
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2002

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

Commission File Number: 0-13976

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

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

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

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

SECURITIES REGISTERED UNDER SECTION 12(b) OF THE EXCHANGE ACT:
None

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:
Common Stock, No Par Value
(Title of Class)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes
--- No

The aggregate market value of the voting stock of the Registrant held by non-affiliates (affiliates being, for these purposes only, directors, executive officers and holders of more than 5% of the Registrant's common stock) of the Registrant as of April 28, 2003 was approximately $12,882,647.

The number of shares of the Registrant's common stock, no par value per share, outstanding as of May 12, 2003 was 19,729,759.

FORWARD-LOOKING STATEMENTS AND FACTORS AFFECTING FUTURE RESULTS

Certain statements in this Form 10-K constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act.

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

- the Company's ability to restructure or refinance its debt to its senior lenders, which is currently in default, but subject to a forbearance agreement;
- the Company's ability to obtain further extensions of the forbearance agreement which originally expired on January 3, 2003, but has subsequently been extended for successive short-term periods, the latest of which expires on June 30, 2003;
- the Company's ability to avoid further defaults under debt covenants;
- the Company's ability to generate cash from operations sufficient to meet its working capital requirements;
- the Company's ability to obtain additional funding to operate and grow its business;
- the Company's ability to resolve its Food and Drug Administration compliance issues at its Decatur, Illinois facility;
- the effects of federal, state and other governmental regulation of the Company's business;
- the Company's success in developing, manufacturing and acquiring new products;
- the Company's ability to bring new products to market and the effects of sales of such products on the Company's financial results;
- the effects of competition from generic pharmaceuticals and from other pharmaceutical companies;
- availability of raw materials needed to produce the Company's products; and
- other factors referred to in this Form 10-K and the Company's other Securities and Exchange Commission filings.

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

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Akorn, Inc. ("Akorn" or the "Company") manufactures and markets diagnostic and therapeutic pharmaceuticals in specialty areas such as ophthalmology, rheumatology, anesthesia and antidotes, among others. Customers include physicians, optometrists, wholesalers, group purchasing organizations and other pharmaceutical companies. Akorn is a Louisiana corporation founded in 1971 in Abita Springs, Louisiana. In 1997, the Company relocated its headquarters and certain operations to Illinois.

As described more fully herein, the Company has had three consecutive years of operating losses, is in default under its existing credit agreement and is a party to governmental proceedings and potential claims by the Food and Drug Administration ("FDA") that could have material adverse effect on the Company. Although the Company has entered into a Forbearance Agreement with its senior lenders and obtained extensions thereof through June 30, 2003, is working with the FDA to favorably resolve such proceedings, has appointed a new interim chief executive officer and implemented other management changes and has taken additional steps to return to profitability, there is substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to (i) continue to finance it current cash needs, (ii) continue to obtain extensions of the Forbearance Agreement, (iii) successfully resolve the ongoing governmental proceeding with the FDA and (iv) ultimately refinance its senior bank debt and obtain new financing for future operations and capital expenditures. See Item 7.- "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Financial Condition and Liquidity."

The Company classifies its operations into three identifiable business segments, ophthalmic, injectable and contract services. These three segments are discussed in greater detail below. For information regarding revenues and gross profit for each of the Company's segments, see Note L "Segment Information" to the consolidated financial statements included in Item 8 of this report.

Ophthalmic Segment. The Company markets a line of diagnostic and therapeutic ophthalmic pharmaceutical products. Diagnostic products, primarily used in the office setting, include mydriatics and cycloplegics, anesthetics, topical stains, gonioscopic solutions, angiography dyes and others. Therapeutic products, sold primarily to wholesalers and other national account customers, include antibiotics, anti-infectives, steroids, steroid combinations, glaucoma medications, decongestants/antihistamines and anti-edema medications. Non-pharmaceutical products include various artificial tear solutions, preservative-free lubricating ointments, lid cleansers, vitamin supplements and contact lens accessories. The Company exited the surgical products business in late 2002. The impact was not material to the Company's financial results.

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

Contract Services Segment. The Company manufactures products for third party pharmaceutical and biotechnology customers based on their specifications.

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

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

The ophthalmic segment uses a three-tiered sales effort. Outside sales representatives sell directly to physicians and group practices. In-house sales (telemarketing) and customer service (catalog sales) sell to optometrists and other customers. A national accounts group sells to wholesalers, retail chains and other group purchasing organizations. This national accounts group also markets the Company's injectable pharmaceutical products, which the Company also sells through telemarketing and direct mail activities to individual specialty physicians and hospitals. The contract services segment markets its contract manufacturing services through direct mail, trade shows and direct industry contacts.

Research and Development. As of December 31, 2002, the Company had 19 Abbreviated New Drug Applications ("ANDAs") for generic pharmaceuticals in various stages of development. The Company filed 12 of these ANDAs along with a New Drug Application ("NDA") supplement in 2002. See "Government Regulation." The Company plans to continue to file ANDAs on a regular basis as pharmaceutical products come off patent allowing the Company to compete by marketing generic equivalents. However, unless and until the issues pending before the FDA with respect to the Company are favorably resolved, it is doubtful that the FDA will approve any NDAs or ANDAs submitted by the Company. The FDA approved the NDA for Paremyd, on December 5, 2001, which was launched during the first quarter of 2002.

In the fourth quarter of 2002, the Company completed a phase 1 clinical trial on nine patients using a new, patent pending formulation of indocyanine green ("ICG") for the indication in Age Related Macular Degeneration ("AMD"). Additionally, in 2002, the Company was issued two U.S. patents, #6,351,663 and #6,443,976 relating to ICG and the diagnosis and treatment of abnormal vasculature. If the Company's developmental efforts are successful, the Company currently anticipates filing an NDA within the next four years. The Company also anticipates filing an NDA supplement within the next three years for an indication for ICG for intra-ocular staining.

On February 18, 2003, the Company announced that it had received approval from the FDA for its ANDA for Lidocaine Jelly, 2% ("Lidocaine Jelly"), a bioequivalent to Xylocaine Jelly (R), a product of AstraZeneca PLC used primarily as a topical anesthetic by urologists and hospitals. According to industry sources, it is estimated that the total annual U.S. market for comparable products was approximately $30 million in 2002. The Company anticipates that its product, which will be manufactured at its Somerset, New Jersey facility, will be commercially available in the second quarter of 2003.

Pre-clinical and clinical trials required in connection with the development of pharmaceutical products are performed by contract research organizations under the direction of Company personnel. No assurance can be given as to whether the Company will file NDAs, or any ANDAs, when anticipated, whether the Company will develop marketable products based on these filings or as to the actual size of the market for any such products. See "Government Regulation" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results -- Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities."

The Company also maintains a business development program that identifies potential product acquisition or product licensing candidates. The Company has focused its business development efforts on niche products that complement its existing product lines and that have few or no competitors in the market. In 2000, the Company entered into an exclusive cross marketing agreement with Novadaq Technologies, Inc. for cardiac angiography procedures employing ICG. Under the terms of the agreement, as amended on January 25, 2002, Novadaq will assume all further costs associated with development of the technology. The Company, in consideration of foregoing any share of future net profits, obtained an equity ownership interest in Novadaq and the right to be the exclusive supplier of ICG for use in Novadaq's diagnostic procedures.

At December 31, 2002, 12 full-time employees of the Company were involved in research and development and product licensing.

Research and development costs are expensed as incurred. Such costs amounted to $1,886,000, $2,598,000 and $4,132,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

Patents and Proprietary Rights. The Company considers the protection of discoveries in connection with its development activities important to its business. The Company has sought, and intends to continue to seek, patent protection in the United States and selected foreign countries where deemed appropriate. As of December 31, 2002, the Company had received six U.S. patents and had two additional U.S. patent applications and one international patent application pending. In February of 2002, the U.S. Patent and Trademark Office notified the Company that U.S. patent number 6,351,663 titled "Methods for diagnosing and treating abnormal vasculature using fluorescent dye angiography and dye enhanced photocoagulation" had been issued to the Company. Two of the patents held by the Company cover ophthalmic products and processes under development and the remaining four patents are methods patents relating to a currently marketed injectable product.

The Company had also licensed two U.S. patents from the Johns Hopkins University, Applied Physics Laboratory ("JHU/APL") for the development and commercialization of AMD diagnosis and treatment using ICG. However, a dispute arose between the Company and JHU/APL regarding the two patents licensed for AMD and the Company's performance required by December 31, 2001 under the terms of the applicable License Agreement. In July 2002, the Company and JHU/APL agreed to terminate their license agreement and as a result, the Company no longer has any rights to the JHU/APL patents. See "Item 3. Legal Proceedings." Although the Company has relinquished its rights to the JHU/APL Patents, the Company is actively pursuing alternative treatment methods for AMD using ICG. There can be no assurance that the Company will obtain U.S. or foreign patents or, if obtained, that they will provide substantial protection or be of commercial benefit.

The Company also relies upon trademarks, trade secrets, unpatented proprietary know-how and continuing technological innovation to maintain and develop its competitive position. The Company enters into confidentiality agreements with certain of its employees pursuant to which such employees agree to assign to the Company any inventions relating to the Company's business made by them while in the Company's employ. However, there can be no assurance that others may not acquire or independently develop similar technology or, if patents are not issued with respect to products arising from research, that the Company will be able to maintain information pertinent to such research as proprietary technology or trade secrets. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results -- Patents and Proprietary Rights".

Employee Relations. At December 31, 2002, the Company had 326 full-time employees, 290 of whom were employed by Akorn and 36 by its wholly owned subsidiary, Akorn (New Jersey), Inc. The Company enjoys good relations with its employees, none of whom are represented by a collective bargaining agent.

Competition. The marketing and manufacturing of pharmaceutical products is highly competitive, with many established manufacturers, suppliers and distributors actively engaged in all phases of the business. Most of the Company's competitors have substantially greater financial and other resources, including greater sales volume, larger sales forces and greater manufacturing capacity. See "Item 7. Management's Discussion and Analysis of Operations -- Factors That May Affect Future Results -- Competition; Uncertainty of Technological Change."

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

The companies that compete with the injectable segment include both generic and name brand companies such as Abbott Laboratories, Gensia, American Pharmaceutical Products, Elkin Sinn and American Regent. The injectable segment competes primarily on the basis of price.

Competitors in the contract services segment include Cook Imaging (Baxter), Chesapeake Biological Laboratories and Ben Venue. The contract services segment competes primarily on the basis of price and

technical capabilities. The manufacturing of products in all three segments must be performed under government mandated Current Good Manufacturing Practices

("cGMP").

Suppliers and Customers. No supplier of products accounted for more than 10% of the Company's purchases in 2002, 2001 or 2000. 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 the case of 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. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results -- Dependence on Supply of Raw Materials and Components".

A small number of large wholesale drug distributors account for a large portion of the Company's gross sales, revenues and accounts receivable. Those distributors are:

- AmerisourceBergen Corporation ("AmerisourceBergen"), which was formed in 2001 by the merger of AmeriSource Health Corporation and Bergen Brunswig Corporation;

- Cardinal Health, Inc. ("Cardinal"); and

- McKesson Drug Company ("McKesson").

These three wholesale drug distributors accounted for approximately 57% of total gross sales and 42% of revenues in 2002, and 61% of gross accounts receivables as of December 31, 2002. The difference between gross sales and revenue is that gross sales do not reflect the deductions for chargebacks, rebates and product returns (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Critical Accounting Policies). The percentages of gross sales, revenue and gross trade receivables attributed to each of these three wholesale drug distributors for the years ended December 31, 2002 and December 31, 2001 were as follows:

	2002 GROSS SALES	2002 REVENUE	2002 GROSS ACCT. RECEIVABLES	2001 GROSS SALES	2001 REVENUE	2001 GROSS ACCT. RECEIVABLES
AmerisourceBergen Corporation.....	28%	22%	28%	19%	10%	25%
Cardinal Health, Inc.....	18%	12%	27%	14%	9%	11%
McKesson Drug Company.....	11%	8%	6%	9%	5%	11%

AmerisourceBergen, Cardinal and McKesson are distributors of the Company's products as well as a broad range of health care products for many other companies. None of these distributors is an end user of the Company's products. If sales to any one of these distributors were to diminish or cease, the Company believes that the end users of its products would find little difficulty obtaining the Company's products either directly from the Company or from another distributor. However, the loss of one or more of these customers, together with a delay or inability to secure an alternative distribution source for end users, could have a material negative impact on the Company's revenue and results of operations and lead to a violation of debt covenants. A change in purchasing patterns, an increase in returns of the Company's products, delays in purchasing products and delays in payment for products by one or more distributors also could have a material negative impact on the Company's revenue and results of operations and lead to a violation of debt covenants. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results -- Dependence on Small Number of Distributors."

Backorders. As of December 31, 2002, the Company had approximately $5.4 million of products on backorder as compared to approximately $4.0 million of backorders as of December 31, 2001. This increase in backorders is due the fact that one of the Company's production rooms at it's Decatur, Illinois facility was not fully operational in the fourth quarter of 2002 pending requalification under cGMP of that production room. The Company anticipates filling all open backorders during 2003.

Government Regulation. Pharmaceutical manufacturers and distributors are subject to extensive regulation by government agencies, including the FDA, the Drug Enforcement Administration ("DEA"), the Federal Trade Commission ("FTC") and other federal, state and local agencies. The federal Food, Drug and Cosmetic Act (the "FDC Act"), the Controlled Substance Act and other federal statutes and regulations govern or influence the development, testing, manufacture, labeling, storage and promotion of products. The FDA inspects drug manufacturers and storage facilities to determine compliance with its cGMP regulations, non-compliance with which can result in fines, recall and seizure of products, total or partial suspension of production, refusal to approve new drug applications and criminal prosecution. The FDA also has the authority to revoke approval of drug products.

FDA approval is required before any drug can be manufactured and marketed. New drugs require the filing of an NDA, including clinical studies demonstrating the safety and efficacy of the drug. Generic drugs, which are equivalents of existing, off-patent brand name drugs, require the filing of an ANDA. An ANDA does not, for the most part, require clinical studies since safety and efficacy have already been demonstrated by the product originator. However, the ANDA must provide data demonstrating the equivalency of the generic formulation in terms of bioavailability. The time required by the FDA to review and approve NDA's and ANDA's is variable and essentially beyond the control of the Company.

In October 2000, the FDA issued a warning letter to the Company following the FDA's routine cGMP inspection of the Company's Decatur manufacturing facilities. An FDA warning letter is intended to provide notice to a company of violations of the laws administered by the FDA. Its primary purpose is to elicit voluntary corrective action. The letter warns that if voluntary action is not forthcoming, the FDA may use other legal means to compel compliance. These include seizure of products and/or injunction of the company and responsible individuals. The October, 2000 warning letter addressed several deviations from regulatory requirements including general documentation and cleaning validation issues and requested corrective actions be undertaken by the Company. The Company initiated corrective actions and responded to the warning letter. Subsequently, the FDA conducted another inspection in late 2001 and identified additional deviations from regulatory requirements including cleaning validation and process control issues. This led to the FDA leaving the warning letter in place and issuing a Form 483 to document its findings. While no further correspondence was received from the FDA, the Company responded to the inspectional findings. This response described the Company's plan for addressing the issues raised by the FDA and included improved cleaning validation, enhanced process controls and approximately $2.0 million of capital improvements. In August 2002, the FDA conducted an inspection of the Decatur facility and identified deviations from cGMPs. The Company responded to these observations in September 2002. In response to the Company's actions, the FDA conducted another inspection of the Decatur facility during the period from December 10, 2002 to February 6, 2003. This inspection identified deviations from regulatory requirements including the manner in which the Company processes and investigates manufacturing discrepancies and failures, customer complaints and the thoroughness of equipment cleaning validations. Deviations identified during this inspection had been raised in previous FDA inspections. The Company has responded to these latest findings in writing and in a meeting with the FDA in March 2003. The Company set forth its plan for implementing comprehensive corrective actions, provided a progress report to the FDA on April 15 and May 15, 2003 and has committed to providing the FDA an additional periodic report of progress on June 15, 2003.

As a result of the latest inspection and the Company's response, the FDA may take any of the following actions: (i) accept the Company's reports and response and take no further action against the Company; (ii) permit the Company to continue its corrective actions and conduct another inspection (which likely would not occur before the fourth quarter of 2003) to assess the success of these efforts; (iii) seek to enjoin the Company from further violations, which

may include temporary suspension of some or all operations and

potential monetary penalties; or (iv) take other enforcement action which may include seizure of Company products. At this time, it is not possible to predict the FDA's course of action.

The Company believes that unless and until the FDA chooses option (i) or, in the case of option (ii), unless and until the issues identified by the FDA have been successfully corrected and the corrections have been verified through reinspection, it is doubtful that the FDA will approve any NDAs or ANDAs that may be submitted by the Company. This has adversely impacted, and is likely to continue to adversely impact the Company's ability to grow sales. However, the Company believes that unless and until the FDA chooses option (iii) or (iv), the Company will be able to continue manufacturing and distributing its current product lines.

If the FDA chooses option (iii) or (iv), such action could significantly impair the Company's ability to continue to manufacture and distribute its current product line and generate cash from its operations, could result in a covenant violation under the Company's senior debt or could cause the Company's senior lenders to refuse further extensions of the Company's senior debt, any or all of which would have a material adverse effect on the Company's liquidity. Any monetary penalty assessed by the FDA also could have a material adverse effect on the Company's liquidity. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation -- Financial Condition and Liquidity".

In February of 2003, the Company recalled two products, Fluress and Fluoracaine, due to container/ closure integrity problems resulting in leaking containers. The recall has been classified by the FDA as a Class II recall, which means that the use of, or exposure to, a violative product may cause temporary or medically reversible adverse health consequences or that the probability of serious health consequences as a result of such use or exposure is remote. To date, the Company has not received any notification or complaints from end users of the recalled products. Because the Company had curtailed the production of these items due to the above container/closure integrity issues, the financial impact to the Company of this recall is not expected to be material.

In March of 2003, as a result of the most recent FDA inspection, the Company recalled twenty-four lots of product produced from the period December 2001 to June 2002 in one of its production rooms at its Decatur, Illinois facility. The majority of the lots recalled were for third party contract customer products. Subsequent to this decision and after discussions with the FDA, eight of the original twenty-four lots have been exempted from the recall due to medical necessity. At this time, the FDA has not reached a conclusion on the classification of this recall. To date, the Company has not received any notification or complaints from end users of the recalled products. Due to the passage of time between the production of theses lots and the recall, the Company believes that its customers do not hold significant inventories of these products. As a result, the Company believes the financial impact of this recall will not be material.

The Company also manufactures and distributes several controlled-drug substances, the distribution and handling of which are regulated by the DEA. Failure to comply with DEA regulations can result in fines or seizure of product. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results -- Government Regulation".

On March 6, 2002, the Company received a letter from the United States Attorney's Office, Central District of Illinois, Springfield, Illinois, advising the Company that the DEA had referred a matter to that office for a possible civil legal action for alleged violations of the Comprehensive Drug Abuse Prevention Control Act of 1970, 21 U.S.C. sec. 801, et. seq. and regulations promulgated under the Act. The alleged violations relate to record keeping and controls surrounding the storage and distribution of controlled substances. On November 6, 2002, the Company entered into a Civil Consent Decree with the DEA. Under terms of the Civil Consent Decree, the Company, without admitting any of the allegations in the complaint from the DEA, has agreed to pay a fine of $100,000, upgrade its security system and to remain in substantial compliance with the Comprehensive Drug Abuse Prevention Control Act of 1970. If the Company

does not remain in substantial compliance during the two-year period following the entry of the Civil Consent Decree, the Company, in addition to other possible sanctions, may be held in contempt of court and ordered to pay an additional $300,000 fine. See Item 3. "Legal Proceedings".

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

ITEM 2. DESCRIPTION OF PROPERTIES

Since August 1998, the Company's headquarters and certain administrative offices, as well as a finished goods warehouse, have been located in leased space at 2500 Millbrook Drive, Buffalo Grove, Illinois. The Company leased approximately 24,000 square feet until June 2000 at which time it expanded to the current occupied space of approximately 48,000 square feet. From May 1997 to August 1998, the Company's headquarters and ophthalmic division offices were located in approximately 11,000 square feet of leased space in Lincolnshire, Illinois. The Company sublets portions of the space leased in Lincolnshire. The Company's former headquarters, consisting of approximately 30,000 square feet located on ten acres of land in Abita Springs, Louisiana, was sold in February 1999.

The Company owns a 76,000 square foot facility located on 15 acres of land in Decatur, Illinois. This facility is currently used for packaging, distribution, warehousing and office space. In addition, the Company owns a 55,000 square-foot manufacturing facility in Decatur, Illinois. The Decatur facilities support all three of the Company's segments. The Company leases approximately 7,000 square feet of office and warehousing space in San Clemente, California, formerly used as a sales office to support the Injectable segment. The Company successfully sublet this space through the term of the lease when the San Clemente operations were closed and relocated to Buffalo Grove in July of 2001. The Company's Akorn (New Jersey) subsidiary also leases approximately 40,000 square feet of space in Somerset, New Jersey. This space is used for manufacturing, research and development and administrative activities related to the ophthalmic segment. The Company does not have any idled manufacturing facilities, however, the capacity utilization at both its Decatur and Somerset facilities was approximately 50% during the year ended December 31, 2002. The Company can produce approximately 65 batches, per month, at full capacity. Operating the manufacturing facilities at the reduced level has contributed to the generation of negative manufacturing variances.

The Company is in the process of completing an expansion of its Decatur, Illinois facility to add capacity to provide Lyophilization manufacturing services, which manufacturing capability the Company currently does not have. Subject to the Company's ability to refinance its senior debt and obtain new financing for future operations and capital expenditures, the Company anticipates the completion of the Lyophilization expansion in the second half of 2004. As of December 31, 2002, the Company had spent approximately $16.4 million on the expansion and anticipates the need to spend approximately $1.0 million of additional funds (excluding capitalized interest) to complete the expansion. The majority of the additional spending will be focused on validation testing of the Lyophilization facility as the major capital equipment items are currently in place. Once the Lyophilization facility is validated, the Company will proceed to produce stability batches to provide the data necessary to allow the Lyophilization facility to be inspected and approved by the FDA.

The current combined space is considered adequate to accommodate the Company's manufacturing needs for the foreseeable future. Lyophilization capabilities are not currently needed by the Company, but would give the Company the capability to manufacture additional products for its contract customers and allow the Company to internally produce one of its currently outsourced products.

