000,000, in accordance with the terms of this SECTION 2.3. 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 and 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").

(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(b) 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 (i) the Commitment (as it may be adjusted from time to time hereunder) and (ii) the sum of (x) the amount of the Loan outstanding, PLUS (y) 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 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 Loan Commitment. At Lender's option and to the extent permitted by law, any advances so made shall be deemed Advances constituting part of the Loan 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: (i) to then due and payable interest payments on the Loans; (ii) to principal payments on the Loan; (iii) to then due and payable Fees and expenses; (iv) to then due and payable Obligations other than Fees, expenses and interest and principal payments; and (v) 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, (x) while any Default or Event of Default shall have occurred and be continuing, (y) at any time for purposes of inspection, audit or verification

of Accounts, or (z) 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 (i) 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 (ii) 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 Security Agreement 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, (i) 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, (ii) such Borrower shall make such deductions, and (iii) 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 Loan 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 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 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.

(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 5.6 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) PAYMENT OF FEES. Payment by Borrowers to Lender of the fees required to be paid on the Closing Date in the respective amounts specified in this Agreement.

(f) 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.

(g) 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.

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 Obligations 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.

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 (i) 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; (ii) 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; (iii) 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; (iv) is in compliance with its certificate or articles of incorporation and by-laws; and (v) 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.

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: (i) are within such Person's corporate power; (ii) have been duly authorized by all necessary or proper corporate and shareholder action; (iii) are not in contravention of any provision

of such Person's certificate or articles or incorporation or bylaws; (iv) will not violate any law or regulation, or any order or decree of any court or governmental instrumentality; (v) 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; (vi) 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 (vii) do not 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, 1997, 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, 1997 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 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 (i) has any Subsidiaries, (ii) is engaged in any joint venture or partnership with any other Person and (iii) 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 or G 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 G, 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, (i) 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 (ii) 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 Financials, 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 Collateral Documents 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 4.6 and

Permitted Liens.

4.17 HAZARDOUS MATERIALS. Except as set forth in SCHEDULE 4.17, (i) the real estate (the "REAL ESTATE") owned by the Borrowers and their Subsidiaries is free of contamination from any Hazardous Material, or (ii) 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 (i) related to noncompliance with the Environmental Laws, or (ii) 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, 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 and First National Bank of Commerce.

5. FINANCIAL STATEMENTS AND INFORMATION

5.1 REPORTS AND NOTICES. (a) 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:

(i) QUARTERLY REPORTS OF BORROWERS. Within 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, (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 and (iii) an accounts receivable aging for each Borrower as of the close of such quarter.

(ii) AUDIT REPORT OF BORROWERS. Within 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.

(iii) 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.

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

(v) OTHER INFORMATION. Such other information, financial or otherwise, as Lender may from time to time request in its reasonable discretion.

(vi) REPORTS OF AKORN. (A) Within 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 (B) within 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 acceptable to the Lender 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 (A) Charges imposed upon it, its income and profits, or any of its property (real, personal or mixed), and (B) 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 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, 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 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 (i) 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 (ii) 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, (i) comply in all material respects with the Environmental Laws applicable to it, (ii) 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 (iii) 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 (i) any and all default notices received under or with

respect to any such leased location or public warehouse, and (ii) 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 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 (i) 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, (ii) 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., (iii) certificates of deposit, maturing no more 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 (iv) 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 7.2, such limitations of amounts shall not apply unless notice thereof shall be provided by Lender to Akorn.

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 (i) Indebtedness secured by Liens permitted under SECTION 7.7, (ii) the Loans and the other Obligations, (iii) deferred taxes, and (iv) unfunded pension fund and other employee benefit plan obligations and liabilities to the extent they are permitted to remain unfunded under applicable law, (v) 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,(vi) any financing secured by any real estate owned by the Borrowers and their Subsidiaries, and (vii) 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, (i) 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, (ii) make any change in its

capital structure as described on SCHEDULE 4.9, or (iii) 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. None of the Borrowers nor any 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 (i) by endorsement of instruments or items of payment for deposit to the general account of any Borrower, and (ii) 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 (i) Permitted Encumbrances, (ii) presently existing or hereinafter created Liens in favor of Lender, (iii) 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 debt 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), (iv) Liens in connection with any financing secured by any real estate owned by the Borrowers and their Subsidiaries, (v) 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 (vi) 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, (i) 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, (ii) permit or suffer any representation set forth in SCHEDULE 4.13 to cease to be met and satisfied at any time, (iii) 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 $250,000 to such Person, (iv) 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, (v) 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, (vi) make a complete or partial withdrawal (within the meaning of Section 4201 of ERISA) from any Multiemployer Plan, or (vii) 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.

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 (i) 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, (ii) to pay the necessary fees and expenses to

maintain its corporate existence and good standing,(iii) 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 (iv) 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.

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:

(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 after notice thereof from the Lender.

(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 after any such Borrower has knowledge thereof.

(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 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 5.2 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 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: (i) 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, (ii) 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 (iii) 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 Term Note or 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.

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 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 SCHEDULE D 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 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 (i) 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, (ii) 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), (iii) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid or (iv) 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:

Winston & Strawn
35 West Wacker Drive
Chicago, Illinois 60601
Attention: Younghee Jin Ottley, Esq.
Telecopier No.: (312) 558-5700
Telephone No.: (312) 558-5600

If to any Borrower, at

Akorn, Inc.
100 Tri-State International
Suite 100
Lincolnshire, Illinois 60069-4404
Attention: Rita J. McConville, Vice President/Chief Financial Officer
Telecopier No.: (847) 236-3823
Telephone No.: (847) 236-3851

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: (i) any acceptance of collateral security, guarantors, accommodation parties or sureties for any or all Obligations; (ii) 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; (iii) 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; (iv) 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; (v) any release, surrender, cancellation or other discharge of any evidence of Obligations or the acceptance of any Instrument in renewal or substitution therefore; (vi) 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; (vii) any collection, sale, lease or disposition of, or any other foreclosure or enforcement of or realization on, any collateral security; (viii) any assignment, pledge or other transfer of any Obligations or any evidence thereof; or (ix) 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.

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]

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

AKORN, INC.

By: /s/ Rita J. McConville

Title: /s/ VP, CFO

TAYLOR PHARMACEUTICALS, INC.

By: /s/ Rita J. McConville

Title: /s/ VP, Sec'y - Treas.

THE NORTHERN TRUST COMPANY

By: /s/ Brian D. Beitz

Title: /s/ Vice President

EXHIBIT A

FORM OF NOTICE OF ADVANCE

_____, _____

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60675
Attn: Ms. Edie Reed
Fax: (312) 630-1566
Telephone: (312) 444-3352

Re: ADVANCE

Ladies and Gentlemen:

The undersigned, Akorn, Inc., as agent for _____ ("BORROWER"), refers to the Credit Agreement, dated as of December 29, 1997 (as amended, the "CREDIT AGREEMENT", the terms defined therein being used herein as therein defined), among the undersigned, Borrower, the other "Borrowers" named therein, and The Northern Trust Company ("LENDER"), and hereby gives you notice, irrevocably, pursuant to SECTION 2.1 of the Credit Agreement, that the Borrower hereby requests an Advance under the Credit Agreement, and in that connection sets forth below the information relating to such Advance as required by SECTION 2.1(a) of the Credit Agreement:

(i) The date of the requested Advance is _____, ____.

(ii) The aggregate amount of the requested Advance is $_____ (minimum Revolving Credit Advance for a LIBOR Loan is $250,000).

(iii) The Advance requested is [a Prime Rate Loan] [a Federal Funds Rate Loan] [a LIBOR Loan and the LIBOR Period applicable thereto is _____ months].

(iv) The requested Advance is to be sent to:

[Name of Bank]
[City of Bank]
Beneficiary: [_____]
Account No.: [number]
ABA No.: [number]
Attn: [name]

The undersigned hereby certifies that all of the statements

contained in SECTION 3.2 of the Credit Agreement and in SECTION 4 of the Security Agreement are true and correct in all material respects on the date hereof, and will be true in all material respects on the date of the requested Advance, before and after giving effect thereto and to the application of the proceeds therefrom.

Very truly yours,

AKORN, INC.

By:_____

Name:_____

Title:_____

EXHIBIT B

NOTE

$15,000,000 Chicago, Illinois
December 29, 1997

FOR VALUE RECEIVED, the undersigned, AKORN, INC., a Louisiana corporation ("AKORN"), and TAYLOR PHARMACEUTICALS, INC., an Illinois corporation ("TAYLOR"), jointly and severally, promise to pay to the order of THE NORTHERN TRUST COMPANY (the "LENDER") on or before December 29, 1999, the principal amount of FIFTEEN MILLION DOLLARS ($15,000,000), 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 Credit Agreement, dated as of December 29, 1997 (as amended, restated, supplemented or otherwise modified, the "CREDIT AGREEMENT"), among Akorn, Taylor and the Lender, to which 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.

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.

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.

By:_____

Title:_____

TAYLOR PHARMACEUTICALS, INC.

By:_____

Title:_____

Schedule attached to Note dated as of December 29, 1997 of AKORN, INC. AND TAYLOR PHARMACEUTICALS, INC., payable to the order of THE NORTHERN TRUST COMPANY.

LOANS AND PRINCIPAL PAYMENTS

Date	Amount of Loan Made	Type of Loan & Applicable Interest Rate	Amount of Principal Repaid	Unpaid Principal Balance	Notation Made by

The aggregate unpaid principal amount shown on this schedule shall be rebuttable presumptive evidence of the principal amount owing and unpaid on this Note. The failure to record the date and amount of any loan on this schedule shall not, however, limit or otherwise affect the obligations of the Borrowers under the Credit Agreement or under this Note to repay the principal amount of the loan together with all interest accruing thereon.

EXHIBIT C

SECURITY AGREEMENT

This SECURITY AGREEMENT, dated as of December 29, 1997 (this "Agreement"), among AKORN, INC., a Louisiana corporation ("AKORN"), TAYLOR PHARMACEUTICALS, INC., an Illinois corporation ("TAYLOR"; collectively with Akorn, the "BORROWERS", and each a "BORROWER"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "SECURED PARTY"), entered into pursuant to that certain Credit Agreement of even date herewith by and among Borrowers and Secured Party (hereinafter, as the same may from time to time be amended, restated, supplemented or otherwise modified, the "CREDIT AGREEMENT").

W I T N E S S E T H:

WHEREAS, pursuant to the terms and conditions of the Credit Agreement, it is a condition precedent to the obligations of Secured Party to extend certain financial accommodations to Borrowers, including loans to be evidenced by the promissory note of Borrowers (hereinafter, as the same may from time to time be amended, restated, supplemented or otherwise modified, the "NOTE"), that the payment of the Note and the satisfaction of any other liabilities of Borrowers to Secured Party be secured by assets of Borrowers as provided for in this Security Agreement;

NOW, THEREFORE, as an inducement to Secured Party to enter into the Credit Agreement and to extend financial consideration to Borrowers, and to secure the performance of Borrowers' obligations thereunder, the parties agree as follows:

1. DEFINITIONS. Unless the context otherwise requires, all terms used but not otherwise defined herein shall have the meanings given to them in the Credit Agreement, or if not there but in the Uniform Commercial Code, as enacted in Illinois (the "CODE"), they shall have the same meaning herein as in the Code.

2. SECURITY INTEREST. Borrowers each jointly and severally do hereby pledge, assign, transfer and deliver to Secured Party and do hereby grant to Secured Party a continuing security interest in and to the following property or types of property of Borrowers, whether presently owned or existing or hereafter acquired or coming into existence, and all additions and accessions thereto and all substitutions and replacements therefor and improvements thereto, and all proceeds (whether or not cash), products and accounts

thereof, including without limitation, all proceeds of insurance covering the same and of any tort claim in connection therewith (the "COLLATERAL"):

(a) Accounts, accounts receivable (including without limitation all rights to payment for services rendered or goods sold or leased, whether or not evidenced by an instrument or chattel paper and whether or not yet earned by performance, however arising), chattel paper, contract rights, instruments, key-man life insurance policies, documents, and tax refunds (the "ACCOUNTS");

(b) General intangibles (including without limitation inventions, designs, copyrights, copyright applications, patents, patent applications, trademarks, trademark applications, trade names, licenses, leasehold interests, tax refund claims, guaranty claims and security interests or other security held by Borrower to secure accounts);

(c) Inventory, including without limitation, returned and repossessed goods (the "INVENTORY");

(d) Goods (other than Inventory), equipment, vehicles and fixtures, together with accessions thereto and replacement parts therefor, including all such goods described in any schedule now or hereafter attached hereto (the "EQUIPMENT");

(e) All monies, accounts, deposits and property now or at any time hereafter in the possession or under the control of Secured Party or its agent;

(f) All books and records, including without limitation, customer lists, credit files, computer programs, printouts and other materials and records, pertaining to any of the foregoing;

(g) All documents of title evidencing or issued with respect to any of the foregoing;

(h) All proceeds and products of all of the foregoing, including without limitation, proceeds of insurance policies insuring the foregoing; and

(i) Any other property of any kind which any Borrower may hereafter at any time deliver to Secured Party to secure the obligations of Borrowers to Secured Party and any proceeds of any such property;

but excluding therefrom (x) any general intangibles which terminate or become terminable if a security interest is granted therein (until such time as any required third party consent to such security interest shall have been given, Borrowers hereby agreeing

to use their best efforts to obtain such consents) and (y) any other property of any Borrower which respect to which such Borrower is prohibited from granting a security interest by agreements existing and in effect on the date hereof (until such time as any required third party consent to such security interest shall have been given, Borrowers hereby agreeing to use their best efforts to obtain such consents).

3. LIABILITIES. This Agreement secures the payment and performance of the Obligations (as defined in the Credit Agreement) and all obligations of Borrowers now or hereafter existing under this Agreement and the other Loan Documents and all renewals, extensions, restructurings and refinancings of any of the above (all such debts, obligations and liabilities of Borrowers, now existing or hereafter arising, being individually called a "LIABILITY" and collectively the "LIABILITIES").

4. WARRANTIES OF BORROWERS. Borrowers each jointly and severally warrants and represents that:

(a) Except to the extent specifically permitted in the Credit Agreement, no financing statement, mortgage, notice of judgment or any similar instrument (other than any which may have been filed on behalf of Secured Party) covering any of the Collateral is on file in any public office.