ITEM 3. LEGAL PROCEEDINGS

On March 27, 2002, the Company received a letter informing it that the staff of the SEC's regional office in Denver, Colorado, would recommend to the SEC that it bring an enforcement action against the Company and seek an order requiring the Company to be enjoined from engaging in certain conduct. The staff alleged that the Company misstated its income for fiscal years 2000 and 2001 by

allegedly failing to reserve for doubtful accounts receivable and overstating its accounts receivable balance as of December 31, 2000. The staff alleged that internal control and books and records deficiencies prevented the Company from accurately recording, reconciling and aging its accounts receivable. The Company also learned that certain of its former officers, as well as a then current employee had received similar notifications. Subsequent to the issuance of the Company's consolidated financial statements for the year ended December 31, 2001, management of the

Company determined it needed to restate the Company's financial statements for 2000 and 2001 to record a $7.5 million increase to the allowance for doubtful accounts as of December 31, 2000, which it had originally recorded as of March 31, 2001.

On February 27, 2003, the Company reached an agreement in principle with the staff of the SEC's regional office in Denver, Colorado, that would resolve the issues arising from the staff's investigation and proposed enforcement action as discussed above. The Company has offered to consent to the entry of an administrative cease and desist order as proposed by the staff, without admitting or denying the findings set forth therein. The proposed consent order finds that the Company failed to promptly and completely record and reconcile cash and credit remittances, including from its top five customers, to invoices posted in its accounts receivable sub-ledger. According to the findings in the proposed consent order, the Company's problems resulted from, among other things, internal control and books and records deficiencies that prevented the Company from accurately recording, reconciling and aging its receivables. The proposed consent order finds that the Company's 2000 Form 10-K and first quarter 2001 Form 10-Q misstated its account receivable balance or, alternatively, failed to disclose the impairment of its accounts receivable and that its first quarter 2001 Form 10-Q inaccurately attributed the increased accounts receivable reserve to a change in estimate based on recent collection efforts, in violation of Section 13(a) of the Exchange Act and rules 12b-20, 13a-1 and 13a-13 thereunder. The proposed consent order also finds that the Company failed to keep accurate books and records and failed to devise and maintain a system of adequate internal accounting controls with respect to its accounts receivable in violation of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. The proposed consent order does not impose a monetary penalty against the Company or require any additional restatement of the Company's financial statements. The Company has recently become aware of and informed the SEC staff of certain weaknesses in its internal controls, which it is in the process of addressing. It is uncertain at this time what effect these actions will have on the agreement in principle currently pending with the SEC staff. The proposed consent order does not become final until it is approved by the SEC. Accordingly, the Company may incur additional costs and expenses in connections with this proceeding.

The Company was party to a License Agreement with JHU/APL effective April 26, 2000, and amended effective July 15, 2001 (See Note C -- "Product and Other Acquisitions" to the consolidated financial statements included in Item 8). Pursuant to the License Agreement, the Company licensed two patents from JHU/APL for the development and commercialization of a diagnosis and treatment for age-related macular degeneration ("AMD") using Indocyanine Green ("ICG"). A dispute arose between the Company and JHU/APL concerning the License Agreement. Specifically, JHU/APL challenged the Company's performance required by December 31, 2001 under the License Agreement and alleged that the Company was in breach of the License Agreement. The Company denied JHU/APL's allegations and contended that it had performed in accordance with the terms of the License Agreement. As a result of the dispute, on March 29, 2002, the Company commenced a lawsuit in the U.S. District Court for the Northern District of Illinois, seeking declaratory and other relief against JHU/APL. On July 3, 2002, the Company reached an agreement with JHU/APL with regard to the dispute that had risen between the two parties. The Company and JHU/APL mutually agreed to terminate their license agreement. As a result, the Company no longer has any rights to the JHU/APL patent rights as defined in the license agreement. In exchange for relinquishing its rights to the JHU/APL patent rights, the Company received an abatement of the $300,000 due to JHU/APL at March 31, 2002 and a payment of $125,000 to be received by August 3, 2002. The Company also has the right to receive 15% of all cash payments and 20% of all equity received by JHU/APL from any license of the JHU/APL patent rights less any cash or equity returned by JHU/APL to such licensee. The combined total of all such cash and equity payments are not to exceed $1,025,000. The $125,000 payment is considered an advance towards cash payments due from JHU/APL and will be credited against any future cash payments due the Company as a result of JHU/APL's licensing efforts.

As a result of the resolved dispute discussed above, the Company recorded an asset impairment charge of $1,559,500 in 2002. The impairment amount represents the net value of the asset recorded on the balance sheet of the Company less the $300,000 payment abated by JHU/APL and the $125,000 payment from JHU/APL. The $125,000 payment was received on August 3, 2002. In the fourth quarter of 2002, the Company learned that JHU/APL had licensed their two patents related to AMD to Novadaq Technologies, Inc. ("Novadaq"). In connection with the settlement of a

prior dispute with Novadaq in January 2002 (as discussed below), the Company had previously acquired an equity interest in Novadaq. Pursuant to the settlement with JHU/APL, the Company is entitled to 20% of all equity received by Johns Hopkins from any license of the patent rights. Therefore, the Company received an additional 132,000 shares of Novadaq, valued at $23,000 which was recorded as a gain in the fourth quarter of 2002.

In October 2000, the FDA issued a warning letter to the Company following the FDA's routine cGMP the inspection of the Company's Decatur manufacturing facilities. This letter addressed several deviations from regulatory requirements including cleaning validations and general documentation and requested corrective actions be undertaken by the Company. The Company initiated corrective actions and responded to the warning letter. Subsequently, the FDA conducted another inspection in late 2001 and identified additional deviations from regulatory requirements including process controls and cleaning validations. This led to the FDA leaving the warning letter in place and issuing a Form 483 to document its findings. While no further correspondence was received from the FDA, the Company responded to the inspectional findings. This response described the Company's plan for addressing the issues raised by the FDA and included improved cleaning validation, enhanced process controls and approximately $2.0 million of capital improvements. In August 2002, the FDA conducted an inspection of the Decatur facility and identified cGMP deviations. The Company responded to these observations in September 2002. In response to the Company's actions, the FDA conducted another inspection of the Decatur facility during the period from December 10, 2002 to February 6, 2003. This inspection identified deviations from regulatory requirements including the manner in which the Company processes and investigates manufacturing discrepancies and failures, customer complaints and the thoroughness of equipment cleaning validations. Deviations identified during this inspection had been raised in previous FDA inspections. The Company has responded to these latest findings in writing and in a meeting with the FDA in March 2003. The Company set forth its plan for implementing comprehensive corrective actions, has provided a progress report to the FDA on April 15, and May 15, 2003 and has committed to providing the FDA an additional periodic report of progress on June 15, 2003.

As a result of the latest inspection and the Company's response, the FDA may take any of the following actions: (i) accept the Company's reports and response and take no further action against the Company; (ii) permit the Company to continue its corrective actions and conduct another inspection (which likely would not occur before the fourth quarter of 2003) to assess the success of these efforts; (iii) seek to enjoin the Company from further violations, which may include temporary suspension of some or all operations and potential monetary penalties; or (iv) take other enforcement action which may include seizure of Company products. At this time, it is not possible to predict the FDA's course of action.

The Company believes that unless and until the FDA chooses option (i) or, in the case of option (ii), unless and until the issues identified by the FDA have been successfully corrected and the corrections have been verified through reinspection, it is doubtful that the FDA will approve any NDAs or ANDAs that may be submitted by the Company. This has adversely impacted, and is likely to continue to adversely impact the Company's ability to grow sales. However, the Company believes that unless and until the FDA chooses option (iii) or (iv), the Company will be able to continue manufacturing and distributing its current product lines.

If the FDA chooses option (iii) or (iv), such action could significantly impair the Company's ability to continue to manufacture and distribute its current product line and generate cash from its operations, could result in a covenant violation under the Company's senior debt or could cause the Company's senior lenders to refuse further extensions of the Company's senior debt, any or all of which would have a material adverse effect on the Company's liquidity.

Any monetary penalty assessed by the FDA also could have a material adverse effect on the Company's liquidity. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation -- Financial Condition and Liquidity".

On March 6, 2002, the Company received a letter from the United States Attorney's Office, Central District of Illinois, Springfield, Illinois, advising the Company that the DEA had referred a matter to that office for a possible civil legal action for alleged violations of the Comprehensive Drug Abuse Prevention Control Act of 1970, 21 U.S.C. sec. 801, et. seq. and regulations promulgated under the Act. The alleged

violations relate to record keeping and controls surrounding the storage and distribution of controlled substances. On November 6, 2002, the Company entered into a Civil Consent Decree with the DEA. Under terms of the Consent Decree, the Company, without admitting any of the allegations in the complaint from the DEA, has agreed to pay a fine of $100,000, upgrade its security system and to remain in substantial compliance with the Comprehensive Drug Abuse Prevention Control Act of 1970. If the Company does not remain in substantial compliance during the two-year period following the entry of the civil consent decree, the Company, in addition to other possible sanctions, may be held in contempt of court and ordered to pay an additional $300,000 fine.

On August 9, 2001, the Company was served with a Complaint, which had been filed on August 8, 2001 in the United States District Court for The Northern District of Illinois, Eastern Division. The suit named the Company as well as Mr. Floyd Benjamin, the former president and chief executive officer of the Company, and Dr. John N. Kapoor, the Company's current chairman of the board and then interim chief executive officer as defendants. The suit, which was filed by Michelle Golumbski, individually, and on behalf of all others similarly situated, alleged various violations of the federal securities laws in connection with the Company's public statements and filings with the SEC during the period from February 20, 2001 through May 22, 2001. The plaintiff subsequently voluntarily dismissed her claims against Akorn, Inc., Mr. Floyd Benjamin and Dr. John N. Kapoor, and, in exchange for the Company's consent to this voluntary dismissal, also provided, through counsel, a written statement that the plaintiff would not reassert her claims against any of the defendants in any subsequent actions. The Company did not provide the plaintiff with any compensation in consideration for this voluntary dismissal.

On April 4, 2001, the International Court of Arbitration (the "ICA") of the International Chamber of Commerce notified the Company that Novadaq had filed a Request for Arbitration with the ICA on April 2, 2001. Akorn and Novadaq had previously entered into an Exclusive Cross-Marketing Agreement dated July 12, 2000 (the "Agreement"), providing for their joint development and marketing of certain devices and procedures for use in fluorescein angiography (the "Products"). Akorn's drug indocyanine green ("ICG") would be used as part of the angiographic procedure. The FDA had requested that the parties undertake clinical studies prior to obtaining FDA approval. In its Request for Arbitration, Novadaq asserted that under the terms of the Agreement, Akorn should be responsible for the costs of performing the requested clinical trials, which were estimated to cost approximately $4,400,000. Alternatively, Novadaq sought a declaration that the Agreement should be terminated as a result of Akorn's alleged breach. Finally, in either event, Novadaq sought unspecified damages as a result of the alleged failure or delay on Akorn's part in performing its obligations under the Agreement. In its response, Akorn denied Novadaq's allegations and alleged that Novadaq had breached the agreement. On January 25, 2002, the Company and Novadaq reached a settlement of the dispute. Under terms of a revised agreement entered into as part of the settlement, Novadaq will assume all further costs associated with development of the technology. The Company, in consideration of foregoing any share of future net profits, obtained an equity ownership interest in Novadaq, the right to be the exclusive supplier of ICG for use in Novadaq's diagnostic procedures and the right to designate a representative on the Novadaq Board of Directors. In addition, Antonio R. Pera, Akorn's then President and Chief Operating Officer, was named to Novadaq's Board of Directors. In conjunction with the revised agreement, Novadaq and the Company each withdrew their respective arbitration proceedings. Subsequent to the resignation of Mr. Pera on June 7, 2002, the Company named Ben J. Pothast, its Chief Financial Officer, to fill the vacancy on the Novadaq Board of Directors created by his departure.

On December 19, 2002 and January 22, 2003, the Company received demand

letters regarding claimed wrongful deaths allegedly associated with the use of the drug Inapsine, which the Company produced. The total amount of the claims asserted is $3.8 million. The Company has just begun the investigation of the facts and circumstances surrounding these claims and cannot as of yet determine the potential liability, if any, from these claims. The Company has submitted these claims to its product liability insurance carrier. The Company intends to vigorously defend itself in regards to these claims.

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

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock was traded on the NASDAQ National Market under the symbol AKRN until June 24, 2002. The Company was notified on that day that, due to non-compliance with the NASDAQ report filing requirements, the Company's stock would cease being listed effective the opening of business on June 25, 2002. The non-compliance related to the Company's Form 10-K filing with the SEC for the year ended December 31, 2001 that contained unaudited financial statements. Subsequently, the Company's stock has traded in the Over-the-Counter market and is listed on the Pink Sheets under the symbol AKRN.PK.

On April 28, 2003, there were approximately 609 holders of record of the Company's Common Stock. This number does not include shareholders for which shares are held in a 'nominee' or 'street' name. The closing price of the Company's Common Stock on April 28, 2003 was $0.50 per share.

High and low bid prices for the periods indicated were:

	HIGH	LOW
Year Ended December 31, 2002:		
1st Quarter	$4.00	$3.31
2nd Quarter	3.73	0.60
3rd Quarter	1.60	0.60
4th Quarter	1.50	0.60
Year Ended December 31, 2001:		
1st Quarter	$6.25	$1.97
2nd Quarter	3.25	1.03
3rd Quarter	4.23	2.79
4th Quarter	4.74	2.76

The Company did not pay cash dividends in 2002, 2001 or 2000 and does not expect to pay dividends on our common stock in the foreseeable future. Moreover, the Company is currently prohibited by its credit agreement from making any dividend payment.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected consolidated financial information

for the Company for the years ended December 31, 2002, 2001, 2000, 1999 and 1998.

	YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	1998
INCOME DATA (000's)					
Revenues	$ 51,419	$ 41,545	$ 66,221	$64,632	$ 56,667
Gross profit	20,537	6,398	28,131	33,477	29,060
Operating income (loss)	(3,565)	(21,074)	(1,731)	12,122	9,444
Interest expense	(3,150)	(3,768)	(2,400)	(1,921)	(1,451)
Pretax income (loss)	(6,713)	(24,926)	(4,014)	10,639	7,686
Income tax provision (benefit)	6,239	(9,780)	(1,600)	3,969	3,039
Net income (loss)	(12,952)	(15,146)	(2,414)	6,670	4,647
Weighted average shares outstanding:					
Basic	19,589	19,337	19,030	18,269	17,891
Diluted	19,589	19,337	19,030	18,573	18,766
PER SHARE					
Equity	$ 0.58	$ 1.23	$ 1.85	$ 1.85	$ 1.40
Net income:					
Basic	$ (0.66)	$ (0.78)	$ (0.13)	$ 0.37	$ 0.26
Diluted	$ (0.66)	$ (0.78)	$ (0.13)	$ 0.36	$ 0.25
Price: High	$ 4.00	$ 6.44	$ 13.63	$ 5.56	$ 9.19
Low	$ 0.60	$ 1.03	$ 3.50	$ 3.50	$ 2.54
BALANCE SHEET (000's)					
Current assets	$ 13,239	$ 28,580	$ 37,522	$35,851	$ 24,948
Net fixed assets	35,314	33,518	34,031	20,812	15,860
Total assets	63,538	84,546	91,917	76,098	61,416
Current liabilities	43,803	52,937	15,768	9,693	13,908
Long-term obligations	8,383	7,779	40,918	32,015	21,228
Shareholders' equity	11,352	23,830	35,231	34,390	26,280
CASH FLOW DATA (000's)					
From operations	$ 9,359	$ (444)	$ 362	$ 131	$ 1,093
Dividends paid	--	--	--	--	--
From investing	(5,315)	(4,126)	(17,688)	(6,233)	(13,668)
From financing	(9,035)	9,118	18,108	5,391	10,898
Change in cash and cash equivalents	(4,991)	4,548	782	(711)	(1,677)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The Company's revenues are derived from sales of diagnostic and therapeutic pharmaceuticals by the ophthalmic segment, from sales of diagnostic and therapeutic pharmaceuticals by the injectable segment, and from contract services revenue. The following table sets forth the percentage relationships that certain items

from the Company's Consolidated Statements of Income bear to revenues for the years ended December 31, 2002, 2001 and 2000.

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Revenues			
Ophthalmic	58%	41%	42%
Injectable	25	23	38
Contract Services	17	36	20

Total revenues	100	100	100
Gross profit	40	15	42
Selling, general and administrative expenses	41	45	24
Provision for bad debts	--	11	12
Amortization of intangibles	3	4	2
Research and development expenses	4	6	6
Operating loss	(7)	(51)	(3)
Net loss	(25)	(36)	(4)

CRITICAL ACCOUNTING POLICIES

REVENUE RECOGNITION

The Company recognizes revenue upon the shipment of goods or upon the delivery of goods, depending on the sales terms. Revenue is recognized when all obligations of the Company have been fulfilled and collection of the related receivable is probable. The Company records a provision at the time of sale for estimated chargebacks, rebates and product returns. Additionally, the Company maintains an allowance for doubtful accounts and slow moving and obsolete inventory. These provisions and allowances are analyzed and adjusted, if necessary, at each balance sheet date.

ALLOWANCE FOR CHARGEBACKS AND REBATES

The Company maintains an allowance for chargebacks and rebates. These allowances are reflected as a reduction of accounts receivable.

The Company enters contractual agreements with certain third parties such as hospitals and group-purchasing organizations to sell certain products at predetermined prices. The parties have elected to have these contracts administered through wholesalers. When a wholesaler sells products to one of the third parties that is subject to a contractual price agreement, the difference between the price to the wholesaler and the price under contract is charged back to the Company by the wholesaler. The Company tracks sales and submitted chargebacks by product number for each wholesaler. Utilizing this information, the Company estimates a chargeback percentage for each product. The Company reduces gross sales and increases the chargeback allowance by the estimated chargeback amount for each product sold to a wholesaler. The Company reduces the chargeback allowance when it processes a request for a chargeback from a wholesaler. Actual chargebacks processed can vary materially from period to period.

Prior to March 31, 2001, the Company used historical trends and actual experience to estimate its chargeback allowance. In May 2001, management obtained wholesaler inventory reports as of March 31, 2001 to aid in performing a detailed business review in an effort to better understand its current cash flow constraints. The Company assessed the reasonableness of its chargeback allowance by applying the product chargeback percentage based on historical activity to the quantities of inventory on hand per the wholesaler inventory reports. The Company had not previously obtained these reports due to the cost of obtaining such reports and also due to the fact that the Company had not seen any indication that its historical trends analysis was not reasonable. Previously management believed that wholesalers maintained limited inventory levels to balance maintaining available stock for a given product with the cost of storing such inventory. Accordingly, management previously considered recent sales activity in estimating wholesaler on-hand inventory levels for

the purpose of assessing the reasonableness of the allowance. However, the reports of wholesaler inventory information suggested that the wholesalers had greater levels of on-hand inventory than had previously been estimated and the Company used this new information to enhance its methodology of estimating the allowance.

Similarly, the Company maintains an allowance for rebates related to contract and other programs with the wholesalers. The rebate allowance also reduces gross sales and accounts receivable by the amount of the estimated rebate amount when the Company sells its products to the wholesalers. The Company uses historical trends and actual experience to estimate its rebate allowances. At each balance sheet date, the Company evaluates the allowance against actual rebates processed and such amount can vary materially from period

to period.

The recorded allowances reflect the Company's current estimate of the future chargeback and rebate liability to be paid or credited to the wholesaler under the various contracts and programs. For the years ended December 31, 2002, 2001 and 2000, the Company recorded chargeback and rebate expense of $15,418,000, $28,655,000, and $29,558,000, respectively. The allowance for chargebacks and rebates was $4,302,000 and $4,190,000 as of December 31, 2002 and 2001, respectively.

Based upon the wholesaler's March 31, 2001 inventories and historical chargeback and rebate activity, the Company recorded an allowance of $6,961,000, which resulted in an expense of $12,000,000 for the three months ended March 31, 2001, as compared to an allowance of $3,296,000 recorded at December 31, 2000.

During the quarter ended June 30, 2001, the Company further refined its estimates of the chargeback and rebate liability determining that an additional $2,250,000 provision needed to be recorded. The additional increase to the allowance was necessary to reflect the continuing shift of sales to customers who purchase their products through group purchasing organizations and buying groups. The Company had previously seen a greater level of list price business than is occurring in the current business environment.

ALLOWANCE FOR PRODUCT RETURNS

The Company also maintains an allowance for estimated product returns. This allowance is reflected as a reduction of accounts receivable balances. The Company evaluates the allowance balance against actual returns processed. Actual returns processed can vary materially from period to period. For the years ended December 31, 2002, 2001, and 2000 the Company recorded a provision for product returns of $2,574,000, $4,103,000, and $1,159,000, respectively. The allowance for potential product returns was $1,166,000 and $548,000 at December 31, 2002 and 2001, respectively.

In addition to considering in process product returns and assessing the potential implications of historical product return activity, the Company also considers the wholesaler's inventory information to assess the magnitude of unconsumed product that may result in a product return to the Company in the future. Such wholesaler inventory information had not been historically purchased and therefore, had not been considered in assessing the reasonableness of the allowance prior to March 31, 2001. Historical returns had not been significant. Based on the wholesaler's inventory information, which demonstrated higher levels of on-hand product than previously estimated by management, combined with increased levels of return activity, the Company increased its allowance for potential product returns to $2,232,000 at March 31, 2001 from $232,000 at December 31, 2000. The provision for the three months ended March 31, 2001 was $2,559,000.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company maintains an allowance for doubtful accounts, which reflects trade receivable balances owed to the Company that are believed to be uncollectible. This allowance is reflected as a reduction of accounts receivable balances. In estimating the allowance for doubtful accounts, the Company has:

- Identified the relevant factors that might affect the accounting estimate for allowance for doubtful accounts, including: (a) historical experience with collections and write-offs; (b) credit quality of customers; (c) the interaction of credits being taken for discounts, rebates, allowances and other adjustments; (d) balances of outstanding receivables, and partially paid receivables; and

  (e) economic and other exogenous factors that might affect collectibility (e.g., bankruptcies of customers, "channel" factors, etc.).

- Accumulated data on which to base the estimate for allowance for doubtful accounts, including: (a) collections and write-offs data; (b) information regarding current credit quality of customers; and (c) information regarding exogenous factors, particularly in respect of major customers.

- Developed assumptions reflecting management's judgments as to the most

likely circumstances and outcomes, regarding, among other matters: (a) collectibility of outstanding balances relating to "partial payments;" (b) the ability to collect items in dispute (or subject to reconciliation) with customers; and (c) economic and other exogenous factors that might affect collectibility of outstanding balances -- based upon information available at the time.