(b) Except to the extent specifically permitted in the Credit Agreement, Borrowers are and will be the lawful owner of all Collateral, free and clear of all liens, pledges, charges, mortgages, and claims other than the security interest hereunder or any other security interest created in favor of Secured Party, with full power and authority to execute this Agreement and perform Borrowers' obligations hereunder and to subject the Collateral to the security interest hereunder.

(c) Except for goods covered by negotiable warehouse receipts which have been delivered to Secured Party or as promptly disclosed to Secured Party from time to time in writing, all of the Collateral is located as set forth on SCHEDULE 4(f) attached hereto, and is not in transit, and except as promptly disclosed to Secured Party from time to time in writing, all Inventory shall be of good and merchantable quality, and free from any defects which would affect the market value of such Inventory, except for obsolete, damaged, or defective inventory, which is immaterial in amount, or against which there exists a reserve for inventory write down set forth on Borrowers' most recent balance sheet.

(d) (i) All accounts receivable of Borrowers are genuine, are in all respects what they purport to be, are not

evidenced by a judgment and represent undisputed, bona fide transactions completed or to be completed in accordance with the terms and conditions of any document related thereto; (ii) none of the Accounts have been sold or pledged to any other person or entity; and (iii) Borrowers have no knowledge of any fact or circumstance which would impair the validity or collectability of the Accounts in excess of a bad debt reserve account or other contra-receivable account maintained by Borrowers.

(e) The only names by which any Borrower is known or under which any Borrower is conducting its business are set forth on SCHEDULE 4(e).

(f) Each Borrower's chief place of business and chief executive office and the office where it keeps its records concerning the Collateral is as set forth on SCHEDULE 4(f).

5. COVENANTS OF BORROWERS. Borrowers each jointly and severally agree that until payment in full of the Liabilities, they will:

(a) Provide and maintain insurance against loss and damage of the Collateral pursuant to the requirements of the Credit Agreement, and unless Secured Party otherwise agrees, shall cause all proceeds to be payable to Secured Party as its interests may appear and shall name Secured Party as an additional insured; the proceeds of such insurance shall be part of the Collateral subject to the security interest of Secured Party hereunder, and shall be applied as provided in the Credit Agreement. At any time at the request of Secured Party, Borrowers shall deliver any such policies to Secured Party.

(b) Defend the Collateral against the claims and demands of all persons other than Secured Party and promptly pay all taxes, assessments, and charges upon the Collateral and not sign (or permit to be signed) any financing statements or other documents creating or perfecting a lien upon or security interest in any of the Collateral except in favor of Secured

Party, or, except as otherwise specifically permitted in the Credit Agreement, otherwise create, suffer, or permit to exist any liens or security interests upon any Collateral other than in favor of Secured Party.

(c) At the request of Secured Party, execute and deliver to Secured Party at any time or from time to time one or more financing statements pursuant to the Code in form sufficient to perfect a lien on all of the Collateral, and will pay the cost of filing the same in all public offices wherever filing is, or is deemed by Secured Party to be, reasonably necessary or desirable. Borrowers hereby authorize Secured Party to

prepare and to file, or cause to be filed, financing statements signed only by Secured Party covering the Collateral and, in jurisdictions where any Borrower's signature is required, Borrowers hereby authorize Secured Party to sign such Borrower's signature to such financing statements on such Borrower's behalf, and Borrowers agree to pay Secured Party all reasonable fees and expenses (including attorneys' fees) incurred in filing the financing statements, which fees and expenses shall become a part of the Liabilities. A carbon, photographic or other reproduction of this Security Agreement or of any financing statements shall be sufficient as financing statement.

(d) Upon Secured Party's request, deliver any such certificates or other documents of title representing or issued with respect to any of the Collateral, with Secured Party's security interest and lien endorsed thereon, to Secured Party and record such certificates or documents with all appropriate regulatory agencies.

(e) Furnish to Secured Party, immediately upon the request of Secured Party, any evidence of ownership of the Collateral, including without limitation bills of sale, paid invoices, certificates of title, or applications for title.

(f) Keep at its principal place of business its records concerning the Collateral. Borrowers shall not, unless Secured Party shall otherwise consent in writing, which consent shall not be unreasonably withheld, duplicate any such records at any other addresses, except for back-up copies created in the ordinary course of business, and Borrowers will furnish to Secured Party such information concerning Borrower, the Collateral, and the account debtors as Secured Party may from time to time reasonably request and Secured Party will keep such information confidential except from state or federal regulators of Secured Party and Secured Party's auditors or accountants, or others to whom Secured Party has a legal obligation to disclose such information; and Borrowers shall, subject to the terms of the Credit Agreement, permit Secured Party from time to time to inspect the Collateral and to inspect, audit, and make copies of, and extracts from, all records and all other papers in the possession of any Borrower pertaining to the Collateral and the accounts debtors. After the occurrence and during the continuance of an Event of Default, Secured Party shall have the right at any time or times to make direct verification with the account debtors of any and all of the Accounts.

(g) Except for transactions in the ordinary course of Borrowers' business or otherwise expressly permitted by this Agreement and the other Loan Documents or by Secured Party in writing, Borrowers and their respective agents, servants or

employees will not sell or assign or otherwise transfer the Collateral, either in whole or in part, or any interest therein, nor, except for transactions in the ordinary course of Borrowers' business, or otherwise expressly permitted by this Agreement and the other Loan Documents or by Secured Party in writing, will it remove or permit removal of any of the Collateral from the locations where it now is, without the written consent of Secured Party. Borrowers shall provide Secured Party at any time at Secured Party's request with a reasonably complete, specific description of all the Collateral and the locations thereof and shall, subject to the terms of the Credit Agreement, at all reasonable times

give Secured Party, its agents and representatives full access to the Collateral.

(h) Keep and maintain the Equipment in good operating condition and repair (ordinary wear and tear excepted) and make all commercially and reasonably necessary replacements and renewals to the Equipment so that the value and operating efficiency thereof shall at all times be maintained and preserved.

(i) Make appropriate entries upon its financial statements and its books and records disclosing Secured Party's security interest in the Collateral.

(j) If at any time any of the Collateral shall be or become evidenced by any instrument, immediately notify Secured Party thereof, and, at the request of Secured Party, deliver such instrument to Secured Party, endorsed as requested by Secured Party.

(k) Immediately notify Secured Party of any material loss, damage, destruction, or depreciation in the value of the Collateral.

(l) Except as permitted by SECTION 5(g) or SECTION 6 hereof or in the Credit Agreement, not sell, transfer or otherwise dispose of any Collateral without Secured Party's prior written consent.

(m) Immediately notify Secured Party if any Borrower (i) is known by or conducting business under any name other than the name described in SECTION 4(e) of this Agreement, (ii) is conducting any of its business or operations at or out of offices or locations other than as described in SCHEDULE 4(f) of this Agreement, or (iii) changes the location of its principal office from the location described in SCHEDULE 4(f) of this Agreement.

(n) Use its best efforts to obtain (i) a landlord's agreement in form and substance acceptable to Secured Party

from the lessor of each leased property currently being used by any Borrower where Collateral is located, (ii) a bailee letter in form and substance acceptable to Secured Party and with respect to any warehouse where Collateral is located and (iii) a mortgagee's agreement in form and substance satisfactory to Secured Party from the mortgagee (if other than Secured Party) of each property owned by any Borrower where Collateral is located. No real property or warehouse space shall be leased or acquired by any Borrower 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. USE OF THE COLLATERAL. Until notice to the contrary is given by Secured Party after the occurrence and during the continuance of an Event of Default, Borrowers may conduct their business in the ordinary course of business substantially in the same manner as now conducted and may use, consume, or sell the Collateral for such purposes, but a sale in the ordinary course of business shall not include any transfer or sale in satisfaction, partial or complete, of a debt owed by any Borrower.

7. COLLECTIONS.

(a) At any time and from time to time, after the occurrence and during the continuance of an Event of Default, Secured Party may, upon notice to Akorn and at Borrowers' reasonable expense, or, upon request of Secured Party, Borrowers shall (i) notify any account debtors of the existence of this Agreement, and (ii) direct such account debtors to pay directly to Secured Party the amounts due or to become due from such account debtors. Each account debtor so notified and directed may accept the receipt of Secured Party for any such payment as a full release of any amounts so paid; and

(b) If an Event of Default shall have occurred and be continuing, Secured Party may enforce collection of any or all of the Collateral by suit or otherwise, and surrender, release or exchange all or any part thereof, or compromise or extend or renew for any period (whether or not longer than the original period) any indebtedness thereunder; and

(c) Secured Party shall upon direction of Borrowers or may upon the happening and during the continuance of an Event of Default, apply all payments received from account debtors to the Liabilities when due (whether by acceleration or otherwise) and may credit any balance after such payment to the account of Borrowers.

8. EVENTS OF DEFAULT. The occurrence of an Event of Default as defined in the Credit Agreement or the Loan Documents, shall constitute an Event of Default hereunder.

9. REMEDIES ON DEFAULT. If an Event of Default shall have occurred and be continuing, Secured Party, in addition to any other rights set forth in the Credit Agreement or other Loan Documents or as set forth herein, shall have all the rights and remedies of a secured party under the Code, as to any Collateral located in Illinois, and under the Uniform Commercial Code of any other jurisdiction as to any Collateral therein located (whether or not the Code or such other Uniform Commercial Code applies to the affected Collateral) and shall further have, in addition to all other rights and remedies provided herein or by law, the following rights and powers:

(a) Secured Party shall have the right to take possession of the Collateral and, for that purpose, may enter, with the aid and assistance of any person or persons, any premises where the Collateral, or any part thereof, is, or may be, placed and remove the same.

(b) Secured Party may require Borrowers to assemble the Collateral and to make it available to Secured Party at a place designated by Secured Party which is reasonably convenient to Secured Party and Borrowers.

(c) Secured Party shall have the right from time to time to sell, resell and deliver all or any part of the Collateral, at public or private sale or otherwise, at the option of Secured Party, for cash or on credit or for future delivery, in such parcel or parcels and at such time or times and at such place or places, and upon such terms and conditions as Secured Party may deem proper, all without (except as shall be required by applicable statute and which cannot be waived) advertisement or demand upon or notice to Borrowers or right of redemption of Borrowers, which are hereby expressly waived to the fullest extent permitted by law and any purchaser of Collateral at any such sale (including Secured Party) shall acquire the same absolutely free from any right or claim of any kind, including without limitation any equity of redemption which, together with all rights of redemption, stay or appraisal which Borrowers may have under any rule or statute Borrower hereby specifically and unconditionally waives to the fullest extent permitted by law; Secured Party shall give to Akorn at least fifteen (15) days' prior written notice, in the manner specified in SECTION 15(b) hereof of the time and place of any public sale or the time after which any private sale or any other intended disposition is to be made, and any such notice shall be deemed to satisfy any requirement of reasonable notice. Borrowers shall at all times remain liable for any deficiency on the Liabilities.

(d) Upon each such sale, Secured Party may, unless prohibited by applicable statute which cannot be waived, purchase all or any part of the Collateral being sold, free from and discharged of all trusts, claims, right of redemption and equities of Borrowers, which are hereby waived and released.

(e) Secured Party may, in its discretion, apply all proceeds received by Secured Party in respect of any sale of, collection from or other realization upon all or any part of the Collateral (after payment of any amounts payable to Secured Party pursuant to SECTION 11 hereof) in whole or in part against all or any part of the Liabilities in accordance with the terms of the Credit Agreement and any amount remaining after payment in full of all of the Liabilities shall be paid to Borrowers or to whomsoever may be lawfully entitled to receive such surplus.

(f) Secured Party shall have the absolute right, in its sole discretion, to dishonor checks drawn on deposit accounts maintained by

Borrowers with Secured Party and to hold such deposit accounts as cash collateral to secure payment of the Liabilities. Notwithstanding the foregoing, nothing contained herein shall interfere with the right of Secured Party under law to set off the balances of any such deposit account against the Liabilities.

10. RIGHTS OF SECURED PARTY. Secured Party may, from time to time, at its option (but shall have no duty to):

(a) Perform any agreement of Borrowers hereunder which Borrowers shall, after reasonable prior notice to Akorn thereof from Secured Party, have failed to perform; and

(b) Take any other action which Secured Party deems necessary or desirable for the preservation of the Collateral or Secured Party's interest therein, including, after the occurrence and during the continuance of an Event of Default: (i) any action to collect or realize upon the Collateral; (ii) the discharge of taxes, liens, security interests, or other encumbrances at any time levied or placed on the Collateral; or (iii) the discharge or keeping current of any obligation of Borrowers having effect on the Collateral.

11. INDEMNITY AND EXPENSE. Borrowers agrees to indemnify Secured Party from and against any and all claims, losses and liabilities growing out of or resulting from this Security Agreement (including, without limitation, enforcement of this Security Agreement and any actions taken pursuant to SECTIONS 9 and 10 hereof or any failure to act thereunder), except only for claims, losses or liabilities resulting from Secured Party's willful misconduct or gross negligence. Borrowers will, as

provided in and pursuant to SECTION 10.4 of the Credit Agreement, pay to Secured Party the amount of any and all reasonable expenses, including reasonable fees and disbursements of its counsel and of any agents not regularly in its employ, which Secured Party may incur in connection with (i) the custody, preservation, use or operation of, or the sale of, collection from or other realization upon, any of the Collateral, (ii) the exercise by Secured Party of any of its rights or powers hereunder, or (iii) any failure by Borrowers to perform or observe the provisions hereof. All such expenses shall be deemed a part of the Liabilities for all purposes of this Security Agreement and Secured Party may apply the Collateral hereunder to payment of or reimbursement of itself for such expenses.

12. RESPONSIBILITY FOR COLLATERAL. Borrowers assume all liabilities and responsibility in connection with all Collateral, and the obligations of Borrowers hereunder, under the Notes and under the other Loan Documents, shall in no way be affected or diminished by reason of the loss, destruction, damage or theft of any of the Collateral or its unavailability for any reason.