For the years ended December 31, 2002, 2001 and 2000, the Company recorded a provision (recovery) for doubtful accounts of ($55,000), $4,480,000, and $8,127,000, respectively. The allowance for doubtful accounts was $1,200,000 and $3,706,000 as of December 31, 2002 and 2001, respectively. As of December 31, 2002, the Company had a total of $2,592,000 of past due gross accounts receivable, of which $674,000 was over 60 days past due. The Company performs monthly a detailed analysis of the receivables due from its wholesaler customers and provides a specific reserve against known uncollectible items for each of the wholesaler customers. The Company also includes in the allowance for doubtful accounts an amount that it estimates to be uncollectible for all other customers based on a percentage of the past due receivables. The percentage reserved increases as the age of the receivables increases. Of the recorded allowance for doubtful accounts of $1,200,000, the portion related to the wholesaler customers is $822,000 with the remaining $378,000 reserve for all other customers.

ALLOWANCE FOR DISCOUNTS

The Company maintains an allowance for discounts, which reflects discounts available to certain customers based on agreed upon terms of sale. This allowance is reflected as a reduction of accounts receivable. The Company evaluates the allowance balance against actual discounts taken. For the years ended December 31, 2002 and 2001, the Company recorded a provision for discounts of $1,014,000 and $886,000, respectively. Prior to 2001, the Company did not grant discounts. The allowance for discounts was $172,000 and $143,000 as of December 31, 2002 and 2001, respectively.

ALLOWANCE FOR SLOW-MOVING INVENTORY

The Company maintains an allowance for slow-moving and obsolete inventory based upon recent sales activity by unit and wholesaler inventory information. The Company estimates the amount of inventory that may not be sold prior to its expiration. In 2001, upon obtaining the wholesaler's inventory reports, the Company learned that the wholesalers had greater levels of on-hand inventory than had been previously estimated. This provided the Company with greater insight as to the potentially lower buying patterns of the wholesalers than had been previously forecasted and contemplated in estimating the levels of inventory in assessing the adequacy of the allowance. For the years ended December 31, 2002, 2001 and 2000, the Company recorded a provision for inventory obsolescence of $838,000, $1,830,000, and $3,983,000, respectively. The allowance for inventory obsolescence was $1,206,000 and $1,845,000 as of December 31, 2002 and 2001, respectively.

INCOME TAXES

The Company files a consolidated federal income tax return with its subsidiary. 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. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In performing its analysis of whether a valuation allowance to reduce the deferred tax asset was necessary, the Company considered both negative and positive evidence. Based upon this analysis, the negative evidence outweighed the positive evidence in determining the amount of

the deferred tax assets that is more likely than not to be realized. Based upon its analysis, beginning with the September 30, 2002 deferred tax assets, the Company has established a valuation allowance to reduce the deferred tax assets to zero. The expense of $9.2 million related to establishing the deferred tax assets valuation allowance has been recorded in the income tax provision (benefit).

INTANGIBLES

Intangibles consist primarily of product licensing and other such costs

that are capitalized and amortized on the straight-line method over the lives of the related license periods or the estimated life of the acquired product, which range from 17 months to 18 years. Accumulated amortization at December 31, 2002 and 2001 was $8,543,000 and $7,132,000, respectively. The Company annually assesses the impairment of intangibles based on several factors, including estimated fair market value and anticipated cash flows. On July 3, 2002, the Company settled a License Agreement dispute with JHU/APL (See Note M-"Commitments and Contingencies" to the consolidated financial statements in Item 8) on two licensed patents. As a result of the resolved dispute, the Company recorded an asset impairment charge of $1,559,500 in the second quarter of 2002, representing the net value of the asset recorded on the balance sheet of the Company less the $300,000 payment abated by JHU/APL and the $125,000 payment received from JHU/APL.

During the third quarter of 2002, the Company recorded an impairment charge of $257,000 related to the product license intangible assets for the products Sublimaze, Inapsine, Paradrine and Dry Eye test. The Company determined that projected profitability on the products was not sufficient to support the carrying value of the intangible asset. The recording of this charge reduced the carrying value of the intangible assets related to these product licenses to zero. These charges are reflected in the selling, general and administrative expense category of the consolidated statement of operations. See Note Q -- "Asset Impairment Charges" to the consolidated financial statements in Item 8.

COMPARISON OF TWELVE MONTHS ENDED DECEMBER 31, 2002 AND 2001

Consolidated revenues increased 23.8% for the year ended December 31, 2002 compared to the prior year. Results for 2002 exclude shipments made at or near the end of the year for which shipping terms are FOB destination and, accordingly, revenue is not recognized until delivery occurs. The revenue related to these shipments recognized in the first quarter of 2003 was $601,000. Prior year revenues reflect virtually all shipments to customers as virtually all sales terms were FOB shipping point. See Note A -- "Summary of Significant Accounting Policies" to the consolidated financial statements included in Item 8.

Ophthalmic segment revenues increased 74.7%, primarily reflecting lower charges related to chargebacks and returns in 2002 (See Note A -- "Summary of Significant Accounting Policies" to the consolidated financial statements included in Item 8.) as compared to 2001, and, to a lesser extent, increased angiography and ointment product sales. The 2002 sales mix reflects the Company's shift in sales and marketing efforts within the Ophthalmic segment to those key product lines that generate higher margins. Injectable revenues increased 34.3% compared to the same period in 2001 primarily due to the lower level of chargebacks and returns and a 52% increase in anesthesia and antidote product sales in 2002. The Company believes the 2002 Ophthalmic and Injectable revenues are sustainable for 2003. Contract Services revenues decreased 40.7% compared to the same period in 2001 due mainly to customer concerns about the status of the ongoing FDA issues at the Company's Decatur facility. The Company anticipates that revenues from the Contract Services segment will continue to lag historical levels and that Opthalmic and Injectable segment revenues are not likely to grow until the issues surrounding the FDA review are resolved.

Consolidated gross margin increased to 39.9% from 15.4% for the prior year due primarily to the aforementioned increase in revenues in 2002 as compared to 2001, as well as an increase in the reserve for slow-moving, unsaleable and obsolete inventory items recorded in 2001. See Note E -- "Inventory" to the consolidated financial statements in Item 8. Improvements in gross margin also resulted from the Company's continued focus on shifting the product mix to higher gross margin products in the angiography, antidote and ointment product lines.

Selling, general and administrative ("SG&A") expenses increased 10.4% for the year as compared to 2001. This is due to a $1,559,500 impairment charge related to the JHU/APL settlement (See Note M -- "Commitments and Contingencies" to the consolidated financial statements included in Item 8), a $545,000 asset impairment charge related to abandoned construction projects, a $257,000 intangible asset charge and higher legal and marketing expenditures in 2002. SG&A expenses in 2001 included $1,117,000 of restructuring-related charges consisting primarily of severance and lease costs.

The provision for bad debt decreased from $4,480,000 in 2001 to a $55,000 recovery in 2002. The decrease is primarily related to the Company's increased efforts to collect past due receivables. As a result of the Company's continued collection efforts, the Company does not expect the provision for bad debts to be material in 2003.

Amortization of intangibles decreased from $1,493,000 to $1,411,000, or 5.5% over the comparable period in the prior year, reflecting the exhaustion of amortization for certain product intangibles due to the write-off of intangibles which were determined to have been impaired in 2002, offset in part by inception of the intangible amortization related to the product launch of Paremyd.

Research and development ("R&D") expense decreased 27.4% for the year reflecting the Company's scaled back research activities to preserve capital and to focus on strategic product niches such as controlled substances and ophthalmic products which it believes will add greater value. The lower level of R&D in 2002 also reflects the Company's refocusing of resources away from R&D to resolve issues in the FDA's Form 483 notification.

Interest expense of $3,150,000 was 16.4% lower than the $3,768,000 recorded in 2001, due to a lower debt balance and lower interest rates in 2002.

An income tax provision of $6,239,000 was recorded for 2002, compared to an income tax benefit of $9,780,000 recorded in 2001. The 2002 income tax provision primarily relates to the valuation allowance of $9,216,000 recorded during 2002. In performing its analysis of whether a valuation allowance to reduce the deferred tax asset was necessary, the Company considered both negative and positive evidence, which could be objectively verified. Based upon this analysis, the negative evidence, primarily the three consecutive years of operating losses, outweighed the positive evidence in determining the amount of the deferred tax assets that is more likely than not to be realized. Based upon its analysis, beginning with the September 30, 2002 deferred tax assets, the Company established a valuation allowance to reduce the deferred tax assets to zero.

Net loss for 2002 was $12,952,000, or $0.66 per share, compared to a net loss of $15,146,000, or $0.78 per share, for the prior year. The improvement in revenue and gross profit was offset by the increase in the provision for income taxes reflecting the reduction of deferred tax credits to zero.

COMPARISON OF TWELVE MONTHS ENDED DECEMBER 31, 2001 AND 2000

Consolidated revenues decreased 37.3% for the year ended December 31, 2001 compared to the prior year. Ophthalmic segment revenues decreased 38.9%, primarily reflecting the decline in sales in the antibiotic, glaucoma and artificial tear product lines. The remaining decline in ophthalmic revenues reflects the effect of increases to the allowance for chargebacks and rebates and returns discussed above. Ophthalmic revenues were also negatively impacted by price competition for some of the Company's higher volume product lines. The reduction in revenues was due to both declines in unit price as well as volume. Injectable segment revenues decreased 61.3%, primarily due to the increases in the allowances for chargebacks, rebates and returns and a 35% reduction in anesthesia and antidote product sales. The sharp reduction is attributable to excessive wholesaler inventories that were reduced during the year without compensating purchases made by the wholesalers. Contract services revenues increased 10.6% compared to the same period in 2000, primarily due to price increases necessary to cover increasing production costs.

Consolidated gross profit decreased 77.3% for the year, with gross margins decreasing from 42.5% to 15.4%. This reflects the effects of the aforementioned decline in revenues, as well as an increase in the reserve for slow-moving, unsaleable and obsolete inventory items. In addition, the Company incurred unfavorable manufacturing variances at the Somerset, New Jersey facility and its Decatur, Illinois facility, which eroded

the gross margin percentage. These variances were the result of reduced activity in the plant, primarily caused by the previously discussed reduction in sales that resulted from the wholesaler inventories being reduced without compensating purchases.

SG&A expenses increased 17.5% for the year as compared to 2000, primarily, due to asset impairment charges related to discontinued products of $2,132,000 and restructuring-related charges of $1,117,000 consisting primarily of

severance and lease costs.

The provision for bad debt decreased by 45.1% compared to 2000. The decrease is primarily related to the Company's increased efforts to collect past due receivables.

Amortization of intangibles decreased 1.6% for the year, reflecting the exhaustion of certain product intangibles.

R&D expenses decreased 37.1%, primarily reflecting a scaling back of research and development activities.

Interest expense increased 57.0% compared to 2000, reflecting higher interest rates on higher average outstanding debt balances and amortization related to the convertible debt issued during the year (See Note G -- "Financing Arrangements" to the consolidated financial statements included in Item 8) partially offset by capitalized interest related to the lyophilized pharmaceuticals manufacturing line expansion.

Income tax benefit of $9,780,000 was recorded for the year compared to an income tax benefit of $1,600,000 recorded in 2000 reflecting a greater level of operating losses. The effective tax rate for the year was 39.5% compared to an effective tax rate in 2000 of 39.9%.

Net loss for 2001 was $15,146,000, or $0.78 per share, compared to net loss of $2,414,000, or $0.13 per share, for the prior year. The decrease in earnings resulted from the aforementioned items.

FINANCIAL CONDITION AND LIQUIDITY

Overview

The Company has experienced losses from operations in 2002 and 2001 of $3.6 million and $21.2 million, respectively. The Company also recorded an operating loss of $1.7 million in 2000.

As of December 31, 2002, the Company had cash and cash equivalents of $364,000. The net working capital deficiency at December 31, 2002 was $30,564,000 versus $24,359,000 at December 31, 2001, resulting primarily from a decrease in the deferred tax assets from 2001 as a result of the valuation allowance as described above. The negative working capital position reflects the classification of the Company's senior debt obligation as a current liability, the balance of which decreased from $45,072,000 at December 31, 2001 to $35,859,000 as of December 31, 2002.

During the year ended December 31, 2002, the Company generated $9,359,000 in cash from operations, primarily from receivable collection efforts and the collection of income tax refunds due to the Company. Investing activities, which include the purchase of equipment required $5,315,000 in cash and included $2,758,000 related to the lyophilized (freeze-dried) pharmaceuticals manufacturing line expansion. Financing activities used $9,035,000 in cash primarily for reduction of the outstanding senior bank debt.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

As described more fully herein, the Company has had three consecutive years of operating losses, is in default under its existing credit agreement and is a party to governmental proceedings and potential claims by the FDA that could have a material adverse effect on the Company. Although the Company has entered into a Forbearance Agreement (as defined below) with its senior lenders and obtained extensions thereof through

June 30, 2003, is working with the FDA to favorably resolve such proceedings, has appointed a new interim chief executive officer and implemented other management changes and has taken additional steps to return to profitability, there is substantial doubt about the Company's ability to continue as a going

concern. The Company's ability to continue as a going concern is dependent upon its ability to (i) continue to finance it current cash needs, (ii) continue to obtain extensions of the Forbearance Agreement, (iii) successfully resolve the ongoing governmental proceeding with the FDA and (iv) ultimately refinance its senior bank debt and obtain new financing for future operations and capital expenditures. If it is unable to do so, it may be required to seek protection from its creditors under the federal bankruptcy code.

While there can be no guarantee that the Company will be able to continue to finance its current cash needs, the Company generated positive cash flow from operations in 2002. In addition, as of April 30, 2003, the Company had approximately $400,000 in cash and equivalents and approximately $1.4 million of undrawn availability under the second line of credit described below.

There also can be no guarantee that the Company will successfully resolve the ongoing governmental proceedings with the FDA. However, the Company has submitted to the FDA and begun to implement a plan for comprehensive corrective actions at its Decatur, Illinois facility.

Moreover, there can be no guarantee that the Company will be successful in obtaining further extensions of the Forbearance Agreement or in refinancing the senior debt and obtaining new financing for future operations. However, the Company is current on its interest payment obligations to its senior lenders, management believes that the Company has a good relationship with its senior lenders and, as required, the Company has retained a consulting firm, submitted a restructuring plan and engaged an investment banker to assist in raising additional financing and explore other strategic alternatives for repaying the senior bank debt. The Company has also added key management personnel, including the appointment of a new interim chief executive officer, and additional personnel in critical areas, such as quality assurance. Management has reduced the Company's cost structure, improved the Company's processes and systems and implemented strict controls over capital spending. Management believes these activities have improved the Company's profitability and cash flow from operations and improved its prospects for refinancing its senior debt and obtaining additional financing for future operations.

As a result of all of the factors cited in the preceding three paragraphs, management believes that the Company should be able to sustain its operations and continue as a going concern. However, the ultimate outcome of this uncertainty cannot be presently determined and, accordingly, there remains substantial doubt as to whether the Company will be able to continue as a going concern. Further, even if the Company's efforts to raise additional financing and explore other strategic alternatives result in a transaction that repays the senior bank debt, there can be no assurance that the current common stock will have any value following such a transaction. In particular, if any new financing is obtained, it likely will require the granting of rights, preferences or privileges senior to those of the common stock and result in substantial dilution of the existing ownership interests of the common stockholders.

The Credit Agreement

In 1997, the Company entered into a $15 million revolving credit arrangement with The Northern Trust Company, increased to $25 million in 1998, and subsequently increased to $45 million in 1999, subject to certain financial covenants and secured by substantially all of the assets of the Company. This credit agreement, as amended effective January 1, 2002 (the "Credit Agreement"), requires the Company to maintain certain financial covenants. These covenants include minimum levels of cash receipts, limitations on capital expenditures, a $750,000 per quarter limitation on product returns and required amortization of the loan principal. The agreement also prohibits the Company from declaring any cash dividends on its common stock and identifies certain conditions in which the principal and interest on the Credit Agreement would become immediately due and payable. These conditions include: (a) an action by the FDA which results in a partial or total suspension of production or shipment of products, (b) failure to invite the FDA in for re-inspection of the Decatur manufacturing facilities by June 1, 2002, (c) failure to make a written response, within 10 days, to the FDA, with a copy to the lender, to any written communication received from the FDA

after January 1, 2002 that raises any deficiencies, (d) imposition of fines against the Company in an aggregate amount greater than $250,000, (e) a cessation in public trading of the Company's stock other than a cessation of

trading generally in the United States securities market, (f) restatement of or adjustment to the operating results of the Company in an amount greater than $27,000,000, (g) failure to enter into an engagement letter with an investment banker for the underwriting of an offering of equity securities by June 15, 2002, (h) failure to not be party to such an engagement letter at any time after June 15, 2002 or (i) experiencing any material adverse action taken by the FDA, the SEC, the DEA or any other governmental authority based on an alleged failure to comply with laws or regulations. The amended Credit Agreement required a minimum payment of $5.6 million, which relates to an estimated federal tax refund, with the balance of $39.2 million due June 30, 2002. The Company remitted the $5.6 million payment on May 8, 2002. The Company is also obligated to remit any additional federal tax refunds received above the estimated $5.6 million.

The Company's senior lenders agreed to extend the Credit Agreement to July 31, 2002 and then again to August 31, 2002. These two extensions contain the same covenants and reporting requirements except that the Company is not required to comply with conditions (g) and (h) above which relate to the offering of equity securities. In both instances, the balance of $39.2 million was due at the end of the extension term.

On September 16, 2002, the Company was notified by its senior lenders that it was in default due to failure to pay the principal and interest owed as of August 31, 2002 under the then most recent extension of the Credit Agreement. The senior lenders also notified the Company that they would forbear from exercising their remedies under the Credit Agreement until January 3, 2003 if a forbearance agreement could be reached. On September 20, 2002, the Company and its senior lenders entered into an agreement under which the senior lenders would agree to forbear from exercising their remedies (the "Forbearance Agreement") and the Company acknowledged its current default. The Forbearance Agreement provides a second line of credit allowing the Company to borrow the lesser of (i) the difference between the Company's outstanding indebtedness to the senior lenders and $39,200,000, (ii) the Company's borrowing base and (iii) $1,750,000, to fund the Company's day-to-day operations. The Forbearance Agreement requires that, except for then-existing defaults, the Company continue to comply with all of the covenants in its Credit Agreement and provides for certain additional restrictions on operations and additional reporting requirements. The Forbearance Agreement also requires automatic application of cash from the Company's operations to repay borrowings under the new revolving loan, and to reduce the Company's other obligations to the senior lenders. In the event that the Company is not in compliance with the continuing covenants under the Credit Agreement and does not negotiate amended covenants or obtain a waiver thereof, then the senior lenders, at their option, may demand immediate payment of all outstanding amounts due and exercise any and all available remedies, including, but not limited to, foreclosure on the Company's assets. This could result in the Company seeking protection from its creditors and a reorganization under the federal bankruptcy code.

The Company, as required in the Forbearance Agreement, agreed to provide the senior lenders with a plan for restructuring its financial obligations on or before December 1, 2002 and agreed to retain a consulting firm by September 27, 2002, and, in furtherance of that commitment, on September 26, 2002, the Company entered into an agreement (the "Consulting Agreement") with a consulting firm (AEG Partners, LLC (the "Consultant")) whereby the Consultant would assist in the development and execution of this restructuring plan and provide oversight and direction to the Company's day-to-day operations. On November 18, 2002, the Consultant notified the Company of its intent to resign from the engagement effective December 2, 2002, based upon the Company's alleged failure to cooperate with the Consultant, in breach of the Consulting Agreement. The Company's senior lenders, upon learning of the Consultant's action, notified the Company by letter dated November 18, 2002, that, as a result of the Consultant's resignation, the Company was in default under terms of the Forbearance Agreement and the Credit Agreement and demanded payment of all outstanding principal and interest on the loan. This notice was followed by a second letter dated November 19, 2002, in which the senior lenders gave notice of their exercise of certain remedies available under the Credit Agreement including, but not limited to, their setting off the Company's deposits with the senior lenders against the Company's obligations to the senior lenders. The Company immediately entered into discussions with the Consultant which led, on November 21, 2002, to the Consultant rescinding its notification of

resignation and to the senior lenders withdrawing their demand for payment and

restoring the Company's accounts.

During the Company's discussions with the Consultant, the Company agreed to establish a special committee of the Board (the "Corporate Governance Committee") consisting of Directors Ellis and Bruhl, with Mr. Ellis serving as Chairman. The Consultant will interface with the Corporate Governance Committee regarding the Company's restructuring actions. The Company also agreed that the Consultant will oversee the Company's interaction with all regulatory agencies including, but not limited to, the FDA. In addition, the Company has agreed to a "success fee" arrangement with the Consultant. Under terms of the arrangement, if the Consultant is successful in obtaining an extension to January 1, 2004 or later on the Company's senior debt, the Consultant will be paid a cash fee equal to 1 1/2% of the amount of the senior debt which is refinanced or restructured. Additionally, the success fee arrangement provides that the Company will issue 1,250,000 warrants to purchase common stock at an exercise price of $1.00 per warrant share to the Consultant upon the date on which each of the following conditions have been met or waived by the Company: (i) the Forbearance Agreement shall have been terminated, (ii) the Consultant's engagement pursuant to the Consulting Agreement shall have been terminated and (iii) the Company shall have executed a new or restated multi-year credit facility. All unexercised warrants shall expire on the fourth anniversary of the date of issuance.

As required by the Forbearance Agreement, a restructuring plan was developed by the Company and the Consultant and presented to the Company's senior lenders in December 2002. The restructuring plan requested that the senior lenders convert the Company's senior debt to a term note that would mature no earlier than February 2004 and increase the current line of credit from $1.75 million to $3 million to fund operations and capital expenditures. In light of the FDA's re-inspection of the Decatur facility in early December 2002, the Company and the senior lenders agreed to defer further discussions of that request until completion of the re-inspection and the Company's response thereto. As a result, the senior lenders have agreed to successive short-term extensions of the Forbearance Agreement, the latest of which is an eleventh amendment to the Forbearance Agreement expiring on June 30, 2003. Following completion of the FDA inspection of the Decatur facility on February 6, 2003 and issuance of the FDA findings, the senior lenders have indicated that they are not willing to convert the senior debt to a term loan but discussions continue regarding a possible increase in the revolving line of credit. As required by the Company's senior lenders, on May 9, 2003, the Company engaged Leerink Swann, an investment banking firm, to assist in raising additional financing and explore other strategic alternatives for repaying the senior bank debt. Subject to the absence of any additional defaults and subject to the senior lenders' satisfaction with the Company's progress in resolving the matters raised by the FDA and in obtaining additional financing and exploring other strategic alternatives, the Company expects to continue obtaining short-term extensions of the Forbearance Agreement. However, there can be no assurances that the Company will be successful in obtaining further extensions of the Forbearance Agreement beyond June 30, 2003.