13. POWER OF ATTORNEY. Each Borrower hereby irrevocably appoints Secured Party, and any officer or agent of Secured Party, with full power of substitution, its true and lawful attorney-in-fact with full, irrevocable power and authority in such Borrower's place and stead and in such Borrower's name and on its behalf or in Secured Party's own name, from time to time and at any time in Secured Party's absolute discretion to do any and all things required to be done to carry out the terms or to accomplish the purposes of this Security Agreement as fully and effectually as such Borrower could do but for this appointment, including without limitation the power to (i) sign such Borrower's name to, and to file financing statements as provided in SECTION 5(c) hereof, (ii) to execute, in connection with any sale under SECTION 9 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral, (iii) if an Event of Default has occurred and is continuing, to notify and direct the United States Post Office authorities by notice given in the name of such Borrower and signed by Secured Party on behalf of such Borrower, to change the address for delivery of all mail addressed to such Borrower relating to the Collateral to an address to be designated by Secured Party, and to cause such mail to be delivered to such designated address where Secured Party may open all such mail and remove therefrom any notes, checks, acceptances, drafts, money orders or other instruments included in the Collateral, (iv) if an Event of Default has occurred and is continuing, to endorse the name of such Borrower upon any notes, checks, acceptances, drafts, money orders, instruments or other documents relating to the Collateral and to effect the

deposit and collection thereof, and (v) if an Event of Default has occurred and is continuing, to endorse the name of such Borrower on any other documents relating to the Collateral. Each Borrower hereby ratifies all actions taken

by or on behalf of Secured Party pursuant to this power of attorney or otherwise as provided in this Security Agreement and neither Secured Party nor any of its officers, employees or agents shall be liable for any acts or omissions or for any error of judgment or mistake of fact or law except for gross negligence or willful misconduct in its or their capacity as such attorney-in-fact. This power of attorney is coupled with an interest and shall be irrevocable until all of the Liabilities are paid in full and this Security Agreement is terminated. The powers conferred upon Secured Party hereunder are solely to protect its interests and shall not impose any duty upon it to exercise any of such powers.

14. CONTINUING SECURITY INTEREST. This Security Agreement shall create a continuing and, except as otherwise permitted hereunder and under the Credit Agreement, first security interest in the Collateral and shall remain in full force and effect until the payment in full in cash of the Liabilities and termination of the Credit Agreement.

15. GENERAL.

(a) NONWAIVER; CUMULATIVE REMEDIES. No delay or omission on the part of Secured Party in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise by Secured Party of any right or remedy shall preclude other or further exercise thereof or the exercise of any other right or remedy. All options, powers and rights granted to Secured Party hereunder or under the Credit Agreement, the Notes, or any other agreements, documents or instruments or under law shall be cumulative and shall be in addition to any other options, powers and rights of Secured Party under other applicable law or otherwise.

(b) NOTICES. Except as otherwise permitted herein, any notices or consents required or permitted by this Agreement shall be in writing and delivered as provided in SECTION 10.11 of the Credit Agreement.

(c) RETURN OR RELEASE OF COLLATERAL. At such time as Borrowers shall pay all of the Liabilities and the Credit Agreement shall be terminated, Secured Party shall return or release its interest in all Collateral upon Akorn's request.

(d) SUCCESSORS AND ASSIGNS. This Agreement shall, upon execution and delivery by Borrowers, become effective and shall be binding upon and inure to the benefit of Borrowers and Secured Party and their respective successors and assigns, except that no Borrower may transfer or assign any of its rights or interest hereunder without the consent of Secured Party. If at any time or times, by sale, assignment, negotiation, pledge or otherwise, Secured Party transfers any Liability or Liabilities, which, subject to the terms of the

Credit Agreement, Secured Party may do, such transfer shall carry with it Secured Party's rights, powers and remedies under this Security Agreement with respect to the Liability transferred, and the transferee shall become vested with such rights and remedies whether or not they are specifically referred to in the transfer, unless, and then only to the extent, that the terms of such transfer otherwise provide. If and to the extent Secured Party retains any other Liability and Liabilities, Secured Party shall continue to have the rights, powers and remedies herein set forth with respect thereto.

(e) CAPTIONS. Captions in this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof. References herein to sections and subsections without reference to the document in which they are contained are references to this Agreement.

(f) SINGULAR AND PLURAL. Unless the context requires otherwise, wherever used herein the singular shall include the plural and the plural

shall include the singular, and the use of one gender shall denote the others where appropriate.

(g) COUNTERPARTS. This Agreement may be executed by the parties on any number of separate counterparts, and by each party on separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

(h) CONSTRUCTION. This Agreement and the rights and obligations of the parties hereunder shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of Illinois (without regard to conflict of law provisions thereof).

(i) ENFORCEMENT COSTS. Each Borrower agrees to pay or reimburse Secured Party as provided in and pursuant to SECTION 10.4 of the Credit Agreement for all costs, expenses and fees (including reasonable legal fees and reasonable time charges of attorneys who may be employees of Secured Party) incurred by Secured Party in preparing, negotiating, enforcing or preserving its rights under, this Agreement or any note, document, or other instrument executed in connection herewith.

(j) SUBMISSION TO JURISDICTION; VENUE; JURY WAIVER. BORROWERS IRREVOCABLY AGREE THAT, SUBJECT TO SECURED PARTY'S SOLE AND ABSOLUTE ELECTION, ALL SUITS, ACTIONS OR OTHER PROCEEDINGS IN ANY WAY, MANNER OR RESPECT, ARISING OUT OF OR FROM OR RELATED TO THIS AGREEMENT OR ANY DOCUMENT EXECUTED IN CONNECTION HEREWITH, SHALL BE SUBJECT TO LITIGATION IN COURTS HAVING SITUS WITHIN THE CITY OF CHICAGO, STATE OF ILLINOIS. BORROWERS HEREBY CONSENT AND SUBMIT TO THE JURISDICTION OF ANY

LOCAL, STATE OR FEDERAL COURT LOCATED WITHIN SAID CITY AND STATE. BORROWERS HEREBY WAIVE ANY RIGHT TO TRANSFER OR CHANGE THE VENUE OF ANY SUIT, ACTION OR OTHER PROCEEDING BROUGHT AGAINST BORROWER BY SECURED PARTY IN ACCORDANCE WITH THIS SECTION. EACH BORROWER AND SECURED PARTY HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY WITH RESPECT TO ANY SUITS, ACTIONS OR OTHER PROCEEDINGS IN ANY WAY, MANNER OR RESPECT ARISING OUT OF OR FROM OR RELATED TO THIS AGREEMENT OR ANY DOCUMENT EXECUTED IN CONNECTION HEREWITH, INCLUDING WITHOUT LIMITATION ANY CLAIMS UNDER LAWS GOVERNING CONTRACTS OR TORTS.

[Signature page follows]

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

BORROWERS:

AKORN, INC.

By:_____

Title:_____

TAYLOR PHARMACEUTICALS, INC.