FDA Proceeding

As discussed above, the Company is also a party to a governmental proceeding by the FDA (See Item 3. "Legal Proceedings"). While the Company is cooperating with the FDA and seeking to resolve the pending matter, an unfavorable outcome such proceeding may have a material impact on the Company's operations and its financial condition, results of operations and/or cash flows and, accordingly, may constitute a material adverse action that would result in a covenant violation under the Credit Agreement or cause the Company's senior lenders to refuse to further extend the forbearance agreement, any or all of which could have a material adverse effect on the Company's Liquidity.

Facility Expansion

The Company is in the process of completing an expansion of its Decatur, Illinois facility to add capacity to provide Lyophilization manufacturing services, which manufacturing capability the Company currently does not have. Subject to the Company's ability to refinance its senior debt and obtain new financing for future operations and capital expenditures, the Company anticipates the completion of the Lyophilization expansion in the second half of 2004. As of December 31, 2002, the Company had spent approximately $16.4 million on

the expansion and anticipates the need to spend approximately $1.0 million of

additional funds (excluding capitalized interest) to complete the expansion. The majority of the additional spending will be focused on validation testing of the Lyophilization facility as the major capital equipment items are currently in place. Once the Lyophilization facility is validated, the Company will proceed to produce stability batches to provide the data necessary to allow the Lyophilization facility to be inspected and approved by the FDA.

Subordinated Debt

On July 12, 2001 the Company entered into a $5,000,000 subordinated debt transaction with the John N. Kapoor Trust dtd. 9/20/89 (the "Trust"), the sole trustee and sole beneficiary of which is Dr. John N. Kapoor, the Company's Chairman of the Board of Directors. The transaction is evidenced by a Convertible Bridge Loan and Warrant Agreement (the "Trust Agreement") in which the Trust agreed to provide two separate tranches of funding in the amounts of $3,000,000 ("Tranche A" which was received on July 13, 2001) and $2,000,000 ("Tranche B" which was received on August 16, 2001). As part of the consideration provided to the Trust for the subordinated debt, the Company issued the Trust two warrants which allow the Trust to purchase 1,000,000 shares of common stock at a price of $2.85 per share and another 667,000 shares of common stock at a price of $2.25 per share. The exercise price for each warrant represented a 25% premium over the share price at the time of the Trust's commitment to provide the subordinated debt. All unexercised warrants expire on December 20, 2006.

Under the terms of the Trust Agreement, the subordinated debt bears interest at prime plus 3%, which is the same rate the Company pays on its senior debt. Interest cannot be paid to the Trust until the repayment of the senior debt pursuant to the terms of a subordination agreement, which was entered into between the Trust and the Company's senior lenders. Should the subordination agreement be terminated, interest may be paid sooner. The convertible feature of the Trust Agreement, as amended, allows for conversion of the subordinated debt plus interest into common stock of the Company, at a price of $2.28 per share of common stock for Tranche A and $1.80 per share of common stock for Tranche B.

The Company, in accordance with Accounting Principles Board ("APB") Opinion No. 14, recorded the subordinated debt transaction such that the convertible debt and warrants have been assigned independent values. The fair value of the warrants was 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 79%, (iii) risk free rate of 4.75%, and (iv) expected life of 5 years. As a result, the Company assigned a value of $1,516,000 to the warrants and recorded this amount as additional paid in capital. In accordance with Emerging Issues Task Force Abstract 00-27, the Company has also computed and recorded a value related to the "intrinsic" value of the convertible debt. This calculation determines the value of the embedded conversion option within the debt that has become beneficial to the owner as a result of the application of APB Opinion No. 14. This value was determined to be $1,508,000 and was recorded as additional paid in capital. The remaining $1,976,000 was recorded as long-term debt. The resultant debt discount of $3,024,000, equivalent to the value assigned to the warrants and the "intrinsic" value of the convertible debt, is being amortized and charged to interest expense over the life of the subordinated debt.

In December 2001, the Company entered into a $3,250,000 five-year loan with NeoPharm, Inc. ("NeoPharm") to fund the Company's efforts to complete its lyophilization facility located in Decatur, Illinois. Under the terms of the Promissory Note, dated December 20, 2001, interest accrues at the initial rate of 3.6% and will be reset quarterly based upon NeoPharm's average return on its cash and readily tradable long and short-term securities during the previous calendar quarter. The principal and accrued interest is due and payable on or before maturity on December 20, 2006. The note provides that the Company will use the proceeds of the loan solely to validate and complete the lyophilization facility located in Decatur, Illinois and to address the issues set forth in the Form 483 and warning letter received from the FDA. The Promissory Note is subordinated to the Company's senior debt owed to The Northern Trust Company but is senior to the Company's subordinated debt owed to the Trust. The note was executed in conjunction with a Processing Agreement that provides NeoPharm, Inc. with the option of securing at least 15% of the capacity of the Company's lyophilization facility each year. Dr. John N. Kapoor, the Company's chairman is also chairman of NeoPharm and holds a substantial stock position in NeoPharm as well as in the Company.

Contemporaneous with the completion of the Promissory Note between the Company and NeoPharm, the Company entered into an agreement with the Trust, which amended the Trust Agreement. The amendment extended the Trust Agreement to terminate concurrently with the Promissory Note on December 20, 2006. The amendment also made it possible for the Trust to convert the interest accrued on the $3,000,000 tranche into common stock of the Company. Previously, the Trust could only convert the interest accrued on the $2,000,000 tranche. The terms of the agreement to change the convertibility of the Tranche A interest and the convertibility of the Tranche B interest for the extension of the term require shareholder approval to be received by August 31, 2002, which was subsequently extended to June 30, 2003. If the Company's shareholders do not approve these changes, the Company would be in default under the Trust Agreement and, at the option of the Trust, the Subordinated Debt could be accelerated and become due and payable on June 30, 2003. Any default under the Trust Agreement would constitute an event of default under both the Credit Agreement and the NeoPharm Promissory Note. In the event of default amounts due under the Credit Agreement and the NeoPharm Promissory Note could be declared to be due and payable, notwithstanding the Forebearance Agreement which is presently in place between the Company and its senior lender. The Company expects that it will reach agreement with the Trust to extend, if necessary, the shareholder approval date until the next shareholders meeting.

Other Indebtedness

In June 1998, the Company entered into a $3,000,000 mortgage agreement with Standard Mortgage Investors, LLC of which there were outstanding borrowings of $1,917,000 and $2,189,000 at December 31, 2002 and 2001, respectively. The principal balance is payable over 10 years, with the final payment due in June 2007. The mortgage note bears an interest rate of 7.375% and is secured by the real property located in Decatur, Illinois.

The fair value of the debt obligations approximated the recorded value as of December 31, 2002. The promissory note between the Company and NeoPharm, Inc. bears interest at a rate that is lower than the Company's current borrowing rate with its senior lenders. Accordingly, the computed fair value of the debt, which the Company estimates to be approximately $2,649,000, would be lower than the current carrying value of $3,250,000.

CONTRACTUAL OBLIGATIONS
(In Thousands)

The following table details the Company's future contractual obligations through 2008. The Company's ability to satisfy these obligations is primarily dependent upon its ability to obtain additional financing or renegotiate its current financing arrangement.

DESCRIPTION	TOTAL	2003	2004-5	2006-7	2008 +
Long Term Debt, including current maturities...	$45,732	$35,859	$ 656	$ 9,010	$ 207
Short Term Debt.....	--	--	--	--	--
Capital Leases.....	--	--	--	--	--
Operating Leases.....	9,070	1,524	2,948	2,856	1,742
Purchase Obligations.....	--	--	--	--	--
Other Long Term Liabilities.....	--	--	--	--	--
Total:.....	$54,802	$37,023	$3,604	$11,866	$1,949

SELECTED QUARTERLY DATA
In Thousands, Except Per Share Amounts

		NET INCOME (LOSS)		
REVENUES	GROSS PROFIT (LOSS)	AMOUNT	PER SHARE BASIC	PER SHARE DILUTED

Year Ended December 31, 2002:					
1st Quarter	$13,443	$ 6,349	$ 151	$ 0.01	$ 0.01
2nd Quarter	14,165	6,366	(783)	(0.04)	(0.04)
3rd Quarter	12,121	4,456	(9,387)	(0.48)	(0.48)
4th Quarter	11,690	3,366	(2,933)	(0.15)	(0.15)
Total	$51,419	$20,537	$(12,952)	$(0.66)	$(0.66)
Year Ended December 31, 2001:					
1st Quarter	$ 5,834	$(6,025)	$ (8,376)	$(0.43)	$(0.43)
2nd Quarter	10,410	2,282	(6,275)	(0.33)	(0.33)
3rd Quarter	12,692	4,863	(536)	(0.03)	(0.03)
4th Quarter	12,609	5,278	41	0.00	0.00
Total	$41,545	$ 6,398	$(15,146)	$(0.78)	$(0.78)

FACTORS THAT MAY AFFECT FUTURE RESULTS

Existing Credit Obligations

At December 31, 2002, the Company had total outstanding indebtedness of $43,658,000, or 69% of total capitalization. This significant debt load limits the Company's operating flexibility and imposes numerous restrictive covenants on the Company by its senior lenders, thereby significantly reducing the ability of the Company to acquire or develop new products, increase its sales force and expand and improve its facilities. In addition, the Company is currently in default in the payment of principal under its Credit Agreement and has failed to comply with many of the financial and other covenants required by the Credit Agreement. Although the Company has negotiated a Forbearance Agreement with the senior lenders which has been extended most recently through June 30, 2003 and, as required by the senior lenders, has retained a consultant, submitted a restructuring plan and engaged an investment banker to consider strategic alternatives, to continue operations the Company will be required to negotiate further extensions of the Forbearance Agreement and ultimately refinance its senior debt. There can be no guarantee that the Company will be successful in obtaining such further forbearance extensions or senior debt refinancing to allow it to continue as a going concern. See Item 7. -- "Management's Discussion and Analysis -- Financial Condition and Liquidity".

Ability to Obtain Additional Funding for Operations

In addition to refinancing its senior debt, the Company may require additional funds to operate and grow its business. The Company may seek additional funds through public and private financing, including equity and debt offerings. However, adequate funds through the financial markets or from other sources may not be available when needed or on terms favorable to the Company or its stockholders. In addition, because the Company's Common Stock was delisted from the NASDAQ National Market on June 25, 2002 and currently trades in the Over-the-Counter market Pink Sheets (See Item 5. -- "Market for Common Equity and Related Stockholder Matters"), the Company may experience further difficulty accessing the capital markets. Without sufficient additional funding, the Company may be required to delay, scale back or abandon some or all of its product development, manufacturing, acquisition, licensing and marketing initiatives. Further, such additional financing, if obtained, likely will require the granting of rights, preferences or privileges senior to those of the common stock and result in substantial dilution of the existing ownership interests of the common stockholders.

Government Regulation

Federal and state government agencies regulate virtually all aspects of the Company's business. 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 the FDA, DEA, FTC, the Consumer Product Safety Commission, the Occupational Safety and Health Administration and the Environmental Protection Agency. Similar state and local agencies also have jurisdiction over these activities. 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. Because the Company's business involves the manufacture and distribution of pharmaceutical products, the specific regulations of the FDA and

DEA that are applicable to the Company are discussed in more detail below.

New, modified and additional regulations, statutes or legal interpretation, if any, 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.

FDA Regulations 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 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 restriction or prohibition on sales, halting of manufacturing operations or recalls of the Company's pharmaceutical products will not occur in the future. Any such actions could have a material adverse effect on the Company's business, financial condition and results of operations. Further, such actions, in certain circumstances, could constitute an event of default under the Company's senior debt.

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 efficacy. 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. 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.

The Company currently is a party to a governmental proceeding by the FDA (See Item 3. -- "Legal Proceedings"). While the Company is cooperating with the

FDA and is seeking to resolve the pending matter, an unfavorable outcome in such proceeding may have a material impact on the Company's operations and its financial condition, results of operations and/or cash flows and, accordingly, may constitute a material adverse action that would result in a covenant violation under the Credit Agreement or cause the Company's senior leaders to refuse to further extend the Forbearance Agreement, any or all of which could have a material adverse effect on the Company's liquidity.

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 that 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.

DEA Regulations 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. On November 6, 2002, the Company entered into a Civil Consent Decree with respect to violations alleged by the DEA relating to record keeping and controls surrounding the storage and distribution of controlled substances. Under the terms of the Civil Consent Decree, the Company, without admitting any of the allegations in the complaint from the DEA, has agreed to pay a fine of $100,000, upgrade its securing and to remain in substantial compliance with the Comprehensive Drug Abuse Prevention Control Act of 1970. If the Company does not remain in substantial compliance during the two-year period following the entry of the Civil Consent Decree, the Company, in addition to other possible sanctions, may be held in contempt of court and ordered to pay an additional $300,000 fine. See Item 3. "Legal Proceedings". A failure to comply with DEA requirements or the Civil Consent Decree could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Development of Pharmaceutical Products and Manufacturing Capabilities

The Company's strategy for growth is dependent upon its ability to develop products that can be promoted through current marketing and distributions channels and, when appropriate, the enhancement of such marketing and distribution channels. As of December 31, 2002, the Company had 19 ANDAs in various stages of development of which 12 have been filed. Additionally, there are two NDA supplements in process relating to the usage of Indocyanine Green for age-related macular degeneration and intra-ocular staining. See "Item 1. Description of Business -- Research and Development." The Company may not meet its anticipated time schedule for the filing of ANDAs and NDAs or may decide not to pursue ANDAs or NDAs that it has submitted or anticipates submitting. The internal development of new pharmaceutical products by the Company is dependent upon the research and development capabilities of the Company's personnel and its infrastructure. There can be no assurance that the Company will successfully develop new pharmaceutical products or, if developed, successfully integrate new

products into its existing product lines. In addition, there can be no assurance that the Company will receive all necessary approvals from the FDA or that such approvals will not involve delays, which adversely affect the marketing and sale of the Company's products. Unless and until the issues pending before the FDA with respect to the Company are resolved, it is doubtful that the FDA will approve any NDAs or ANDAs submitted by the Company. The Company's failure to develop new products, to successfully resolve the compliance issues at its Decatur, Illinois facility or to receive FDA approval of ANDAs or NDAs, could have a material adverse effect on the Company's business, financial condition and results of operations.

In connection with the February 2003 recall of Fluress and Fluoracaine due to container closure issues, the Company has temporarily suspended production of these products pending requalification in a new container. A delay beyond the second quarter in restarting production of these products could adversely effect revenue and cash from operations. Another part of the Company's growth strategy is to develop the capability to manufacture lyophilized (freeze-dried) pharmaceutical products. While the Company has devoted resources to developing these capabilities, it may not be successful in developing these capabilities, or the Company may not realize the anticipated benefits from developing these capabilities.

Generic Substitution

The Company's branded pharmaceutical products are subject to competition from generic equivalents and alternative therapies. Generic pharmaceuticals are the chemical and therapeutic equivalents of brand-name pharmaceuticals and represent an increasing proportion of pharmaceuticals dispensed in the United States. There is no proprietary protection for most of the branded pharmaceutical products sold by the Company and other pharmaceutical companies sell generic and other substitutes for most of its branded pharmaceutical products. 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.

Dependence on Generic and Off-Patent Pharmaceutical Products

The success of the Company depends, in part, on its ability to anticipate which branded pharmaceuticals are about to come off patent and thus permit the Company to develop, manufacture and market equivalent generic pharmaceutical products. Generic pharmaceuticals must meet the same quality standards as branded pharmaceuticals, even though these equivalent pharmaceuticals are sold at prices that are significantly lower than that of branded pharmaceuticals. 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. 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.

Risks and Expense of Legal Proceedings

As discussed above, the Company is currently involved in several pending or threatened legal actions with both private parties and certain government agencies. See Item 3. "Legal Proceedings". While the Company believes that its positions in these various matters are meritorious, to the extent that the Company's personnel must spend time and the Company must expend resources to pursue or contest these various matters, or any additional matters that may be

asserted from the time to time in the future, this represents time and money that is not available for other actions that the Company might otherwise pursue which could be beneficial to the Company's future. In addition, to the extent that the Company is unsuccessful in any legal proceedings, the consequences could have a negative impact on the Company or its operations. These consequences could include, but not be limited to, fines, penalties, injunctions, the loss of patent or other rights, the need to write down or off the value of assets (which could negatively impact the Company's earnings and/or cause the violation of debt covenants) and a wide variety of other potential remedies or actions that could be taken against the Company. While the Company will continue to vigorously pursue its rights in all such matters, no assurance can be given that the Company will be successful in any of these proceedings or, even if successful, that the Company would be able to recoup any of the moneys expended in pursuing such matters.

Competition; Uncertainty of Technological Change

The Company competes with other pharmaceutical companies, including major pharmaceutical companies with financial resources substantially greater than those of the Company, in developing, acquiring, manufacturing and marketing pharmaceutical products. The selling prices of pharmaceutical products typically decline as competition increases. Further, other products now in use, under development or acquired by other pharmaceutical companies, may be more effective or offered at lower prices than the Company's current or future products. The industry is characterized by rapid technological change that 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 and technical capabilities. There can be no assurance that: (i) the Company will be able to develop or acquire commercially attractive pharmaceutical products; (ii) additional competitors will not enter the market; or (iii) competition from other pharmaceutical companies will not have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Supply of Raw Materials and Components

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

Dependence on Third-Party Manufacturers

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

results of operations.

Dependence on Small Number of Distributors

A small number of large wholesale drug distributors account for a large portion of the Company's gross sales, revenues and accounts receivable. The following three distributors, AmerisourceBergen, Cardinal and McKesson, accounted for approximately 57% of total gross sales and 42% of total revenues in 2002, and 61% of gross trade receivables as of December 31, 2002. In addition to acting as distributors of the Company's products, these three companies also distribute a broad range of health care products for many other companies. None of these distributors is an end user of the Company's products. If sales to any one of these distributors were to diminish or cease, the Company believes that the end users of its products would find little difficulty obtaining the Company's products either directly from the Company or from another distributor. However, the loss of one or more of these customers, together with a delay or inability to secure an alternative distribution source for end users, could have a material negative impact on the Company's revenue and results of operations and lead to a violation of debt covenants. A change in purchasing patterns, an increase in returns of the Company's products, delays in purchasing products and delays in payment for products by one or more distributors also could have a material negative impact on the Company's revenue and results of operations and lead to a violation of debt covenants.

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 $5.0 million for aggregate annual claims with a $50,000 deductible per incident and a $250,000 aggregate annual deductible. However, there can be no assurance that such insurance coverage will be sufficient to fully cover 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.

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.

Exercise of Warrants, Conversion of Subordinated Debt, May have Dilutive Effect

Under the terms of a $5,000,000 subordinated debt transaction, which the Company entered into on July 12, 2001 with the John N. Kapoor Trust dtd. 9/20/89

(the "Trust"), the sole trustee and sole beneficiary of which is Dr. John N. Kapoor, the Company's current Chairman of the Board of Directors, the Trust agreed to provide the Company with $5,000,000 of subordinated debt in two separate tranches of $3,000,000 ("Tranche A") and $2,000,000 ("Tranche B"). In return for providing the subordinated debt, the Trust was granted Warrants to purchase 1,000,000 shares of common stock, at a purchase price of $2.85 per share for Tranche A and 667,000 shares of common stock, at a purchase price of $2.25 per share, for Tranche B. In addition, Tranche A, plus the interest on Tranche A, is convertible into common stock of the Company at a price of $2.28 per share, and Tranche B, plus the interest on Tranche B, is convertible into common stock of the Company at a price of $1.80 per share. The subordinated debt warrants mature on December 20, 2006.

On November 21, 2002, the Company entered into a success fee arrangement with its restructuring consultants AEG Partners which provides that the Company will issue 1,250,000 warrants to purchase common stock at an exercise price of $1.00 per warrant share upon the date on which each of the following conditions have been met or waived by the Company: (i) the Forbearance Agreement shall have been terminated, (ii) the consultants engagement pursuant to its consulting agreement shall have been terminated and (iii) the Company shall have executed a new or restated multi-year credit facility. All unexercised warrants shall expire on the fourth anniversary of the date of issuance.

If the price per share of the Company's common stock at the time of exercise of the Warrants or conversion of the subordinated debt is in excess of the various Warrant exercise or conversion prices, exercise of the Warrants and conversion of the subordinated debt would have a dilutive effect on the Company's common stock. The amount of such dilution, however, cannot currently be determined as it would depend on the difference between the stock price and the price at which the warrants were exercised or the subordinated debt was converted at the time of exercise or conversion.

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 and results of operations.

Dependence on Key Executive Officers

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

Quarterly Fluctuation of Results; Possible Volatility of Stock Price

The Company's results of operations may vary from quarter to quarter due to a variety of factors including, but not limited to, the timing of the development and marketing of new pharmaceutical products, the failure to develop such products, delays in obtaining government approvals, including FDA approval of NDAs or ANDAs for Company products, expenditures to comply with governmental requirements for manufacturing facilities, expenditures incurred to acquire and promote pharmaceutical products, changes in the Company's customer base, a customer's termination of a substantial account, the availability and cost of raw materials, interruptions in supply by third-party manufacturers, the introduction of new products or technological innovations by the Company's competitors, loss of key personnel, changes in the mix of products sold by the Company, changes in sales and marketing expenditures, competitive pricing pressures, expenditures incurred to pursue or contest pending or threatened legal action and the Company's ability to meet its financial covenants. There can be no assurance that the Company will be successful in avoiding losses in any future period. Such fluctuations may result in volatility in the price of the Company's Common Stock.

Relationships with Other Entities; Conflicts of Interest

Mr. John N. Kapoor, Ph.D., the Company's current Chairman of the Board and Chief Executive Officer from March 2001 to December 2002, and a principal shareholder, is affiliated with EJ Financial Enterprises, Inc., a health care consulting investment company ("EJ Financial"). EJ Financial is involved in the management of health care companies in various fields, and Dr. Kapoor is involved in various capacities with the management and operation of these companies. The John N. Kapoor Trust, the beneficiary and sole trustee of which is Dr. Kapoor, is a principal shareholder of each of these companies. As a result, Dr. Kapoor does not devote his full time 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. In addition, one of these companies, NeoPharm, Inc. of which Dr. Kapoor is Chairman and a major stockholder, recently entered into a loan agreement with the Company. The Company also owes EJ Financial $18,000 in consulting fees for each of 2002 and 2001, as well as expense reimbursements of approximately $2,000 and $182,000 for 2002 and 2001, respectively. Further, the John N. Kapoor Trust has loaned the Company $5,000,000 resulting in Dr. Kapoor effectively becoming a major creditor of the Company as well as a major shareholder. See "Financial Condition and Liquidity." Potential conflicts of interest could have a material adverse effect on the Company's business, financial condition and results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivatives Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133, as amended by SFAS No. 137 and No. 138, was effective for the Company's fiscal 2001 financial statements and was adopted by the Company on January 1, 2001. Adoption of these standards did not have an effect on the Company's financial position or results of operations.

In June 2001, the FASB issued three statements, SFAS No. 141, "Business Combinations," SFAS No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 143, "Accounting for Asset Retirement Obligations."

SFAS No. 141 supercedes APB Opinion No. 16, "Business Combinations," and eliminates the pooling-of-interests method of accounting for business combinations, thus requiring all business combinations be accounted for using the purchase method. In addition, in applying the purchase method, SFAS No. 141 changes the criteria for recognizing intangible assets apart from goodwill.

The following criteria is to be considered in determining the recognition of the intangible assets: (1) the intangible asset arises from contractual or other legal rights, or (2) the intangible asset is separable or

dividable from the acquired entity and capable of being sold, transferred, licensed, rented, or exchanged. The requirements of SFAS No. 141 are effective for all business combinations completed after June 30, 2001. The adoption of this new standard did not have an effect on the Company's financial statements.

SFAS No. 142 supercedes APB Opinion No. 17, "Intangible Assets," and requires goodwill and other intangible assets that have an indefinite useful life to no longer be amortized; however, these assets must be reviewed at least annually for impairment. The Company has adopted SFAS No. 142 as of January 1, 2002. The adoption of this new standard did not have an effect on the Company's financial statements as no impairments were recognized upon adoption.

SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The adoption of this new standard did not have an effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement also supercedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 is effective January 1, 2002. The adoption of this new standard did not have a significant effect on the financial statements.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement updates, clarifies and simplifies existing accounting pronouncements. SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishments of Debt", which requires all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30 will now be used to classify those gains and losses. SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements", amended SFAS No. 4, is no longer necessary because SFAS No. 4 has been rescinded. SFAS No. 145 amends SFAS No. 13 "Accounting for Leases", to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. Certain provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002, while other provisions are effective for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 did not have a significant impact on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires the Company to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Company will adopt SFAS No. 146 for exit or disposal activities initiated after December 31, 2002. The Company does not anticipate that adoption of this standard did not have a material effect on its financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure, an amendment of FASB Statement No. 123". This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements. Certain of the disclosure requirements are required for fiscal years ending after December 15, 2002 and are included in the notes to the consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements Nos. 5, 57 and 107 and a rescission of FASB Interpretation No. 34". This Interpretation elaborates on the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has determined that FIN 45 will not have an impact on its financial condition, results of operations or cash flows.

In January 2003 the FASB issued Interpretation No. 46. ("FIN 46"), "Consolidation of Variable Interest Entities" with the objective of improving financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or other legal structure used for business purposes that either (a) does not have equity

investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the equity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. A company that consolidates a variable interest entity is called the "primary beneficiary" of that entity. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 1, 2003. The consolidation requirements of FIN 46 apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has determined that FIN 46 will not have an impact on its financial condition, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with changes in interest rates. The Company's interest rate exposure involves three debt instruments. The Credit Agreement and the subordinated convertible debentures issued to the John N. Kapoor Trust bear the same interest rate, which fluctuates at Prime plus 300 basis points. The promissory note issued to NeoPharm, Inc. ("NeoPharm") bears interest at an initial rate of 3.6% and will be reset quarterly based upon NeoPharm's average return on its cash and readily tradable long and short-term securities during the previous calendar quarter. All of the Company's remaining long-term debt is at fixed interest rates. Management estimates that a change of 100 basis points in its variable rate debt from the interest rates in effect at December 31, 2002 would result in a $439,000 change in annual interest expense.

The Company's financial instruments consist mainly of cash, accounts receivable, accounts payable and debt. The carrying amounts of these instruments, except debt, approximate fair value due to their short-term nature. 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.

The fair value of the debt obligations approximated the recorded value as of December 31, 2002. The promissory note between the Company and NeoPharm, Inc. bears interest at a rate that is lower than the Company's current borrowing rate with its senior lenders. Accordingly, the computed fair value of the debt, which the Company estimates to be approximately $2,649,000, would be lower than the current carrying value of $3,250,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Akorn, Inc.:

We have audited the accompanying consolidated financial statements of Akorn, Inc. and subsidiary (the "Company") as of December 31, 2002 and 2001, and for each of the three years in the period ended December 31, 2002, as listed in the Index at Item 8. Our audits also included the financial statement schedule listed in the Index at Item 15(a).2. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 subsidiary at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying consolidated financial statements for the year ended December 31, 2002 have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the consolidated financial statements, the Company's losses from operations in recent years, working capital deficiency as of December 31, 2002, the need to refinance or extend its debt on a long-term basis and the need to successfully resolve the ongoing governmental proceedings, raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note A. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Deloitte & Touche LLP

Chicago, Illinois
May 9, 2003

AKORN, INC.

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PAR VALUE DATA)

	DECEMBER 31,	
	2002	2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 364	$ 5,355
Trade accounts receivable (less allowance for doubtful accounts of $1,200 and $3,706 at December 31, 2002 and 2001, respectively)	1,421	5,902
Inventory	10,401	8,135
Deferred income taxes	--	2,069
Income taxes recoverable	670	6,540
Prepaid expenses and other current assets	383	579

TOTAL CURRENT ASSETS	13,239	28,580
OTHER ASSETS		
Intangibles, net	14,142	18,485
Deferred income taxes	--	3,850
Investment in Novadaq Technologies	713	--
Other	130	113
TOTAL OTHER ASSETS	14,985	22,448
PROPERTY, PLANT AND EQUIPMENT, NET	35,314	33,518
TOTAL ASSETS	$ 63,538	$84,546
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current installments of long-term debt	$ 35,859	$45,072
Trade accounts payable	5,756	3,035
Accrued compensation	836	760
Accrued expenses and other liabilities	1,352	4,070
TOTAL CURRENT LIABILITIES	43,803	52,937
Long-term debt	7,799	7,574
Other long-term liabilities	584	205
TOTAL LIABILITIES	52,186	60,716
COMMITMENTS AND CONTINGENCIES (Notes C, H and M)		
SHAREHOLDERS' EQUITY		
Preferred stock, $1.00 par value -- authorized 5,000,000 shares; none issued		
Common stock, no par value -- authorized 40,000,000 shares; issued and outstanding 19,656,582 and 19,247,299 shares at December 31, 2002 and 2001, respectively	26,866	26,392
Accumulated deficit	(15,514)	(2,562)
TOTAL SHAREHOLDERS' EQUITY	11,352	23,830
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 63,538	$84,546

See notes to the consolidated financial statements.

AKORN, INC.

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

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Revenues	$ 51,419	$ 41,545	$66,221
Cost of sales	30,882	35,147	38,090
GROSS PROFIT	20,537	6,398	28,131
Selling, general and administrative expenses	20,860	18,900	16,084
Provision (recovery) for bad debts	(55)	4,480	8,127
Amortization of intangibles	1,411	1,494	1,519
Research and development expenses	1,886	2,598	4,132
	24,102	27,472	29,862
OPERATING LOSS	(3,565)	(21,074)	(1,731)
Interest and other income (expense):			
Interest expense	(3,150)	(3,768)	(2,400)
Other income (expense), net	2	(84)	117
	(3,148)	(3,852)	(2,283)

LOSS BEFORE INCOME TAXES	(6,713)	(24,926)	(4,014)
Income tax (benefit) provision	6,239	(9,780)	(1,600)
NET LOSS	$(12,952)	$(15,146)	$(2,414)
NET LOSS PER SHARE:			
BASIC	$ (0.66)	$ (0.78)	$ (0.13)
DILUTED	$ (0.66)	$ (0.78)	$ (0.13)
SHARES USED IN COMPUTING NET LOSS PER SHARE:			
BASIC	19,589	19,337	19,030
DILUTED	19,589	19,337	19,030

See notes to the consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(IN THOUSANDS)

	COMMON STOCK		RETAINED EARNINGS (ACCUMULATED	
	SHARES	AMOUNT	DEFICIT)	TOTAL
Balances at January 1, 2000	18,651	$19,392	$ 14,998	$34,390
Net loss	--	--	(2,414)	(2,414)
Exercise of stock options	576	3,105	--	3,105
Shares issued in connection with the employee stock purchase plan	20	150	--	150
Balances at December 31, 2000	19,247	22,647	12,584	35,231
Net loss	--	--	(15,146)	(15,146)
Warrants issued in connection with convertible debentures	--	1,516	--	1,516
Intrinsic value of conversion feature in connection with the issuance of convertible debentures	--	1,508	--	1,508
Exercise of stock options	175	583	--	583
Shares issued in connection with the employee stock purchase plan	44	138	--	138
Balances at December 31, 2001	19,466	26,392	(2,562)	23,830
Net loss			(12,952)	(12,952)
Intrinsic value of conversion feature in connection with the issuance of convertible debentures	--	114	--	114
Exercise of stock options	92	253	--	253
Shares issued in connection with the employee stock purchase plan	99	107	--	107
Balances at December 31, 2002	19,657	$26,866	$(15,514)	$11,352

See notes to the consolidated financial statements.

AKORN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

YEAR ENDED DECEMBER 31,

	2002	2001	2000
OPERATING ACTIVITIES			
Net loss	$(12,952)	$(15,146)	$ (2,414)
Adjustments to reconcile net loss to net cash from operating activities:			
Depreciation and amortization	4,510	4,286	3,539
Impairment of long-lived assets	2,362	2,132	--
Loss (gain) on disposal of intangible/fixed assets	(23)	78	--
Deferred income taxes	5,919	(2,813)	(3,675)
Amortization of debt discount	519	431	--
Changes in operating assets and liabilities:			
Accounts receivable	4,481	10,722	1,071
Income taxes recoverable	5,870	(6,540)	--
Inventory, prepaid expenses and other assets	(2,087)	6,351	2,173
Trade accounts payable, accrued expenses and other liabilities	758	611	718
Income taxes payable	--	(556)	(1,050)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	9,357	(444)	362
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(5440)	(3,626)	(15,239)
Proceeds received for intangible asset	125	--	--
Purchase of product intangibles and product licensing fees		(500)	(2,449)
NET CASH USED IN INVESTING ACTIVITIES	(5,315)	(4,126)	(17,688)
FINANCING ACTIVITIES			
Proceeds from exercise of stock options	474	721	3,255
Repayments of long-term debt	(11,994)	(1,153)	(22,206)
Proceeds from issuance of long-term debt	2,487	8,034	37,100
Proceeds from issuance of stock warrants		1,516	--
Principal payments under capital lease obligations		--	(41)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(9,033)	9,118	18,108
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,991)	4,548	782
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,355	807	25
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 364	$ 5,355	$ 807

See notes to the consolidated financial statements.

AKORN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business: Akorn, Inc. ("Akorn" or the "Company") manufactures and markets diagnostic and therapeutic pharmaceuticals in specialty areas such as ophthalmology, rheumatology, anesthesia and antidotes, among others. Customers include physicians, optometrists, wholesalers, group purchasing organizations and other pharmaceutical companies.

Consolidation: The accompanying consolidated financial statements include the accounts of Akorn, Inc. and its wholly owned subsidiary, Akorn (New Jersey), Inc. (collectively, the "Company"). Intercompany transactions and balances have been eliminated in consolidation. During 2000, the Company dissolved the inactive subsidiaries Compass Vision, Inc., Spectrum Scientific Pharmaceuticals, Inc. and Walnut Pharmaceuticals, Inc. The dissolution of these subsidiaries did not have a material impact on the balances and activities of the Company.

Basis of Presentation: The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company has experienced losses from operations in 2002, 2001 and 2000 of $3.6 million, $21.1 million and $1.7

million, respectively, and has a working capital deficiency of $30.6 million as of December 31, 2002.

As described more fully herein, the Company has had three consecutive years of operating losses, is in default under its existing credit agreement and is a party to governmental proceedings and potential claims by the Food and Drug Administration ("FDA") that could have a material adverse effect on the Company. Although the Company has entered into a Forbearance Agreement (as defined below) with its senior lenders, is working with the FDA to favorably resolve such proceeding, has appointed a new interim chief executive officer and implemented other management changes and has taken steps to return to profitability, there is substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to (i) continue to finance its current cash needs, (ii) continue to obtain extensions of the Forbearance Agreement, (iii) successfully resolve the ongoing governmental proceeding with the FDA and (iv) ultimately refinance its senior bank debt and obtain new financing for future operations and capital expenditures. If it is unable to do so, it may be required to seek protection from its creditors under the federal bankruptcy code.

While there can be no guarantee that the Company will be able to continue to finance its current cash needs, the Company generated positive cash flow from operations in 2002. In addition, as of April 30, 2003, the Company had approximately $400,000 in cash and equivalents and approximately $1.4 million of undrawn availability under its second line of credit described below.

There can also be no guarantee that the Company will successfully resolve the ongoing governmental proceedings with the FDA. However, the Company has submitted to the FDA and begun to implement a plan for comprehensive corrective actions at its Decatur, Illinois facility.

Moreover, there can be no guarantee that the Company will be successful in obtaining further extensions of the Forbearance Agreement or in refinancing the senior debt and obtaining new financing for future operations. However, the Company is current on its interest payment obligations to its senior lenders, management believes that the Company has a good relationship with its senior lenders and, as required, the Company has retained a consulting firm, submitted a restructuring plan and engaged an investment banker to assist in raising additional financing and explore other strategic alternatives for repaying the senior bank debt. The Company has also added key management personnel, including the appointment of a new interim chief executive officer, and additional personnel in critical areas, such as quality assurance. Management has reduced the Company's cost structure, improved the Company's processes and systems and implemented

strict controls over capital spending. Management believes these activities have improved the Company's profitability and cash flow from operations and improve its prospects for refinancing its senior debt and obtaining additional financing for future operations.

As a result of all of the factors cited in the preceding paragraphs, management of the Company believes that the Company should be able to sustain its operations and continue as a going concern. However, the ultimate outcome of this uncertainty cannot be presently determined and, accordingly, there remains substantial doubt as to whether the Company will be able to continue as a going concern. Further, even if the Company's efforts to raise additional financing and explore other strategic alternatives result in a transaction that repays the senior bank debt, there can be no assurance that the current common stock will have any value following such a transaction. In particular, if any new financing is obtained, it likely will require the granting of rights, preferences or privileges senior to those of the common stock and result in substantial dilution of the existing ownership interests of the common stockholders.

As discussed in Note G -- "Financing Arrangements", the Company has significant borrowings which require, among other things, compliance with various covenants. The borrowings are incurred primarily under an amended and restated revolving credit agreement (the "Credit Agreement").

On September 16, 2002, the Company was notified by its senior lenders that it was in default due to failure to pay the principal and interest owed as of August 31, 2002 under the then most recent extension of the Credit Agreement.

The senior lenders also notified the Company that they would forbear from exercising their remedies under the Credit Agreement until January 3, 2003 (as indicated below, subsequently extended to June 30, 2003) if a forbearance agreement could be reached. On September 20, 2002, the Company and its senior lenders entered into an agreement under which the senior lenders would agree to forbear from exercising their remedies (the "Forbearance Agreement") and the Company acknowledged its current default. The Forbearance Agreement provides a second line of credit allowing the Company to borrow the lesser of (i) the difference between the Company's outstanding indebtedness to the senior lenders and $39,200,000, (ii) the Company's borrowing base and (iii) $1,750,000, to fund the Company's day-to-day operations. The Forbearance Agreement provides for certain additional restrictions on operations and additional reporting requirements. The Forbearance Agreement also requires automatic application of cash from the Company's operations to repay borrowings under the new revolving loan, and to reduce the Company's other obligations to the senior lenders.

The Company, as required in the Forbearance Agreement, agreed to provide the senior lenders with a plan for restructuring its financial obligations on or before December 1, 2002, and agreed to retain a consulting firm by September 27, 2002 to assist in the development and execution of this restructuring plan and, in furtherance of that commitment, on September 26, 2002, the Company entered into an agreement (the "Consulting Agreement") with a consulting firm (AEG Partners, LLC (the "Consultant")) whereby the Consultant would assist in the development and execution of this restructuring plan and provide oversight and direction to the Company's day-to-day operations. On November 18, 2002, the Consultant notified the Company of its intent to resign from the engagement effective December 2, 2002, based upon the Company's alleged failure to cooperate with the Consultant, in breach of the Consulting Agreement. The Company's senior lenders, upon learning of the Consultant's action, notified the Company by letter dated November 18, 2002, that, as a result of the Consultant's resignation, the Company was in default under terms of the Forbearance Agreement and the Credit Agreement and demanded payment of all outstanding principal and interest on the loan. This notice was followed by a second letter dated November 19, 2002, in which the senior lenders gave notice of their exercise of certain remedies available under the Credit Agreement including, but not limited to, their setting off the Company's deposits with the senior lender against the Company's obligations to the senior lenders. The Company immediately entered into discussions with the Consultant which led, on November 21, 2002, to the Consultant rescinding its notification of resignation and to the senior lenders withdrawing their demand for payment and restoring the Company's accounts.

During the Company's discussions with the Consultant, the Company agreed to establish a special committee of the Board (the "Corporate Governance Committee") consisting of Directors Ellis and Bruhl,

with Mr. Ellis serving as Chairman. The Consultant will interface with the Corporate Governance Committee regarding the Company's restructuring actions. The Company also agreed that the Consultant will oversee the Company's interaction with all regulatory agencies including, but not limited to, the FDA. In addition, the Company has agreed to a "success fee" arrangement with the Consultant. Under terms of the arrangement, if the Consultant is successful in obtaining an extension to January 1, 2004 or later on the Company's senior debt, the Consultant will be paid a cash fee equal to 1 1/2% of the amount of the senior debt which is refinanced or restructured. Additionally, the success fee arrangement provides that the Company will issue 1,250,000 warrants to purchase common stock at an exercise price of $1.00 per warrant share to the Consultant upon the date on which each of the following conditions have been met or waived by the Company: (i) the Forbearance Agreement shall have been terminated, (ii) the Consultant's engagement pursuant to the Consulting Agreement shall have been terminated and (iii) the Company shall have executed a new or restated multi-year credit facility. All unexercised warrants shall expire on the fourth anniversary of the date of issuance.

As required by the Forbearance Agreement, a restructuring plan was developed by the Company and the Consultant and presented to the Company's senior lenders in December 2002. The restructuring plan requested that the senior lenders convert the Company's senior debt to a term note that would mature no earlier than February 2004 and increase the current line of credit from $1.75 million to $3 million to fund operations and capital expenditures. In light of the FDA's re-inspection of the Decatur facility in early December 2002, the Company and the senior lenders agreed to defer further discussions of that

request until completion of the re-inspection and the Company's response thereto. As a result, the senior lenders have agreed to successive short-term extensions of the Forbearance Agreement, the latest of which is an eleventh amendment to the Forbearance Agreement expiring on June 30, 2003. Following completion of the FDA inspection of the Decatur facility on February 6, 2003 and issuance of the FDA findings, the senior lenders have indicated that they are not willing to convert the senior debt to a term loan but discussions continue regarding a possible increase in the revolving line of credit. As required by the Company's senior lenders, on May 9, 2003, the Company engaged Leerink Swann, an investment banking firm, to assist in raising additional financing and explore other strategic alternatives for repaying the senior bank debt. Subject to the absence of any additional defaults and subject to the senior lenders' satisfaction with the Company's progress in resolving the matters raised by the FDA and in obtaining additional financing and exploring other strategic alternatives, the Company expects to continue obtaining short-term extensions of the Forbearance Agreement. However, there can be no assurance that the Company will be successful in obtaining further extensions of the Forbearance Agreement beyond June 30, 2003.

The Company is also a party to a governmental proceeding by the FDA (See Note M -- "Commitments and Contingencies"). While the Company is cooperating with the FDA and seeking to resolve the pending matter, an unfavorable outcome in such proceeding may have a material impact on the Company's operations and its financial condition, results of operations and/or cash flows and, accordingly, may constitute a material adverse action that would result in a covenant violation under the Credit Agreement.

In the event that the Company is not in compliance with the Credit Agreement covenants and does not negotiate amended covenants or obtain a waiver thereof, then the senior lenders, at their option, may demand immediate payment of all outstanding amounts due and exercise any and all available remedies, including, but not limited to, foreclosure on the Company's assets.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 materially from those estimates. Significant estimates and assumptions relate to the allowance for doubtful accounts, the allowance for chargebacks, the allowance for rebates, the reserve for slow-moving and obsolete inventory, the allowance for product returns, the allowance for discounts, the carrying value of intangible assets and the carrying value of deferred tax assets.

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

Revenue Recognition: The Company recognizes product sales for its ophthalmic and injectable business segments upon the shipment of goods for customers whose terms are FOB shipping point. The Company has several customers whose terms are FOB destination point and recognizes revenue upon delivery of the product to these customers. Revenue is recognized when all obligations of the Company have been fulfilled and collection of the related receivable is probable. Provision for estimated chargebacks, rebates, discounts and product returns is made at the time of sale and is analyzed and adjusted, if necessary, at each balance sheet date.

The Contract Services segment, which produces products for third party customers, based upon their specification, at a pre-determined price, also recognizes sales upon the shipment of goods or upon delivery of the product as appropriate. Revenue is recognized when all obligations of the Company have been fulfilled and collection of the related receivable is probable.

Royalty revenue is recognized in the period to which such revenue relates based upon when the Company receives notification (monthly or quarterly) from the counterparty that such counterparty has sold product for which Akorn is entitled to a royalty.

The Company adopted Emerging Issues Task Force Abstract ("EITF") No. 01-9 as of January 1, 2002 and now presents the cost related to group purchasing organization administration fees as a reduction of revenue as opposed to selling, general and administrative expenses. 2001 and 2000 amounts have been

reclassified to conform with that of the 2002 presentation. In 2002, 2001, and 2000 these costs amounted to $848,000, $703,000 and $706,000, respectively.