By:_____

Title:_____

SECURED PARTY:

THE NORTHERN TRUST COMPANY

By:_____

Title: Vice President

EXHIBIT D

FORM OF NOTICE OF CONVERSION/CONTINUATION

_____, _____

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60675
Attn: Ms. Edie Reed
Fax: (312) 630-1566
Telephone: (312) 444-3352

Re: ADVANCE

Ladies and Gentlemen:

The undersigned, Akorn, Inc., as agent for _____ ("BORROWER"), refers to the Credit Agreement, dated as of December 29, 1997 (as amended, the "CREDIT AGREEMENT", the terms defined therein being used herein as therein defined), among the undersigned, Borrower, the other "Borrowers" named therein, and The Northern Trust Company ("LENDER"), and hereby gives you notice, irrevocably, pursuant to SECTION 2.14 of the Credit Agreement, that the Borrower hereby requests a [conversion] [continuation] of Loans under the Credit Agreement, and in that connection sets forth below the information relating to such [conversion] [continuation] as required by SECTION 2.14 of the Credit Agreement:

1. The date of the proposed [conversion] [continuation] is _____, 199__ (which shall be a Business Day).

2. The aggregate amount of the Loans proposed to be [converted] [continued] is $_____. [Specify which part is to be converted and which part is to be continued, if appropriate.]

3. The type of Loans to be [continued] [converted] are [Prime Rate Loans] [Federal Funds Rate Loans] [LIBOR Loans] and the type of Loans resulting from the proposed [conversion] [continuation] are [Prime Rate Loans] [Federal Funds Rate Loans] [LIBOR Loans].

4. The duration of the requested LIBOR Period for each LIBOR Loan made as part of the proposed [conversion] [continuation] is _____ months (which shall be 1, 2 or 3 months).

The undersigned hereby certifies that all of the statements contained in SECTION 3.2 of the Credit Agreement and in SECTION 4 of the Security Agreement are true and correct in all material respects on the date hereof, and will be true in all material respects on the date of the requested Advance, before and after giving effect thereto and to the application of the proceeds therefrom.

Very truly yours,

AKORN, INC.

By:_____

Name:_____

Title:_____

SCHEDULE B
TO
CREDIT AGREEMENT

SCHEDULE OF ADDITIONAL CLOSING DOCUMENTS

In addition to, and not in limitation of, the conditions described in SECTION 3.1 of the Agreement, pursuant to SECTION 3.1(b), the following items must be received by Lender in form and substance satisfactory to Lender on or prior to the Closing Date (each capitalized term used but not otherwise defined herein shall have the meaning ascribed thereto in the Agreement):

A. EXHIBITS AND SCHEDULES. All Exhibits and Schedules to the Agreement, in form and substance satisfactory to Lender.

B. NOTE. One (1) duly executed original of the Note in favor of Lender, dated the date hereof.

C. SECURITY AGREEMENT. Duly executed originals of the Security Agreement, dated as of the date hereof, and all instruments, documents and agreements executed pursuant thereto.

D. SECURITY INTERESTS AND UCC FILINGS. (a) Evidence satisfactory to Lender that Lender has a valid and perfected first priority security interest in the Collateral, including (i) such documents duly executed by Borrowers (including financing statements under the UCC and other applicable documents under the laws of any jurisdiction with respect to the perfection of Liens) as Lender may request in order to perfect its security interests in the Collateral and (ii) copies of UCC search reports listing all effective financing statements that name any Borrower, as debtor, together with copies of such financing statements, none of which shall cover the Collateral.

(b) Evidence satisfactory to Lender, including copies of all UCC-1 and other financing statements filed in favor of any Borrower, with respect to each location, if any, at which Inventory may be consigned.

E. TERMINATION STATEMENTS. (a) UCC-3 or other appropriate termination statements, in form and substance satisfactory to Lender, manually signed and releasing all liens of any existing lienholder upon any of the personal property of Borrowers and any Subsidiary thereof, and (b) termination of all blocked account agreements, bank agency agreements or other similar agreements or arrangements except such agreements or arrangements in favor of Lender.

F. PAY-OFF LETTERS. Duly executed originals of pay-off letters from First National Bank of Commerce ("FNBC") with respect to loans outstanding to Borrowers and their Subsidiaries from FNBC and releases of mortgages encumbering the real estates located at _____, and UCC-3 or other appropriate termination statements filed in connection therewith, in form and substance satisfactory to the Lender.

G. INITIAL NOTICE OF ADVANCE. Duly executed originals of a Notice of Advance, dated the Closing Date, with respect to the initial Advance to be requested by any Borrower on the Closing Date.

H. LETTER OF DIRECTION. Duly executed originals of a letter of direction from Akorn addressed to Lender, with respect to the disbursement of the proceeds of the initial Advance.

I. OFFICER'S CERTIFICATE. Duly executed originals of a certificate of the chief executive officer and 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 the Agreement and to the truth and accuracy, as of the Closing Date, of the representations and warranties of Borrowers contained in the Agreement and each other Loan Document.

J. CHARTER AND GOOD STANDING. For Borrowers and each of their

Subsidiaries, such Person's (a) certificate or articles of incorporation and all amendments thereto, (b) good standing certificates (including verification of tax status) in its state of incorporation and (c) good standing certificates (including verification of tax status) and certificates of qualification of Borrower to conduct business in each jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification, each of the foregoing dated a recent date prior to the Closing Date and certified by the applicable Secretary of State or other authorized governmental entity.

K. BYLAWS AND RESOLUTIONS. For Borrowers and each of their Subsidiaries, such Person's (a) bylaws, together with all amendments thereto, and (b) resolutions of such Person's Board of Directors, approving and authorizing the execution, delivery and performance of the Loan Documents to which such Person is a party and the transactions to be consummated in connection therewith, each of the foregoing certified as of the date hereof by such Person's corporate secretary or an assistant secretary as being in full force and effect without any modification or amendment.

L. INCUMBENCY CERTIFICATES. For each Borrower and each of its Subsidiaries, signature and incumbency certificates of the officers of each such Person executing any of the Loan Documents, certified as of the date hereof by such Person's corporate

secretary or an assistant secretary as being true, accurate, correct and complete.

M. OPINIONS OF COUNSEL. Duly executed originals of opinions of Burke, Warren & MacKay, counsel for Borrowers and their Subsidiaries, together with any local counsel opinions requested by Lender, each in form and substance satisfactory to Lender and its counsel, dated the Closing Date, and each accompanied by a letter addressed to such counsel from Borrowers and their Subsidiaries authorizing and directing such counsel to address its opinion to Lender and to include in such opinion an express statement to the effect that Lender is authorized to rely on such opinion.

N. INSURANCE POLICIES AND ENDORSEMENTS. Copies of policies of insurance, required hereby together with loss payable endorsements on Lender's standard form, duly executed, and evidence of the payment of the first year's premium therefor.

O. ACCOUNTANTS' LETTER. A letter authorizing Borrowers' independent certified public accountants to communicate with Lender in accordance with SECTION 5.2 hereof and acknowledging Lender's reliance on past and future financial statements.

P. OTHER DOCUMENTS. Such other certificates, documents and agreements respecting Borrowers or any Subsidiary thereof as Lender may, in its sole discretion, request.

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT (this "First Amendment"), dated as of March 27, 1998, is among AKORN, INC., a corporation organized under the laws of the State of Louisiana ("Akorn"), TAYLOR PHARMACEUTICALS, INC., a corporation organized under the laws of the State of Illinois ("Taylor"; collectively with Akorn, the "Borrowers", and each a "Borrower") and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender"), and shall amend that certain Credit Agreement dated as of December 29, 1997 among the Borrowers and the Lender (the "Credit Agreement").