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

Accounts Receivable: The nature of the Company's business inherently involves, in the ordinary course, significant amounts and substantial volumes of accounting activity (i.e., transactions and estimates) relating to allowances for product returns, chargebacks, rebates and discounts given to customers. This is a natural circumstance of the pharmaceutical industry and not specific to the Company and inherently lengthens the collection process. Depending on the product, the end-user customer, the specific terms of national supply contracts and the particular arrangements with the Company's wholesaler customers, certain rebates, chargebacks and other credits are deducted from the Company's accounts receivable. The process of claiming these deductions depends on wholesalers reporting to Akorn the amount of deductions that were earned under the respective terms with end-user customers (which in turn depends on which end-user customer, with different pricing arrangements might be entitled to a particular deduction). This process can lead to "partial payments" against outstanding invoices as the wholesalers take the claimed deductions at the time of payment.

Allowance for Chargebacks and Rebates: The Company enters contractual agreements with certain third parties such as hospitals and group-purchasing organizations to sell certain products at predetermined prices. The parties have elected to have these contracts administered through wholesalers. When a wholesaler sells products to one of the third parties that is subject to a contractual price agreement, the difference between the price to the wholesaler and the price under contract is charged back to the Company by the wholesaler. The Company reduces gross sales and accounts receivable by the estimated chargeback amount when it sells product to a wholesaler. The Company evaluates the chargeback allowance against actual chargebacks processed by wholesalers. Actual chargebacks processed can vary materially from period to period.

Similarly, the Company maintains an allowance for rebates related to contract and other programs with wholesalers. These allowances also reduce gross sales and accounts receivable by the amount of the estimated rebate amount when the Company sells its products to the wholesalers. The Company evaluates the allowance against actual rebates processed and such amount can vary materially from period to period.

The recorded allowances reflect the Company's current estimate of the future chargeback and rebate liability to be paid or credited to the wholesaler under the various contracts and programs. For the years ended

December 31, 2002, 2001 and 2000, the Company recorded chargeback and rebate expense of $15,418,000, $28,655,000, and $29,558,000, respectively. The allowance for chargebacks and rebates was $4,302,000 and $4,190,000 as of December 31, 2002 and 2001.

In May 2001, the Company completed an analysis of its March 31, 2001 allowance for chargebacks and rebates. In performing such analysis, the Company utilized recently obtained reports of wholesalers' inventory information, which had not been previously obtained or utilized. Based on the wholesalers' March 31, 2001 inventories and historical chargeback and rebate activity, the Company recorded an allowance of $6,961,000, which resulted in an expense of $12,000,000 for the three months ended March 31, 2001, as compared to an allowance of $3,296,000 recorded at December 31, 2000.

During the quarter ended June 30, 2001, the Company further refined its estimates of the chargeback and rebate liability determining that an additional $2,250,000 provision needed to be recorded. This additional increase to the allowance was necessary to reflect the continuing shift of sales to customers who purchase their products through group purchasing organizations and buying groups.

Allowance for Product Returns: The Company also maintains an allowance for estimated product returns. This allowance is reflected as a reduction of accounts receivable balances. The Company evaluates the allowance balance

against actual returns processed. Actual returns processed can vary materially from period to period. For the years ended December 31, 2002, 2001, and 2000 the Company recorded a provision for product returns of $2,574,000, $4,103,000, and $1,159,000, respectively. The allowance for potential product returns was $1,166,000 and $548,000 at December 31, 2002 and 2001, respectively.

In addition to considering in process product returns and assessing the potential implications of historical product return activity, the Company also considers the wholesaler's inventory information to assess the magnitude of unconsumed product that may result in a product return to the Company in the future. Such wholesaler inventory information had not been historically purchased and therefore, had not been considered in assessing the reasonableness of the allowance prior to March 31, 2001. Historical returns had not been significant. Based on the wholesaler's inventory information, which demonstrated higher levels of on-hand product than previously estimated by management, combined with increased levels of return activity, the Company increased its allowance for potential product returns to $2,232,000 at March 31, 2001 from $232,000 at December 31, 2000. The provision for the three months ended March 31, 2001 was $2,559,000.

Allowance for Doubtful Accounts: The Company maintains an allowance for doubtful accounts, which reflects trade receivable balances owed to the Company that are believed to be uncollectible. This allowance is reflected as a reduction of accounts receivable. For the years ended December 31, 2002, 2001 and 2000, the Company recorded a provision (recovery) for doubtful accounts of ($55,000), $4,480,000, and $8,127,000, respectively. The allowance for doubtful accounts was $1,200,000 and $3,706,000 as of December 31, 2002 and 2001, respectively.

In late 2000, the Company began reconciling and making collection attempts of certain outstanding and past-due receivables, primarily involving certain of its major customers (including wholesalers). The Company was confronted with customers unwilling to pay invoiced amounts without the Company meeting certain high levels of evidentiary support. The Company concluded it would be unable to collect these amounts from certain customers. As a result, the Company recorded bad debt expense of $7,520,000 during the fourth quarter of 2000. During the second quarter of 2001, the Company used then available information and recent experience to update its analysis and estimated that it needed to increase its allowance for doubtful accounts to $12,928,000 at June 30, 2001 from $8,321,000 at December 31, 2000. The expense for the three months ended June 30, 2001 was $4,610,000.

Allowance for Discounts: The Company maintains an allowance for discounts, which reflects discounts available to certain customers based on agreed upon terms of sale. This allowance is reflected as a reduction of accounts receivable. The Company evaluates the allowance balance against actual discounts taken. For the years ended December 31, 2002 and 2001, the Company recorded a provision for discounts of $1,014,000 and

$886,000, respectively. Prior to 2001, the Company did not grant discounts. The allowance for discounts was $172,000 and $143,000 and as of December 31, 2002 and 2001, respectively.

Inventory: Inventory is stated at the lower of cost (average cost method) or market (see Note E -- "Inventory"). The Company maintains an allowance for slow-moving and obsolete inventory based upon recent sales activity by unit and wholesaler inventory information. The Company estimates the amount of inventory that may not be sold prior to its expiration. In 2001, upon obtaining the wholesaler's inventory reports, the Company learned that the wholesalers had greater levels of on-hand inventory than had been previously estimated. This provided the Company with greater insight as to the potentially lower buying patterns of the wholesalers than had been previously forecasted and contemplated in estimating the levels of inventory in assessing the adequacy of the allowance. For the years ended December 31, 2002, 2001 and 2000, the Company recorded a provision for inventory obsolescence of $838,000, $1,830,000, and $3,983,000, respectively. The allowance for inventory obsolescence was $1,206,000 and $1,845,000 as of December 31, 2002 and 2001, respectively.

Intangibles: Intangibles consist primarily of product licensing and other such costs that are capitalized and amortized on the straight-line method over

the lives of the related license periods or the estimated life of the acquired product, which range from 17 months to 18 years. Accumulated amortization at December 31, 2002 and 2001 was $8,543,000 and $7,132,000, respectively. The Company annually assesses the impairment of intangibles based on several factors, including estimated fair market value and anticipated cash flows. In 2002, the Company recorded impairment charges on certain intangible assets (see Note Q -- "Asset Impairment Charges"). A summary of the Company's acquired amortizable intangible assets as of December 31, 2002 is as follows (in thousands):

	AS OF DECEMBER 31, 2002		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
Product Licenses	$22,685	$8,543	$14,142

The amortization expense of the above-listed acquired intangible assets for each of the five years ending December 31, 2007 will be as follows (in thousands):

For the year ended 12/31/03	$1,397
For the year ended 12/31/04	1,382
For the year ended 12/31/05	1,335
For the year ended 12/31/06	1,282
For the year ended 12/31/07	1,282

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, leasehold improvements, furniture and equipment, and automobiles are approximately 30, 10, 10, and 5 years, respectively.

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

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

The following table shows basic and diluted earnings per share computations for the years ended December 31, 2002, 2001 and 2000 (in thousands, except per share information):

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Net loss per share -- basic:			
Net loss	$(12,952)	$(15,146)	$(2,414)
Weighted average number of shares outstanding	19,567	19,337	19,030
Net loss per share -- basic	$ (0.66)	$ (0.78)	$ (0.13)
Net loss per share -- diluted:			
Net loss	$(12,952)	$(15,146)	$(2,414)
Net loss adjustment for interest on convertible Debt	--	--	--
Net income loss, as adjusted	$(12,952)	$(15,146)	$(2,414)

Weighted average number of shares outstanding.....	19,589	19,337	19,030
Additional shares assuming conversion of convertible debt and convertible interest on debt(1).....	--	--	--
Additional shares assuming conversion of warrants(2).....	--	--	--
Additional shares assuming conversion of options(3).....	--	--	--
Weighted average number of shares outstanding, as Adjusted.....	19,589	19,337	19,030
Net income loss per share -- diluted.....	$ (0.66)	$ (0.78)	$ (0.13)

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(1) For 2002 and 2001, debt and interest convertible into 2,572 and 2,519 shares of common stock respectively, was excluded from the computation of diluted earnings per share, as the inclusion of such shares would be antidilutive.

(2) For 2002 and 2001, warrants to purchase 1,667 shares of common stock were excluded from the computation of diluted earnings per share, as the inclusion of such shares would be antidilutive.

(3) For 2002, 2001 and 2000, options to purchase 3,289, 3,226 and 1,827 shares of common stock, respectively, were excluded from the computation of diluted earnings per share as the inclusion of such shares would be antidilutive.

Stock Based Compensation: The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123. The Company account s for the plans under APB Opinion No. 25, under which no compensation cost has been recognized for the stock option awards to employees, since the exercise price of the options granted is equal to the market value on the date of the grant. See Note I -- "Stock Options and Employee Stock Purchase Plan".

Income Taxes: The Company files a consolidated federal income tax return with its subsidiary. 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. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In performing its analysis of whether a valuation allowance to reduce the deferred tax asset was necessary, the Company considered both negative and positive evidence. Based upon this analysis, the negative evidence outweighed the positive evidence in determining the amount of the deferred tax assets that is more likely than not to be realized. Based upon its above analysis,

beginning with the September 30, 2002 deferred tax assets, the Company established a valuation allowance to reduce the deferred tax assets to zero. The expense of $9.2 million related to establishing the deferred tax assets valuation allowance has been recorded in the income tax provision (benefit).

Fair Value of Financial Instruments: The Company's financial instruments include cash, accounts receivable, accounts payable and term debt. The fair values of cash, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of the Company's bank borrowings under its credit facility approximate fair value because the interest rates are reset periodically to reflect current market rates. The promissory note between the Company and NeoPharm, Inc. bears interest at a rate that is lower than the Company's current borrowing rate with its senior lenders. Accordingly, the computed fair value of the debt, which the Company estimates to be approximately $2,649,000, would be lower than the

current carrying value of $3,250,000.

Reclassifications: Certain prior year amounts have been reclassified to conform to 2002 presentation.

NOTE B -- NONCASH TRANSACTIONS

In July 2001, the Company amended a license agreement with The Johns Hopkins University, Applied Physics Laboratory ("JHU/APL") (See "Note C -- Product and Other Acquisitions"). As part of that amendment, the Company delivered research and development equipment in lieu of a $100,000 payment. The Company recorded a gain of $51,000 upon transfer of the equipment.

In the first quarter of 2002, the Company received an equity ownership in Novadaq Technologies, Inc., ("Novadaq"), of 4,000,000 common shares (representing approximately 16.4% of the outstanding shares) as part of the settlement between the Company and Novadaq (See Note M -- "Commitments and Contingencies"). The Company had previously advanced $690,000 to Novadaq for development costs and recorded these advances as an intangible asset. Based on the settlement, the Company has reclassified these advances as an Investment in Novadaq Technologies, Inc. The Company has determined this investment should be valued using the cost method as described in Accounting Principles Board Opinion ("APB") No. 18, "The Equity Method of Accounting for Investments in Common Stock."

In the fourth quarter of 2002, the Company learned that JHU/APL had licensed its two patents related to AMD (see Note M -- "Commitments and Contingencies") to Novadaq. Pursuant to the settlement with JHU/APL, the Company is entitled to 20% of all equity received by JHU/APL from any license of the patent rights. Therefore, the Company received an additional 132,000 shares of Novadaq, valued at $23,000 which was recorded as a gain in the fourth quarter of 2002.

NOTE C -- PRODUCT AND OTHER ACQUISITIONS

In April 2000, the Company entered into a worldwide license agreement with JHU/APL. This license provided the Company exclusive rights to two patents covering the methodology and instrumentation for a method of treating age-related macular degeneration. Upon signing the agreement, the Company made an initial payment under the agreement of $1,484,500. In July 2001, this license agreement was amended such that the Company relinquished the international rights to the two patents in exchange for a reduced financial obligation. The Company retained the exclusive rights in the United States of America. Future payments of $600,000 were required under terms of the amendment. The Company subsequently relinquished its rights to these patents and recorded an impairment charge of $1,559,500 in the second quarter of 2002. See "Note M -- Commitments and Contingencies".

NOTE D -- ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Balance at beginning of year	$ 3,706	$ 8,321	$ 226
Provision (recovery) for bad debts	(55)	4,480	8,127
Accounts written off	(2,451)	(9,095)	(32)
Balance at end of year	$ 1,200	$ 3,706	$8,321

NOTE E -- INVENTORY

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

	DECEMBER 31,	
	2002	2001
Finished goods	$ 3,460	$2,906
Work in process	1,877	1,082
Raw materials and supplies	5,064	4,147
	$10,401	$8,135

Inventory at December 31, 2002 and 2001 is reported net of reserves for slow-moving, unsalable and obsolete items of $1,206,000 and $1,845,000, respectively.

NOTE F -- PROPERTY, PLANT AND EQUIPMENT

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

	DECEMBER 31,	
	2002	2001
Land	$ 396	$ 396
Buildings and leasehold improvements	8,890	8,208
Furniture and equipment	27,390	25,724
Automobiles	55	55
	36,731	34,383
Accumulated depreciation	(19,236)	(16,440)
	17,495	17,943
Construction in progress	17,819	15,575
	$ 35,314	$ 33,518

Construction in progress represents capital expenditures principally related to the Company's lyophilization project that will enable the Company to perform processes in-house, which are currently being performed by a sub-contractor. The Company capitalized interest expense related to the lyophilization project of $1,150,000 and $1,111,000 in 2002 and 2001, respectively. Subject to the Company's ability to refinance its senior debt and obtain new financing for future operations and capital expenditures, the Company anticipates completion of the lyophilization project in the second half of 2004. In the third quarter of 2002, the Company recorded a charge of $545,000 to write off abandoned construction projects and dispose of certain other fixed assets.

NOTE G -- FINANCING ARRANGEMENTS

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

	DECEMBER 31,	
	2002	2001
Credit Agreement with The Northern Trust Company	$35,565	$44,800
Subordinated convertible debentures	5,000	5,000
Mortgages payable secured by real property located in Decatur, Illinois	1,917	2,189

Promissory note to NeoPharm, Inc.	3,250	3,250
	45,732	55,239
Less unamortized discount on subordinated convertible debentures	2,074	2,593
Less current portion	35,859	45,072
Long-term debt	$ 7,799	$ 7,574

Maturities of debt are as follows (in thousands):

Year ending December 31:	
2003	$35,859
2004	316
2005	340
2006	8,616
2007	394
Thereafter	207
Total	$45,732

In December 1997, the Company entered into a $15,000,000 revolving Credit Agreement with The Northern Trust Company, which was increased to $25,000,000 on June 30, 1998 and to $45,000,000 on December 28, 1999. This Credit Agreement is secured by substantially all of the assets of the Company and its subsidiaries and contains a number of restrictive covenants. There were outstanding borrowings of $35,565,000 and $44,800,000 at December 31, 2002 and 2001, respectively. The interest rate as of December 31, 2002 was 7.25%.

On April 16, 2001, the Credit Agreement was amended (the "2001 Amendment") and included, among other things, extension of the term of the agreement, establishment of a payment schedule, revision of the method by which the interest rate was to be determined, and the amendment and addition of certain covenants. The 2001 Amendment also required the Company to obtain subordinated debt of $3 million by May 15, 2001 and waived certain covenant violations through March 31, 2001. The 2001 Amendment required payments throughout 2001 totaling $7.5 million, with the balance of $37.5 million due January 1, 2002. The method used to calculate interest was changed to the prime rate plus 300 basis points. Previously, the interest rate was computed at the federal funds rate or LIBOR plus an applicable percentage, depending on certain financial ratios.

On July 12, 2001, the Company entered into a forbearance agreement (the "Prior Agreement") with its senior lenders under which the lenders agreed to forbear from taking action against the Company to enforce their rights under the then existing Credit Agreement until January 2, 2002. As part of the Prior Agreement, the Company acknowledged the existence of certain events of default. These events included a default on a $1.3 million principal payment, failure to timely make monthly interest payments due on May 31, 2001 and June 30, 2001 (these interest payments were subsequently made on July 27, 2001) and failure to receive $3.0 million of cash proceeds of subordinated debt by May 15, 2001 (these proceeds were subsequently received on July 13, 2001).

NOTE G -- FINANCING ARRANGEMENTS -- (CONTINUED)

The Company received two extensions, which extended the Prior Agreement to February 1, 2002 and March 15, 2002, respectively. Both of these extensions carried the same reporting requirements and covenants while establishing new cash receipts covenants for the months of January and February in 2002.

On April 12, 2002, in lieu of further extending the Prior Agreement, the Company entered into an amendment to the Credit Agreement (the "2002 Amendment"), effective January 1, 2002. The 2002 Amendment included, among other things, extension of the term of the agreement, establishment of a payment schedule and the amendment and addition of certain covenants. The new covenants include minimum levels of cash receipts, limitations on capital expenditures, a

$750,000 per quarter limitation on product returns and required amortization of the loan principal. The agreement also prohibits the Company from declaring any cash dividends on its common stock and identifies certain conditions in which the principal and interest on the Credit Agreement would become immediately due and payable. These conditions include: (a) an action by the FDA which results in a partial or total suspension of production or shipment of products, (b) failure to invite the FDA in for re-inspection of the Decatur manufacturing facilities by June 1, 2002, (c) failure to make a written response, within 10 days, to the FDA, with a copy to the lender, to any written communication received from the FDA after January 1, 2002 that raises any deficiencies, (d) imposition of fines against the Company in an aggregate amount greater than $250,000, (e) a cessation in public trading of the Company's stock other than a cessation of trading generally in the United States securities market, (f) restatement of or adjustment to the operating results of the Company in an amount greater than $27,000,000, (g) failure to enter into an engagement letter with an investment banker for the underwriting of an offering of equity securities by June 15, 2002, (h) failure to not be party to an engagement letter at any time after June 15, 2002 or (i) experience any material adverse action taken by the FDA, the SEC, the DEA or any other governmental authority based on an alleged failure to comply with laws or regulations. The Credit Agreement required a minimum payment of $5.6 million, which relates to an estimated federal tax refund, with the balance of $39.2 million due June 30, 2002. The Company remitted the $5.6 million payment on May 8, 2002. The Company is also obligated to remit any additional federal tax refunds received above the estimated $5.6 million.

The Company's senior lenders agreed to extend the Credit Agreement, as amended, to July 31, 2002 and then again to August 31, 2002. These two extensions contain the same covenants and reporting requirements except that the Company is not required to comply with conditions (g) and (h) which relate to the offering of equity securities. In both instances, the balance of $39.2 million was due at the end of the extension term.

On September 16, 2002, the Company was notified by its senior lenders that it was in default due to failure to pay the principal and interest owed as of August 31, 2002 under the then most recent extension of the Credit Agreement. The senior lenders also notified the Company that they would forbear from exercising their remedies under the Credit Agreement until January 3, 2003 if a forbearance agreement could be reached.

On September 20, 2002, the Company and its senior lenders entered into an agreement under which the senior lenders would agree to forbear from exercising their remedies (the "Forbearance Agreement") and the Company acknowledged its current default. The Forbearance Agreement provides a second line of credit allowing the Company to borrow the lesser of (i) the difference between the Company's outstanding indebtedness to the senior lenders and $39,200,000, (ii) the Company's borrowing base and (iii) $1,750,000, to fund the Company's day-to-day operations. The Forbearance Agreement requires that, except for existing defaults, the Company continue to comply with all of the covenants in the Credit Agreement and provides for certain additional restrictions on operations and additional reporting requirements. The Forbearance Agreement also requires automatic application of cash from the Company's operations to repay borrowings under the new revolving loan, and to reduce the Company's other obligations to the senior lenders.

The Company, as required in the Forbearance Agreement, agreed to provide the senior lenders with a plan for restructuring its financial obligations on or before December 1, 2002, and agreed to retain a consulting firm by September 27, 2002 to assist in the development and execution of this restructuring plan and, in furtherance of that commitment, on September 26, 2002, the Company entered into an agreement (the

"Consulting Agreement") with a consulting firm (AEG Partners, LLC (the "Consultant")) whereby the Consultant would assist in the development and execution of this restructuring plan and provide oversight and direction to the Company's day-to-day operations. On November 18, 2002, the Consultant notified the Company of its intent to resign from the engagement effective December 2, 2002, based upon the Company's alleged failure to cooperate with the Consultant, in breach of the Consulting Agreement. The Company's senior lenders, upon learning of the Consultant's action, notified the Company by letter dated November 18, 2002, that, as a result of the Consultant's resignation, the Company was in default under terms of the Forbearance Agreement and the Credit

Agreement and demanded payment of all outstanding principal and interest on the loan. This notice was followed by a second letter dated November 19, 2002, in which the senior lenders gave notice of their exercise of certain remedies available under the Credit Agreement including, but not limited to, their setting off the Company's deposits with the senior lenders against the Company's obligations to the senior lenders. The Company immediately entered into discussions with the Consultant which led, on November 21, 2002, to the Consultant rescinding its notification of resignation and to the senior lenders withdrawing their demand for payment and restoring the Company's accounts.

During the Company's discussions with the Consultant, the Company agreed to establish a special committee of the Board (the "Corporate Governance Committee") consisting of Directors Ellis and Bruhl, with Mr. Ellis serving as Chairman. The Consultant will interface with the Corporate Governance Committee regarding the Company's restructuring actions. The Company also agreed that the Consultant will oversee the Company's interaction with all regulatory agencies including, but not limited to, the FDA. In addition, the Company has agreed to a "success fee" arrangement with the Consultant. Under terms of the arrangement, if the Consultant is successful in obtaining an extension to January 1, 2004 or later on the Company's senior debt, the Consultant will be paid a cash fee equal to 1 1/2% of the amount of the senior debt which is refinanced or restructured. Additionally, the success fee arrangement provides that the Company will issue 1,250,000 warrants to purchase common stock at an exercise price of $1.00 per warrant share to the Consultant upon the date on which each of the following conditions have been met or waived by the Company: (i) the Forbearance Agreement shall have been terminated, (ii) the Consultant's engagement pursuant to the Consulting Agreement shall have been terminated and (iii) the Company shall have executed a new or restated multi-year credit facility. All unexercised warrants shall expire on the fourth anniversary of the date of issuance.