WITNESSETH:

WHEREAS, the Borrowers and the Lender are parties to the Credit Agreement; and

WHEREAS, the Borrowers and the Lender desire to amend the Credit Agreement in certain respects as set forth herein;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. AMENDMENT TO THE CREDIT AGREEMENT.

1.1 TERMS USED. Terms used but not otherwise defined herein are used with the same meanings as provided therefor in the Credit Agreement.

1.2 SECTION 2. Section 2.3 of the Credit Agreement is hereby deleted in its entirety and the following is hereby inserted in lieu thereof:

> 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. REPRESENTATIONS AND WARRANTIES.

The Borrowers hereby remake, as at the date of execution hereof, all of the representations and warranties set forth in Section 4 of the Credit Agreement as amended hereby and

additionally represents and warrants that: (a) the borrowings under the Credit Agreement as amended hereby, the execution and delivery by the Borrowers of this First Amendment and the performance by the Borrowers of their obligations under this First Amendment and the Credit Agreement as amended hereby are within the Borrowers' corporate powers, have been authorized by all necessary corporate action, have received all necessary governmental approval (if any shall be required) and do not and will not contravene or conflict with any provision of law or of the charter or by-laws of either of the Borrowers or any subsidiary or of any agreement binding upon the Borrowers or any subsidiary; and (b) no Default or Event of Default under the Credit Agreement as amended hereby has occurred and is continuing on the date of execution hereof.

3. CONDITIONS OF EFFECTIVENESS.

The effectiveness of this First Amendment is subject to the conditions precedent that the Lender shall have received all of the following, each duly executed and dated the date hereof, in form and substance satisfactory to the Lender and its counsel, at the expense of the Borrowers, and in such number of signed counterparts as the Lender may request:

(a) FIRST AMENDMENT. This First Amendment;

(b) BRING-DOWN STATEMENT. A signed statement on behalf of each Borrower certifying that (1) the resolutions of the Board of Directors of each Borrower, dated as of December 23, 1997 and delivered to Lender pursuant to the Credit Agreement, approving and authorizing the execution, delivery and performance of the Loan Documents, including any amendments thereto, have not been revoked, modified, amended or rescinded and remain in full force and effect, and (2) the incumbency certificates of each Borrower, delivered to Lender pursuant to the Credit Agreement, setting forth the signature and incumbency of each person authorized to execute the Loan Documents, including any amendments thereto, remain true, accurate, correct and complete.

(c) MISCELLANEOUS. Such other documents as the Lender may request.

4. MISCELLANEOUS.

4.1 COUNTERPARTS. This First Amendment may be executed by the parties on any number of separate counterparts and by each party on separate counterparts; each counterpart shall be deemed an original instrument; and all of the counterparts taken together shall be deemed to constitute one and the same instrument.

4.2 SUCCESSORS AND ASSIGNS. This First Amendment and the Credit Agreement as amended hereby shall be binding upon and inure to the benefit of the Borrowers, the Lender and their respective successors and assigns, except that the Borrowers may not transfer or assign any of its rights or interest hereunder or thereunder without the prior written consent of the Lender.

4.3 CAPTIONS. Captions in this First Amendment are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

4.4 FEES. The Borrowers agree to pay or reimburse the Lender for all reasonable costs and expenses of preparing and seeking advice in regard to this First Amendment and any document or instrument executed in connection herewith and therewith (including legal fees and reasonable time charges of attorneys who may be employees of the Lender, whether in or out of court, in original or appellate proceedings or in bankruptcy).

4.5 GOVERNING LAW. 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 FIRST AMENDMENT 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 EACH 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, COMPLAINTS AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS OR OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO SUCH BORROWER AT THE ADDRESS SET FORTH IN THE CREDIT 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.

4.6 AMENDMENT TO CREDIT AGREEMENT. This First Amendment shall be deemed to be an amendment to the Credit Agreement. All references to the Credit Agreement in any other document or instrument shall be deemed to refer to the Credit Agreement as previously amended and amended hereby. As hereby amended, the Credit Agreement is hereby ratified and confirmed in each and every respect.

[signature page to follow]

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed by their duly authorized officers as of the day and year first written above.

AKORN, INC.,
a Louisiana corporation

By: /s/ Rita J. McConville

Name: Rita J. McConville
Title: CFO

TAYLOR PHARMACEUTICALS, INC.,
an Illinois corporation

By: /s/ Rita J. McConville

Name: Rita J. McConville
Title: Secretary

THE NORTHERN TRUST COMPANY,
an Illinois banking corporation

By: /s/ Brian D. Beitz

Name: Brian D. Beitz
Title: Vice President

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT (this "Second Amendment"), dated as of June 30, 1998, is among AKORN, INC., a corporation organized under the laws of the State of Louisiana ("Akorn"), TAYLOR PHARMACEUTICALS, INC., a corporation organized under the laws of the State of Illinois ("Taylor"; collectively with Akorn, the "Borrowers", and each a "Borrower") and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender"), and shall amend that certain Credit Agreement dated as of December 29, 1997 among the Borrowers and the Lender, as previously amended by a First Amendment thereto dated as of March 27, 1998 (the "Credit Agreement").

W I T N E S S E T H :

WHEREAS, the Borrowers and the Lender are parties to the Credit Agreement; and

WHEREAS, the Borrowers and the Lender desire to amend the Credit Agreement in certain respects as set forth herein;

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. AMENDMENT TO THE CREDIT AGREEMENT.

1.1 TERMS USED. Terms used but not otherwise defined herein are used with the same meanings as provided therefor in the Credit Agreement.

1.2 INCREASE IN COMMITMENT. The definition of "Commitment" in Section 1.1 is hererby amended by deleting the amount "Fifteen Million United States Dollars ($15,000,000)" appearing therein and substituting therefor the amount "Twenty-Five Million United States Dollars ($25,000,000)".

1.3 FED FUNDS MARGIN. The definition of "Federal Funds Rate" in Section 1.1 is hereby amended by inserting the phrase "one eighth of one percent (1/8%), plus (c)" immediately following "(b)" and prior to "the Applicable Percentage" in the last line thereof.

1.4 LIBOR INTEREST PERIODS. Item (5) in the definition of "LIBOR Period" in Section 1.1 is hereby amended by deleting the number "five (5)" appearing in the last line thereof and substituting therefor the number "eight (8)".

1.5 NEW NOTE. The Loan shall be evidenced by a new promissory note (the "New Note") of the Borrowers, substantially in the form of Exhibit A hereto, dated as of June 30, 1998, payable to the order of the Lender. The New Note constitutes a renewal and restatement of, and a replacement and substitute for, the $15,000,000 Note of the Borrowers payable to the Lender and dated as if December 29, 1997 (the "Original Note"). The indebtedness evidenced by the Original Note is continuing indebtedness, and nothing herein or in the New Note shall be deemed

to constitute a payment, settlement or novation of the Original Note or 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. The term "Note", wherever used in the Credit Agreement with respect to the note evidencing the Loan, shall be deemed to refer to the New Note. The form of Note appearing in Exhibit B to the Credit Agreement is hereby deleted and replaced in its entirety by the form of Note appearing as Exhibit A hereto.