As required by the Forbearance Agreement, a restructuring plan was developed by the Company and the Consultant and presented to the Company's senior lenders in December 2002. The restructuring plan requested that the senior lenders convert the Company's senior debt to a term note that would mature no earlier than February 2004 and increase the current line of credit from $1.75 million to $3 million to fund operations and capital expenditures. In light of the FDA's re-inspection of the Decatur facility in early December 2002, the Company and the senior lenders agreed to defer further discussions of that request until completion of the re-inspection and the Company's response thereto. As a result, the senior lenders have agreed to successive short-term extensions of the Forbearance Agreement, the latest of which is an eleventh amendment to the Forbearance Agreement expiring on June 30, 2003. Following completion of the FDA inspection of the Decatur facility on February 6, 2003 and issuance of the FDA findings, the senior lenders have indicated that they are not willing to convert the senior debt to a term loan but discussions continue regarding a possible increase in the revolving line of credit. As required by the Company's senior lenders, on May 9, 2003, the Company engaged Leerink Swann as an investment banking firm, to assist in raising additional financing and explore other strategic alternatives for repaying the senior bank debt. Subject to the absence of any additional defaults and subject to the senior lenders' satisfaction with the Company's progress in resolving the matters raised by the FDA and in obtaining additional financing and exploring other strategic alternatives, the Company expects to continue obtaining short-term extensions of the Forbearance Agreement. However, the can be no assurances that the Company will be successful in obtaining further extensions of the Forbearance Agreement beyond June 30, 2003.

The Company is also a party to governmental proceedings by the FDA (See Note M -- "Commitments and Contingencies"). While the Company is cooperating with the FDA and seeking to resolve the pending matter, an unfavorable outcome in such proceeding may have a material impact on the Company's operations

and its financial condition, results of operations and/or cash flows and, accordingly, may constitute a material adverse action that would result in a covenant violation under the Credit Agreement.

In the event that the Company is not in compliance with the Credit Agreement covenants and does not negotiate amended covenants or obtain a waiver thereof, then the senior lenders, at their option, may demand immediate payment of all outstanding amounts due and exercise any and all available remedies, including, but not limited to, foreclosure on the Company's assets.

On July 12, 2001 as required under the terms of the Prior Agreement, the Company entered into a $5,000,000 subordinated debt transaction with the John N. Kapoor Trust dtd. 9/20/89 (the "Trust"), the sole trustee and sole beneficiary of which is Dr. John N. Kapoor, the Company's Chairman of the Board of Directors. The transaction is evidenced by a Convertible Bridge Loan and Warrant Agreement (the "Trust Agreement") in which the Trust agreed to provide two separate tranches of funding in the amounts of $3,000,000 ("Tranche A" which was received on July 13, 2001) and $2,000,000 ("Tranche B" which was received on August 16, 2001). As part of the consideration provided to the Trust for the subordinated debt, the Company issued the Trust two warrants which allow the Trust to purchase 1,000,000 shares of common stock at a price of $2.85 per share and another 667,000 shares of common stock at a price of $2.25 per share. The exercise price for each warrant represented a 25% premium over the share price at the time of the Trust's commitment to provide the subordinated debt. All unexercised warrants expire on December 20, 2006.

Under the terms of the Trust Agreement, the subordinated debt bears interest at prime plus 3%, which is the same rate the Company pays on its senior debt. Interest cannot be paid to the Trust until the repayment of the senior debt pursuant to the terms of a subordination agreement, which was entered into between the Trust and the Company's senior lenders. Should the subordination agreement be terminated, interest may be paid sooner. The convertible feature of the Trust Agreement, as amended, allows for conversion of the subordinated debt plus interest into common stock of the Company, at a price of $2.28 per share of common stock for Tranche A and $1.80 per share of common stock for Tranche B.

The Company, in accordance with APB Opinion No. 14, recorded the subordinated debt transaction such that the convertible debt and warrants have been assigned independent values. The fair value of the warrants was 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 79%, (iii) risk free rate of 4.75%, and (iv) expected life of 5 years. As a result, the Company assigned a value of $1,516,000 to the warrants and recorded this amount as additional paid in capital. In accordance with EITF Abstract No. 00-27, the Company has also computed and recorded a value related to the "intrinsic" value of the convertible debt. This calculation determines the value of the embedded conversion option within the debt that has become beneficial to the owner as a result of the application of APB Opinion No. 14. This value was determined to be $1,508,000 and was recorded as additional paid in capital. The remaining $1,976,000 was recorded as long-term debt. The resultant debt discount of $3,024,000, equivalent to the value assigned to the warrants and the "intrinsic" value of the convertible debt, is being amortized and charged to interest expense over the life of the subordinated debt.

In December 2001, the Company entered into a $3,250,000 five-year loan with NeoPharm, Inc. ("NeoPharm") to fund the Company's efforts to complete its lyophilization facility located in Decatur, Illinois. Under the terms of the Promissory Note, dated December 20, 2001, interest accrues at the initial rate of 3.6% and will be reset quarterly based upon NeoPharm's average return on its cash and readily tradable long and short-term securities during the previous calendar quarter. The principal and accrued interest is due and payable on or before maturity on December 20, 2006. The note provides that the Company will use the proceeds of the loan solely to validate and complete the lyophilization facility located in Decatur, Illinois. The Promissory Note is subordinated to the Company's senior debt but is senior to the Company's subordinated debt owed to the Trust. The note was executed in conjunction with a Processing Agreement that provides NeoPharm with the option of securing at least 15% of the capacity of the Company's lyophilization facility each year. Dr. John N. Kapoor, the Company's chairman is also chairman of NeoPharm and holds a substantial stock position in NeoPharm as well as in the Company.

NOTE G -- FINANCING ARRANGEMENTS -- (CONTINUED)

Contemporaneous with the completion of the Promissory Note between the Company and NeoPharm, the Company entered into an agreement with the Trust, which amended the Trust Agreement. The amendment extended the Trust Agreement to terminate concurrently with the Promissory Note on December 20, 2006. The amendment also made it possible for the Trust to convert the interest accrued on the $3,000,000 tranche into common stock of the Company. Previously, the Trust could only convert the interest accrued on the $2,000,000 tranche. The terms of the agreement to change the convertibility of the Tranche A interest and the convertibility of the Tranche B interest for the extension of the term require

shareholder approval to be received by August 31, 2002, which was subsequently extended to June 30, 2003. If the Company's shareholders do not approve these changes, the Company would be in default under the Trust Agreement and, at the option of the Trust; the Subordinated Debt could be accelerated and become due and payable on June 30, 2003. Any default under the Trust Agreement would constitute an event of default under both the Credit Agreement and the NeoPharm Promissory Note. In the event of default, amounts due under the Credit Agreement and the NeoPharm Promissory Note could be declared to be due and payable, notwithstanding the Forbearance Agreement which is presently in place between the Company and its senior lender. The Company expects that it will reach agreement with the Trust to extend, if necessary, the shareholder approval date until the next shareholders' meeting.

In June 1998, the Company entered into a $3,000,000 mortgage agreement with Standard Mortgage Investors, LLC of which there were outstanding borrowings of $1,917,000 and $2,189,000 at December 31, 2002 and 2001, respectively. The principal balance is payable over 10 years, with the final payment due in June 2007. The mortgage note bears an interest rate of 7.375% and is secured by the real property located in Decatur, Illinois.

NOTE H -- LEASING ARRANGEMENTS

The Company leased certain equipment under capital lease arrangements that expired in 2000. Depreciation expense provided on these assets was $109,000 for the year ended December 31, 2000.

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 $1,838,000, $1,841,000, and $1,159,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

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

Year ending December, 31	
2003	$1,524
2004	1,469
2005	1,479
2006	1,985
2007 and thereafter	871
Total	$7,328

The Company currently sublets portions of its leased space. Rental income under these subleases was $55,000, $56,000 and $227,000 in 2002, 2001 and 2000, respectively.

NOTE I -- STOCK OPTIONS AND EMPLOYEE STOCK PURCHASE PLAN

Under the 1988 Incentive Compensation Program (the "Incentive Program") any officer or key employee of the Company is eligible to receive options as designated by the Company's Board of Directors. As of December 31, 2002, 4,600,000 shares of the Company's Common Stock are reserved for issuance under the Incentive Program. The exercise price of the options granted under the Incentive Program may not be less than 50 percent of the fair market value of the shares subject to the option on the date of grant, as determined by the Board of Directors. All options granted under the Incentive Program during the years ended

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

December 31, 2002, 2001 and 2000 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"),

which expired in December 2001, persons elected as directors of the Company were granted nonqualified options at the fair market value of the shares subject to option on the date of the grant. As of December 31, 2002, 500,000 shares of the Company's Common Stock are reserved for issuance under the Directors' Plan. Options granted under the Directors' Plan vest immediately and expire five years from the date of grant.

A summary of the status of the Company's stock options as of December 31, 2002, 2001 and 2000 and changes during the years ended December 31, 2002, 2001 and 2000 is presented below (shares in thousands):

	YEAR ENDED DECEMBER 31,					
	2002		2001		2000	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of period.....	3,226	$3.72	1,827	$4.78	1,901	$3.64
Granted.....	1,131	$2.23	2,039	$3.05	644	$6.80
Exercised.....	(92)	$2.19	(175)	$2.48	(576)	$3.14
Expired/Canceled.....	(976)	$4.82	(465)	$5.40	(142)	$5.30
Outstanding at end of period.....	3,289	$2.93	3,226	$3.72	1,827	$4.78
Options exercisable at end of period.....	1,940	$3.10	1,735	$3.92	1,054	$4.08
Options available for future grant.....	1,349		1,660		1,234	
Weighted average fair value of options granted during the period.....		$1.56		$2.02		$5.17

The fair value of each option granted during the year ended December 31, 2002 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 86%, (iii) risk-free interest rate of 4.4% and (iv) expected life of 5 years.

The fair value of each option granted during the year ended December 31, 2001 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 79%, (iii) risk-free interest rate of 4.4% and (iv) expected life of 5 years.

The fair value of each option granted during the year ended December 31, 2000 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 98%, (iii) risk-free interest rate of 5.0% and (iv) expected life of 5 years.

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

The following table summarizes information about stock options outstanding at December 31, 2002 (shares in thousands):

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING DECEMBER 31, 2002	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 2002	WEIGHTED AVERAGE EXERCISE PRICE
$0.70 -- $1.00.....	208	4.6 years	$0.98	52	$0.98
$1.20 -- $1.25.....	392	4.7 years	$1.20	98	$1.20
$1.74 -- $2.24.....	268	3.4 years	$2.05	254	$2.05
$2.25 -- $2.99.....	1,070	3.4 years	$2.32	785	$2.32
$3.00 -- $4.00.....	765	4.0 years	$3.48	331	$3.48
$4.06 -- $4.82.....	169	1.2 years	$4.26	159	$4.24
$5.00 -- $5.57.....	223	2.9 years	$5.35	128	$5.38
$6.06 -- $6.25.....	93	2.2 years	$6.23	67	$6.24
$7.71 -- $8.38.....	50	1.2 years	$7.96	41	$7.99
$9.31 -- $11.88.....	30	2.5 years	$9.93	25	$9.85
	3,289			1,940	

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

Had compensation cost for the Company's stock-based compensation plans been determined based on SFAS No. 123, the Company's loss and net income loss per share for the years ended December 31, 2002, 2001 and 2000 would have been the pro forma amounts indicated below (in thousands, except per share amounts):

	2002	2001	2000
Net Loss, as reported	$(12,952,000)	$(15,146,000)	$(2,414,000)
Add stock based employee compensation expense, included in reported net loss, net of tax	--	--	--
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax	$ (1,665,000)	$ (1,754,000)	$(1,766,000)
Pro forma net loss	$(14,617,000)	$(16,900,000)	$(4,180,000)
Basic and diluted loss per share of common stock			
As reported	$ (0.66)	$ (0.78)	$ (0.13)
Pro forma	$ (0.75)	$ (0.87)	$ (0.22)

The Akorn, Inc. Employee Stock Purchase Plan permits eligible employees to acquire shares of the Company's common stock through payroll deductions not exceeding 15% of base wages, at a 15% discount from market price. A maximum of 1,000,000 shares of the Company's common stock may be acquired under the terms of the Plan. Purchases of shares issued from treasury stock approximated 7,000 shares during the year ended December 31, 1999. New shares issued under the plan approximated 99,267 in 2002, 44,000 in 2001 and 20,000 in 2000.

NOTE J -- INCOME TAXES

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

	CURRENT	DEFERRED	TOTAL
Year ended December 31, 2002			
Federal	$ (293)	$ 3,585	$ 3,292
State	613	2,334	2,947
	$ 320	$ 5,919	$ 6,239
Year ended December 31, 2001			
Federal	$(6,714)	$ (746)	$(7,460)
State	(253)	(2,067)	(2,320)
	$(6,967)	$(2,813)	$(9,780)
Year ended December 31, 2000			
Federal	$ 1,680	$(3,186)	$(1,506)
State	395	(489)	(94)
	$ 2,075	$(3,675)	$(1,600)

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

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Computed "expected" tax expense (benefit)	$(2,283)	$(8,475)	$(1,365)
Change in income taxes resulting from:			
State income taxes, net of federal income tax	(323)	(1,245)	(185)
Valuation allowance change	9,216	--	--
Other, net	(371)	(60)	(50)
Income tax expense (benefit)	$ 6,239	$(9,780)	$(1,600)

Deferred tax assets at December 31, 2002 and 2001 include (in thousands):

	DECEMBER 31, 2002	DECEMBER 31, 2001
Deferred tax assets:		
Other accrued expenses	$ 469	$ 2,537
Intangible assets	490	525
Net operating loss carry forwards	9,295	5,052
Other	2,431	571
	$12,685	$ 8,685
Valuation allowance	(9,216)	--
	$ 3,469	$ 8,685
Deferred tax liabilities:		
Property, plant and equipment, net	(2,669)	(2,593)
Intangible assets	--	(15)
Other	(800)	(158)
	$(3,469)	$(2,766)
Net	$ 0	$ 5,919

NOTE J -- INCOME TAXES -- (CONTINUED)

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

	DECEMBER 31, 2002	DECEMBER 31, 2001
Deferred tax asset -- current	$0	$2,069
Deferred tax asset -- noncurrent	0	3,850
	$0	$5,919

The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In performing its analysis of whether a valuation allowance to reduce the deferred tax asset was necessary, the Company considered both negative and positive evidence. Based upon this analysis, the negative evidence outweighed the positive evidence in determining the amount of the deferred tax assets that is more likely than not to be realized. Based upon its above analysis, beginning with the September 30, 2002 deferred tax assets, the Company established a valuation allowance to reduce the deferred tax assets to zero. The expense of $9.2 million related to establishing the deferred tax assets valuation allowance has been recorded in the income tax provision (benefit). The Company's net operating loss carry

forwards expire in 2021.

NOTE K -- RETIREMENT PLAN

All employees who have attained the age of 21 are eligible for participation in the Company's 401(k) Plan. The plan-related expense recognized for the years ended December 31, 2002, 2001 and 2000 totaled $242,000, $234,000 and $285,000, respectively. The employer's matching contribution is a percentage of the amount contributed by each employee and is funded on a current basis.

NOTE L -- SEGMENT INFORMATION

The Company classifies its operations into three business segments, Ophthalmic, Injectable and Contract Services. The Ophthalmic segment manufactures, markets and distributes diagnostic and therapeutic pharmaceuticals. The Injectable segment manufactures, markets and distributes injectable pharmaceuticals, primarily in niche markets. The Contract Services segment manufactures products for third party pharmaceutical and biotechnology customers based on their specifications. The Company's basis of accounting in preparing its segment information is consistent with that used in preparing its consolidated financial statements.

NOTE L -- SEGMENT INFORMATION -- (CONTINUED)

Selected financial information by industry segment is presented below (in thousands):

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Revenues			
Ophthalmic	$29,579	$ 16,936	$27,713
Injectable	12,977	9,663	24,998
Contract Services	8,863	14,946	13,510
Total revenues	$51,419	$ 41,545	$66,221
Gross profit			
Ophthalmic	$13,917	$ (751)	$ 8,743
Injectable	5,955	2,739	16,089
Contract Services	665	4,410	3,299
Total gross profit	20,537	6,398	28,131
Operating expenses	24,102	27,472	29,862
Total operating loss	(3,565)	(21,074)	(1,731)
Interest and other expense, net	(3,148)	(3,852)	(2,283)
Loss before income taxes	$(6,713)	$(24,926)	$(4,014)

The Company manages its business segments to the gross profit level and manages its operating costs on a company-wide basis. The Company does not identify assets by segment for internal purposes.

NOTE M -- COMMITMENTS AND CONTINGENCIES

On March 27, 2002, the Company received a letter informing it that the staff of the SEC's regional office in Denver, Colorado, would recommend to the SEC that it bring an enforcement action against the Company and seek an order requiring the Company to be enjoined from engaging in certain conduct. The staff alleged that the Company misstated its income for fiscal years 2000 and 2001 by allegedly failing to reserve for doubtful accounts receivable and overstating its accounts receivable balance as of December 31, 2000. The Company had originally recorded a $7.5 million increase to the allowance for doubtful accounts in its quarter ended March 31, 2001. The staff alleged that internal control and books and records deficiencies prevented the Company from accurately recording, reconciling and aging its accounts receivables. The Company also

learned that certain of its former officers, as well as a current employee had received similar notifications. Subsequent to the issuance of the Company's consolidated financial statements for the year ended December 31, 2001, management of the Company determined it needed to restate the Company's financial statements for 2000 and 2001 to record a $7.5 million increase to the allowance for doubtful accounts as of December 31, 2000, which it had originally recorded as of March 31, 2001. See Note S -- "Subsequent Events".

The Company was party to a License Agreement with JHU/APL effective April 26, 2000, and amended effective July 15, 2001 (See Note C -- "Product and Other Acquisitions"). Pursuant to the License Agreement, the Company licensed two patents from JHU/APL for the development and commercialization of a diagnosis and treatment for age-related macular degeneration ("AMD") using Indocyanine Green ("ICG"). A dispute arose between the Company and JHU/APL concerning the License Agreement. Specifically, JHU/APL challenged the Company's performance required by December 31, 2001 under the License Agreement and alleged that the Company was in breach of the License Agreement. The Company denied JHU/APL's allegations and contended that it had performed in accordance with the terms of the License Agreement. As a result of the dispute, on March 29, 2002, the Company commenced a lawsuit in the U.S. District Court for the Northern District of Illinois, seeking declaratory and other relief against

NOTE M -- COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

JHU/APL. On July 3, 2002, the Company reached an agreement with JHU/APL with regard to the dispute that had risen between the two parties. The Company and JHU/APL mutually agreed to terminate their license agreement. As a result, the Company no longer has any rights to the JHU/APL patent rights as defined in the License Agreement. In exchange for relinquishing its rights to the JHU/APL patent rights, the Company received an abatement of the $300,000 due to JHU/APL at March 31, 2002 and a payment of $125,000 to be received by August 3, 2002. The Company also has the right to receive 15% of all cash payments and 20% of all equity received by JHU/APL from any license of the JHU/APL patent rights less any cash or equity returned by JHU/APL to such licensee. The combined total of all such cash and equity payments are not to exceed $1,025,000. The $125,000 payment is considered an advance towards cash payments due from JHU/APL and will be credited against any future cash payments due the Company as a result of JHU/APL's licensing efforts. As a result of the resolved dispute discussed above, the Company recorded an asset impairment charge of $1,559,500 in the second quarter of 2002. The impairment amount represents the net value of the asset recorded on the balance sheet of the Company less the $300,000 payment abated by JHU/APL and the $125,000 payment from JHU/APL. The $125,000 payment was received on August 3, 2002.

In the fourth quarter of 2002, the Company learned that JHU/APL had licensed their two patents related to AMD to Novadaq Technologies, Inc. ("Novadaq"). In connection with the settlement of a prior dispute with Novadaq in January 2002 (as discussed below), the Company had previously acquired an equity interest in Novadaq. Pursuant to the settlement with JHU/APL, the Company is entitled to 20% of all equity received by JHU/APL from any license of the patent rights. Therefore, the Company received an additional 132,000 shares of Novadaq, valued at $23,000 which was recorded as a gain in the fourth quarter of 2002.

In October 2000, the FDA issued a warning letter to the Company following the FDA's routine cGMP inspection of the Company's Decatur manufacturing facilities. An FDA warning letter is intended to provide notice to a company of violations of the laws administered by the FDA. Its primary purpose is to elicit voluntary corrective action. The letter warns that if voluntary action is not forthcoming, the FDA may use other legal means to compel compliance. These include seizure of products and/or injunction of the Company and responsible individuals. This letter addressed several deviations from regulatory requirements including cleaning validations and general documentation and requested corrective actions be undertaken by the Company. The Company initiated corrective actions and responded to the warning letter. Subsequently, the FDA conducted another inspection in late 2001 and identified additional deviations from regulatory requirements, including cleaning validations and process control issues. This led to the FDA leaving the warning letter in place and issuing a Form 483 to document its findings. While no further correspondence was received from the FDA, the Company responded to the inspectional findings. This response described the Company's plan for addressing the issues raised by the FDA and included improved cleaning validation, enhanced process controls and

approximately $2.0 million of capital improvements. In August 2002, the FDA conducted an inspection of the Decatur facility and identified deviations from cGMPs. The Company responded to these observations in September 2002. In response to the Company's actions, the FDA conducted another inspection of the Decatur facility during the period December 10, 2002 to February 6, 2003. This inspection identified deviations from regulatory requirements including the manner in which the Company processes and investigates manufacturing discrepancies and failures, customer complaints and the thoroughness of equipment cleaning validations. Deviations identified during this inspection had been raised in previous FDA inspections. The Company has responded to these latest findings in writing and in a meeting with the FDA in March 2003. The Company set forth its plan for implementing comprehensive corrective actions, has provided a progress report to the FDA on April 15 and May 15, 2003 and has committed to providing the FDA an additional periodic report of progress on June 15, 2003.

As a result of the latest inspection and the Company's response, the FDA may take any of the following actions: (i) accept the Company's reports and response and take no further action against the Company; (ii) permit the Company to continue its corrective actions and conduct another inspection (which likely would not occur before the fourth quarter of 2003) to assess the success of these efforts; (iii) seek to enjoin the Company from further violations, which may include temporary suspension of some or all operations and

potential monetary penalties; or (iv) take other enforcement action which may include seizure of Company products. At this time, it is not possible to predict the FDA's course of action.