2. REPRESENTATIONS AND WARRANTIES.

The Borrowers hereby remake, as at the date of execution hereof, all of the representations and warranties set forth in Section 4 of the Credit Agreement as amended hereby and additionally represents and warrants that: (a) the borrowings under the Credit Agreement as amended hereby, the execution and delivery by the Borrowers of this Second Amendment and the performance by the Borrowers of their obligations under this Second Amendment and the Credit Agreement as amended hereby are within the Borrowers' corporate powers, have been authorized by all

necessary corporate action, have received all necessary governmental approval (if any shall be required) and do not and will not contravene or conflict with any provision of law or of the charter or by-laws of either of the Borrowers or any subsidiary or of any agreement binding upon the Borrowers or any subsidiary; and (b) no Default or Event of Default under the Credit Agreement as amended hereby has occurred and is continuing on the date of execution hereof.

3. CONDITIONS OF EFFECTIVENESS.

The effectiveness of this Second Amendment is subject to the conditions precedent that the Lender shall have received all of the following, each duly executed and dated the date hereof, in form and substance satisfactory to the Lender and its counsel, at the expense of the Borrowers, and in such number of signed counterparts as the Lender may request:

(a) SECOND AMENDMENT. This Second Amendment;

(b) AUTHORIZING RESOLUTIONS. Copies, certified by the Secretary or an Assistant Sectretary of each Borrower, of Resolutions of the Boards of Directors of each Borrower authorizing the execution and delivery by the duly authorized officers of each Borrower of this Second Amendment, the New Note and any related documents and instruments, and the performance by each Borrower of its obligations thereunder.

(c) BRING-DOWN STATEMENT. A signed statement on behalf of each Borrower certifying that the incumbency certificates of each Borrower, delivered to Lender pursuant to the Credit Agreement, setting forth the signature and incumbency of each person authorized to execute the Loan Documents, including any amendments thereto, remain true, accurate, correct and complete.

(d) MISCELLANEOUS. Such other documents as the Lender may request.

4. MISCELLANEOUS.

4.1 COUNTERPARTS. This Second Amendment may be executed by the parties on any number of separate counterparts and by each party on separate counterparts; each counterpart shall be deemed an original instrument; and all of the counterparts taken together shall be deemed to constitute one and the same instrument.

4.2 SUCCESSORS AND ASSIGNS. This Second Amendment and the Credit Agreement as amended hereby shall be binding upon and inure to the benefit of the Borrowers, the Lender and their respective successors and assigns, except that the Borrowers may not transfer or assign any of its rights or interest hereunder or thereunder without the prior written consent of the Lender.

4.3 CAPTIONS. Captions in this Second Amendment are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

4.4 FEES. The Borrowers agree to pay or reimburse the Lender for all reasonable costs and expenses of preparing and seeking advice in regard to this Second Amendment and any document or instrument executed in connection herewith and therewith (including legal fees and reasonable time charges of attorneys who may be employees of the Lender, whether in or out of court, in original or appellate proceedings or in bankruptcy).

4.5 GOVERNING LAW. 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 FIRST AMENDMENT 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 EACH 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, COMPLAINTS AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS OR OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO SUCH BORROWER AT THE ADDRESS SET FORTH IN THE CREDIT 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.

4.6 AMENDMENT TO CREDIT AGREEMENT. This Second Amendment shall be deemed to be an amendment to the Credit Agreement. All references to the Credit Agreement in any other document or instrument shall be deemed to refer to the Credit Agreement as previously amended and amended hereby. As hereby amended, the Credit Agreement is hereby ratified and confirmed in each and every respect.

IN WITNESS WHEREOF, the parties heretohave caused this First Amendment to be executed by their duly authorized officers as of the day and year first written above.

AKORN, INC.,
a Louisiana corporation

By: _____
Name: _____
Title: _____

TAYLOR PHARMACEUTICALS, INC.,
an Illinois corporation

By: _____
Name: _____
Title: _____

THE NORTHERN TRUST COMPANY
an Illinois banking corporation

By: _____
Name: _____
Title: _____

EXHIBIT A TO SECOND AMENDMENT

NOTE

$25,000,000 Chicago, Illinois
June 30, 1998

FOR VALUE RECEIVED, the undersigned, AKORN, INC., a Louisiana corporation ("AKORN"), and TAYLOR PHARMACEUTICALS, INC., an Illinois corporation ("TAYLOR"), jointly and severally, promise to pay to the order of THE NORTHERN TRUST COMPANY (the "Lender") on or before December 29, 1999, the principal amount of TWENTY-FIVE MILLION DOLLARS ($25,000,000), 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 Credit Agreement, dated as of December 29, 1997, as amended by a First Amendment thereto dated as of March 27, 1998, and a Second Amendment thereto dated as of June 30, 1998 (as the same may be subsequently further amended, restated, supplemented or otherwise modified, the "CREDIT AGREEMENT"), among Akorn, Taylor and the Lender, to which 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 as of December 29, 1997, of the undersigned payable to the order of the Lender in the principal amount of $15,000,000 (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.

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: _____

TAYLOR PHARMACEUTICALS, INC.,
an Illinois corporation

By: _____
Title: _____

Schedule attached to Note dated as of June 30, 1998 of AKORN, INC. and TAYLOR PHARMACEUTICALS, INC., payable to the order of THE NORTHERN TRUST COMPANY.

LOANS AND PRINCIPAL PAYMENTS

Date	Amount of Loan Made	Type of Loan & Applicable Interest Rate	Amount of Principal Repaid	Unpaid Principal Balance	Notation Made by

The aggregate unpaid principal amount shown on this schedule shall be rebuttable presumptive evidence of the principal amount owing and unpaid on this Note. The failure to record the date and amount of any loan on this schedule shall not, however, limit or otherwise affect the obligations of the Borrowers under the Credit Agreement or under this Note to repay the principal amount of the loan together with all interest accruing thereon.

EXHIBIT 11.1

COMPUTATION OF NET INCOME PER SHARE
(In Thosands, Except Per Share Data)

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,	Six months ended December 31,	Years ended June 30,	
	1998	1997	1998	1997	1997	1996	1996	1995
Earnings								
Income applicable to common stock	$ 1,101	$ 742	$ 2,149	$ 164	$ 1,792	$ 44	$ 788	$ 2,506
Shares								
Weighted average number of shares outstanding	17,850	16,598	17,769	16,596	16,614	16,580	16,383	16,236
Net income per share, basic	$ 0.06	$ 0.04	$ 0.12	$ 0.01	$ 0.11	$ 0.00	$ 0.05	$ 0.15
Addional shares assuming conversion of options	1,244	202	1,068	206	311	183	405	563
Pro forma shares	19,094	16,800	18,837	16,802	16,925	16,763	16,788	16,799
Net income per share, diluted	$ 0.06	$ 0.04	$ 0.11	$ 0.01	$ 0.11	$ 0.00	$ 0.05	$ 0.15

Exhibit 21.1

Subsidiaries of Akorn, Inc.

Name	State of Incorporation
1. Akorn Manufacturing, Inc.	Illinois
2. Spectrum Scientific Pharmaceuticals, Inc.	Louisiana
3. Walnut Pharmaceuticals, Inc.	Louisiana
4. Compass Vision, Inc.	Louisiana

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the use in this Registration Statement of Akorn, Inc. on Form S-1 of our report dated February 25, 1998, appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the headings "Selected Consolidation Financial Data" and "Experts" in such Prospectus.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
July 28, 1998