The Company believes that unless and until the FDA chooses option (i) or, in the case of option (ii), unless and until the issues identified by the FDA have been successfully corrected and the corrections have been verified through reinspection, it is doubtful that the FDA will approve any NDAs or ANDAs that may be submitted by the Company. This has adversely impacted, and is likely to continue to adversely impact the Company's ability to grow sales. However, the Company believes that unless and until the FDA chooses option (iii) or (iv), the Company will be able to continue manufacturing and distributing its current product lines.

If the FDA chooses option (iii) or (iv), such action could significantly impair the Company's ability to continue to manufacture and distribute its current product line and generate cash from its operations, could result in a covenant violation under the Company's senior debt or could cause the Company's senior lenders to refuse further extensions of the Company's senior debt any or all of which, would have a material adverse effect on the Company's liquidity. Any monetary penalty assessed by the FDA also could have a material adverse effect on the Company's liquidity. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation -- Financial Condition and Liquidity".

On March 6, 2002, the Company received a letter from the United States Attorney's Office, Central District of Illinois, Springfield, Illinois, advising the Company that the DEA had referred a matter to that office for a possible civil legal action for alleged violations of the Comprehensive Drug Abuse Prevention Control Act of 1970, 21 U.S.C.& 801, et. seq. and regulations promulgated under the Act. The alleged violations relate to record keeping and controls surrounding the storage and distribution of controlled substances. On November 6, 2002, the Company entered into a Civil Consent Decree with the DEA. Under terms of the Consent Decree, the Company, without admitting any of the allegations in the complaint from the DEA, has agreed to pay a fine of $100,000, upgrade its security system and to remain in substantial compliance with the Comprehensive Drug Abuse Prevention Control Act of 1970. If the Company does not remain in substantial compliance during the two-year period following the entry of the civil consent decree, the Company, in addition to other possible sanctions, may be held in contempt of court and ordered to pay an additional $300,000 fine.

On August 9, 2001, the Company was served with a Complaint, which had been filed on August 8, 2001 in the United States District Court for The Northern District of Illinois, Eastern Division. The suit named the Company as well as Mr. Floyd Benjamin, the former president and chief executive officer of the Company, and Dr. John N. Kapoor, the Company's current chairman of the board and

the then interim chief executive officer, as defendants. The suit, which was filed by Michelle Golumbski, individually, and on behalf of all others similarly situated, alleged various violations of the federal securities laws in connection with the Company's public statements and filings with the SEC during the period from February 20, 2001 through May 22, 2001. The plaintiff subsequently voluntarily dismissed her claims against Akorn, Inc., Mr. Floyd Benjamin and Dr. John N. Kapoor, and, in exchange for the Company's consent to this voluntary dismissal, also provided, through counsel, a written statement that the plaintiff would not reassert her claims against any of the defendants in any subsequent actions. The Company did not provide the plaintiff with any compensation in consideration for this voluntary dismissal.

On April 4, 2001, the International Court of Arbitration (the "ICA") of the International Chamber of Commerce notified the Company that Novadaq Technologies, Inc. ("Novadaq") had filed a Request for Arbitration with the ICA on April 2, 2001. Akorn and Novadaq had previously entered into an Exclusive Cross-Marketing Agreement dated July 12, 2000 (the "Agreement"), providing for their joint development and marketing of certain devices and procedures for use in fluorescein angiography (the "Products"). Akorn's drug indocyanine green ("ICG") would be used as part of the angiographic procedure. The FDA had requested that the parties undertake clinical studies prior to obtaining FDA approval. In its Request for Arbitration, Novadaq asserted that under the terms of the Agreement, Akorn should be responsible for the costs of performing the requested clinical trials, which were estimated to cost approximately $4,400,000.

NOTE M -- COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

Alternatively, Novadaq sought a declaration that the Agreement should be terminated as a result of Akorn's alleged breach. Finally, in either event, Novadaq sought unspecified damages as a result of the alleged failure or delay on Akorn's part in performing its obligations under the Agreement. In its response, Akorn denied Novadaq's allegations and alleged that Novadaq had breached the agreement. On January 25, 2002, the Company and Novadaq reached a settlement of the dispute. Under terms of a revised agreement entered into as part of the settlement, Novadaq will assume all further costs associated with development of the technology. The Company, in consideration of foregoing any share of future net profits, obtained an equity ownership interest in Novadaq and the right to be the exclusive supplier of ICG for use in Novadaq's diagnostic procedures. In addition, Antonio R. Pera, Akorn's then President and Chief Operating Officer, was named to Novadaq's Board of Directors. In conjunction with the revised agreement, Novadaq and the Company each withdrew their respective arbitration proceedings. Subsequent to the resignation of Mr. Pera on June 7, 2002, the Company named Bernard J. Pothast, its Chief Financial Officer, to fill the vacancy on the Novadaq Board of Directors created by his departure.

On December 19, 2002 and January 22, 2003, the Company received demand letters regarding claimed wrongful deaths allegedly associated with the use of the drug Inapsine, which the Company produced. The total claims of these two items total $3.8 million. The Company has just begun the investigation of the facts and circumstances surrounding these claims and cannot as of yet determine the potential liability, if any, from these claims. The Company has submitted these claims to its product liability insurance carrier. The Company intends to vigorously defend itself in regards to these claims.

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

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

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
Interest and taxes paid:			

Interest (net of amounts capitalized)	$3,150	$3,308	$2,596
Income taxes	613	38	1,625
Noncash investing and financing activities:			
Intangible asset received in exchange for research equipment	--	100	--
Reduction of liability in exchange for intangible asset	300	--	--
Investment in Novadaq received in exchange for intangible asset equipment	713	--	--

NOTE O -- RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivatives Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133, as amended by SFAS No. 137 and No. 138, was effective for the Company's fiscal 2001 financial statements and was adopted by the Company on January 1, 2001. Adoption of these standards did not have any effect on the Company's financial position or results of operations.

In June 2001, the FASB issued three statements, SFAS No. 141, "Business Combinations," SFAS No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 143, "Accounting for Asset Retirement Obligations."

NOTE O -- RECENT ACCOUNTING PRONOUNCEMENTS -- (CONTINUED)

SFAS No. 141 supercedes APB Opinion No. 16, "Business Combinations," and eliminates the pooling-of-interests method of accounting for business combinations, thus requiring all business combinations be accounted for using the purchase method. In addition, in applying the purchase method, SFAS No. 141 changes the criteria for recognizing intangible assets apart from goodwill. The following criteria is to be considered in determining the recognition of the intangible assets: (1) the intangible asset arises from contractual or other legal rights, or (2) the intangible asset is separable or dividable from the acquired entity and capable of being sold, transferred, licensed, rented, or exchanged. The requirements of SFAS No. 141 are effective for all business combinations initiated after June 30, 2001. The adoption of this new standard did not have any effect on the Company's financial statements.

SFAS No. 142 supercedes APB Opinion No. 17, "Intangible Assets," and requires goodwill and other intangible assets that have an indefinite useful life to no longer be amortized; however, these assets must be reviewed at least annually for impairment. The Company has adopted SFAS No. 142 as of January 1, 2002 and no impairments were recognized upon adoption.

SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Company has adopted SFAS No. 143 as of January 1, 2002. The adoption of this new standard did not have any effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement also supercedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 is effective January 1, 2002. The adoption of this new standard did not have any effect on the Company's financial statements upon adoption.

In April 2002, the FASB issued SFAS No. 145 "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical

Corrections." This statement updates, clarifies and simplifies existing accounting pronouncements. SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishments of Debt", which requires all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30 will now be used to classify those gains and losses. SFAS No. 64, "Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements", amended SFAS No. 4, is no longer necessary because SFAS No. 4 has been rescinded. SFAS No. 145 amends SFAS No. 13 "Accounting for Leases", to require that certain lease modifications that have economic effects similar to sale-leaseback transaction be accounted for in the same manner as sale-leaseback transactions. Certain provisions of SFAS No. 145 are effected for fiscal years beginning after May 15, 2002, while other provisions are effected for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 did not have a significant impact on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires the Company to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Company will adopt SFAS No. 146 for exit or disposal activities initiated after December 31, 2002. The adoption of this standard did not have a material effect on its financial statements.

NOTE O -- RECENT ACCOUNTING PRONOUNCEMENTS -- (CONTINUED)

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure, an amendment of FASB Statement No. 123". This Statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosure in both annual and interim financial statements. Certain of the disclosure requirements are required for fiscal years ending after December 15, 2002 and are included in the notes to the consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has determined that FIN 45 did not have any effect on the Company's financial statements for fiscal 2002.

In January, 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities", with the objective of improving financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the equity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns, or both. A company that consolidates a variable interest entity is called the "primary beneficiary" of that entity. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 1, 2003. The consolidation requirements of FIN 46 apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Also, certain

disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has determined that FIN 46 will not have an impact on its financial condition, results of operations or cash flows.

NOTE P -- CUSTOMER AND SUPPLIER CONCENTRATION

A small number of wholesale drug distributors account for a large portion of the Company's revenues. In 2002, sales to three wholesale drug distributors accounted for 57% of total gross sales, 42% of total revenues and approximately 61% of gross trade receivables as of December 31, 2002. Two customers each have accounted for more than 10% of the Company's revenues during 2002. During 2001, two customers of the Company, AmeriSource Health Corporation and Bergen Brunswig Corporation completed a merger to form a new combined entity, AmerisourceBergen Corporation ("AmerisourceBergen"). This new merged customer accounts for approximately 22% of the Company's 2002 revenues. In 2002, the Company realized approximately 12% of its revenues from Cardinal Health, Inc. ("Cardinal"). Both Cardinal and AmerisourceBergen are distributors of the Company's products as well as a distributor of a broad range of health care products for many companies. Neither company is an end user of the Company's products. If sales to either AmerisourceBergen or Cardinal were to diminish or cease, the Company believes that the end users of its products would find little difficulty obtaining the Company's products either directly from the Company or from another distributor. The accounts receivable balance for AmerisourceBergen and Cardinal were approximately

NOTE P -- CUSTOMER AND SUPPLIER CONCENTRATION -- (CONTINUED)

28% and 27% of gross trade receivables, respectively, as of December 31, 2002. No single customer accounted for more than 10% of the Company's revenues during 2001. During 2000, the Company realized approximately 12% of its revenues from Cardinal. The accounts receivable balance for Cardinal was approximately 22% of gross trade receivables at December 31, 2000.

No supplier of products accounted for more than 10% of the Company's purchases in 2002, 2001 or 2000. 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 the case of 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.

NOTE Q -- ASSET IMPAIRMENT CHARGES

In the third quarter of 2002, the Company recorded an impairment charge of $545,000 in selling, general and administration expenses, to write-off abandoned construction projects and dispose of certain other fixed assets.

During the third quarter of 2002, the Company recorded an impairment charge of $257,000 related to the product license intangible assets for the products Sublimaze, Inapsine, Paradrine and Dry Eye test. The Company determined that projected profitability on the products was not sufficient to support the carrying value of the intangible asset. The recording of this charge reduced the carrying value of the intangible assets related to these product licenses to zero. The charge is reflected in the selling, general and administrative expense category of the consolidated statement of operations.

In the second quarter of 2002, the Company settled a dispute with JHU/APL regarding a license agreement and the associated patent (See Note M -- "Commitments and Contingencies" in the notes to the consolidated financial statements) with a net carrying value of $1,559,500 which was written-off as an impaired intangible asset during the second quarter.

In May 2001, the Company discontinued one of its products due to uncertainty of product availability from a third-party manufacturer, rising manufacturing costs and delays in obtaining FDA approval to manufacture the product in-house. The Company recorded an asset impairment charge of $1,170,000 related to manufacturing equipment specific to the product and an asset impairment charge of $140,000 related to the remaining balance of the product acquisition intangible asset during the first quarter of 2001.

In November 2001, the Company decided to no longer sell one of its products due to unavailability of raw material at a competitive price and declining market share. The Company recorded an asset impairment charge of $725,000 related to the remaining balance of the product acquisition intangible asset during the fourth quarter of 2001.

NOTE R -- RESTRUCTURING CHARGES

During 2001, the Company adopted a restructuring program to properly size its operations to then current business conditions. These actions were designed to reduce costs and improve operating efficiencies. The program included, among other items, severance of employees, plant-closing costs related to the Company's San Clemente, CA sales office and rent for unused facilities under lease in San Clemente and Lincolnshire, IL. The restructuring, affecting all three business segments, reduced the Company's workforce by 50

NOTE R -- RESTRUCTURING CHARGES -- (CONTINUED)

employees, primarily sales and manufacturing related, representing 12.5% of the total workforce. Activities previously executed in San Clemente have been relocated to the Company's headquarters.

The restructuring program costs are included in selling, general and administrative expenses in the accompanying consolidated statement of operations and resulted in a charge to operations of approximately $1,117,000 consisting of severance costs of $398,000, lease costs of $625,000 and other costs of $94,000. At December 31, 2002, the amount remaining in the accruals for the restructuring program was approximately $40,000. Approximately $589,000 of the restructuring accrual was paid by December 31, 2001 ($181,000 severance, $314,000 lease costs, $94,000 other) and the remainder was paid by June 30, 2002, except for $176,000 in lease costs that continued through February of 2003.

NOTE S -- SUBSEQUENT EVENTS

On February 27, 2003, the Company reached an agreement in principle with the staff of the SEC's regional office in Denver, Colorado, that would resolve the issues arising from the staff's investigation and proposed enforcement action as discussed above. The Company has offered to consent to the entry of an administrative cease and desist order as proposed by the staff, without admitting or denying the findings set forth therein. The proposed consent order finds that the Company failed to promptly and completely record and reconcile cash and credit remittances, including from its top five customers, to invoices posted in its accounts receivable sub-ledger. According to the findings in the proposed consent order, the Company's problems resulted from, among other things, internal control and books and records deficiencies that prevented the company from accurately recording, reconciling and aging its receivables. The proposed consent order finds that the Company's 2000 Form 10-K and first quarter 2001 Form 10-Q misstated its account receivable balance or, alternatively, failed to disclose the impairment of its accounts receivable and that its first quarter 2001 Form 10-Q inaccurately attributed the increased accounts receivable reserve to a change in estimate based on recent collection efforts, in violation of Section 13(a) of the Exchange Act and rules 12b-20, 13a-1 and 13a-13 thereunder. The proposed consent order also finds that the Company failed to keep accurate books and records and failed to devise and maintain a system of adequate internal accounting controls with respect to its accounts receivable in violation of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. The proposed consent order does not impose a monetary penalty against the Company or require any additional restatement of the Company's financial statements. The Company has recently become aware of and informed the SEC staff of certain weaknesses in its internal controls, which it is in the process of addressing. It is uncertain at this time what effect that these actions will have on the agreement in principle currently pending with the SEC staff. The proposed consent order does not become final until it is approved by the SEC. Accordingly, the Company may incur additional costs and expenses in connections

with this proceeding.

On December 18, 2002, Dr. John N. Kapoor submitted his resignation as Chief Executive Officer of the Company. Dr. Kapoor will remain Chairman of the Board of Directors of the Company. On February 17, 2003, Arthur S. Przybyl was named Interim Chief Executive Officer of the Company.

On February 18, 2003 the Company announced that it had received approval from the FDA for its Abbreviated New Drug Application ("ANDA") for Lidocaine Jelly, 2% ("Lidocaine Jelly"), a bioequivalent to Xylocaine Jelly (R), a product of AstraZeneca PLC used primarily as a topical anesthetic by urologists and hospitals. This product will be manufactured at the Company's Somerset, New Jersey facility.

In February of 2003, the Company recalled two products, Fluress and Fluoracaine, due to container/ closure integrity problems resulting in leaking containers. The recall has been classified by the FDA as a Class II recall, which means that the use of, or exposure to, a violative product may cause temporary or medically reversible adverse health consequences or that the probability of serious health consequences as the result of such use or exposure is remote. To date, the Company has not received any notification or complaints from end users of the recalled products. The financial impact to the Company of this recall is not expected to be material to the financial statements.

NOTE S -- SUBSEQUENT EVENTS -- (CONTINUED)

In March of 2003, as a result of the most recent FDA inspection, the Company recalled twenty-four lots of product produced from the period December 2001 to June 2002 in one of its production rooms at its Decatur, IL facility. The majority of the lots recalled were for third party contract customer products. Subsequent to this decision and after discussions with the FDA, eight of the original twenty-four lots have been exempted from the recall due to medical necessity. At this time, the FDA has not reached a conclusion on the classification of this recall. To date, the Company has not received any notification or complaints from end users of the recalled products. The Company believes the financial impact of this recall will not be material to the financial statements.

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

The Report on Form 8-K filed by the Company with the SEC on May 1, 2003 is hereby incorporated by reference.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the directors and executive officers of the Company as of April 15, 2003. Each officer serves as such at the pleasure of the Board of Directors.

NAME	AGE	ARTICLE II. POSITION WITH THE COMPANY
John N. Kapoor, Ph.D.	59	Director, Chairman of the Board
Arthur S. Przybyl.....	46	President and Interim Chief Executive Officer
Bernard J. Pothast.....	41	Sr. Vice President, Chief Financial Officer, Secretary and Treasurer
Daniel E. Bruhl, M.D.	60	Director
Doyle S. Gaw.....	71	Director
Jerry N. Ellis.....	65	Director
Ronald M. Johnson.....	57	Director

Dr. Bruhl, Mr. Gaw and Mr. Ellis comprise Akorn's audit committee. Dr.

Bruhl and Mr. Gaw comprise Akorn's compensation committee.

John N. Kapoor, Ph.D. Dr. Kapoor has served as Chairman of the Board of the Company since May 1995 and from December 1991 to January 1993. Dr. Kapoor served as Chief Executive Officer of the Company from March 2001 to December 2002. Dr. Kapoor also served as acting Chairman of the Board of the Company from April 1993 to May 1995 and Chief Executive Officer of the Company from May 1996 to November 1998. Dr. Kapoor serves as Chairman of the Board of Option Care, Inc. (an infusion services and supplies company) and was Chief Executive Officer of Option Care, Inc. from August 1993 to April 1996. Dr. Kapoor is the president of E.J. Financial Enterprises, Inc. (a health care consulting and investment company) and has served as Chairman of the Board of NeoPharm, Inc. (a specialty pharmaceutical company) since July 1990. Dr. Kapoor is a director of First Horizon Pharmaceutical Corporation (a distributor of pharmaceuticals) and of Introgen Therapeutics, Inc. (a gene therapy company).

Arthur S. Przybyl, Mr. Przybyl has served as interim Chief Executive Officer since February 2003, having served as President and Chief Operating Officer since September, 2002. Mr. Przybyl joined the company in August 2002 as senior vice president sales and marketing. Prior to joining Akorn, Mr. Przybyl served as president and chief executive officer for Hearing Innovations Inc., an innovative, start-up developer of medical devices for the profoundly deaf and tinnitus markets. Previous to that, he served as president and chief operating officer for Bioject, Inc., a NASDAQ company specializing in needle-free technology.

Bernard J. Pothast. Mr. Pothast has served as Senior Vice President of the Company since June 2002 and Vice President, Chief Financial Officer, Secretary and Treasurer of the Company since September 2001. From 1998 to 2001, he was Director of Financial Planning and Analysis of Moore North America (a business form printing company). From 1995 to 1998, Mr. Pothast was Director of Business Planning and Corporate Finance of GATX Corporation (a transportation and logistics company). From 1990 to 1995, he was Manager of Financial Reporting and Analysis for The Perseco Company (a packaging and logistics company). Mr. Pothast began his career at the public accounting firm of Ernst & Young. Mr. Pothast is also a director of Novadaq Technologies, Inc., a privately held research company.

Daniel E. Bruhl, M.D. Dr. Bruhl has served as a Director of the Company since 1983. Dr. Bruhl is an ophthalmologist, President of the Surgery Center of Fort Worth and a director of Medsynergies, Inc., (private ophthalmology practice management company). Dr. Bruhl was a director of Surgical Care Affiliates (outpatient surgery center company) from 1983 to 1996, when it merged with Healthsouth Corporation.

Doyle S. Gaw. Mr. Gaw has served as a Director of the Company since 1975. Mr. Gaw is a private investor.

Jerry N. Ellis. Mr. Ellis has served as a Director of the Company since 2001. Mr. Ellis is an Adjunct Professor in the Department of Accounting at The University of Iowa. Mr. Ellis was a consultant to Arthur

Andersen, LLP from 1994 to 2000 and a Partner at Arthur Andersen in the Dallas, Madrid and Chicago offices from 1973 to 1994. Mr. Ellis is a director of First Horizon Pharmaceutical Corporation (a distributor of pharmaceuticals).

Ronald M. Johnson. Mr. Johnson was appointed by the Board of Directors to the Board as of March 22, 2003. Mr. Johnson is currently Executive Vice President of Quintiles Consulting, a company which provides consulting services to pharmaceutical, medical device, biologic and biotechnology industries in their efforts to meet the regulatory requirements of the FDA. Prior to joining Quintiles in 1997, Mr. Johnson spent thirty years with the FDA holding various senior level positions primarily in the compliance and enforcement areas.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

During 2002, Mr. Przybyl and Mr. Pothast, both officers of the Company, failed to file timely with the SEC one Form 4 to report current transactions, as required by Section 16(a) of the Securities Exchange Act of 1934. All such transactions have been reported on amended statements or annual statements on Form 5.

ITEM 11. EXECUTIVE COMPENSATION

The following table summarizes the compensation paid by the Company for services rendered during the years ended December 31, 2002, 2001 and 2000 to each person who, during 2002, served as the chief executive officer of the Company and to each other executive officer of the Company whose total annual salary and bonus for 2002 exceeded $100,000 (each a "Named Executive Officer").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	TIME PERIOD	ANNUAL COMPENSATION SALARY	ANNUAL COMPENSATION BONUS(2)	LONG-TERM COMPENSATION SECURITIES UNDERLYING OPTIONS/SARS	ALL OTHER(1) COMPENSATION
John N. Kapoor(3).....	Year ended December 31, 2002	$ --	$ --	--	$ --
Chairman	Year ended December 31, 2001	2,083	--	500,000	--
	Year ended December 31, 2000	50,000	--	5,000	--
Arthur S. Przybyl(4).....	Year ended December 31, 2002	93,482	--	300,000	3,308
President and Interim	Year ended December 31, 2001	--	--	--	--
Chief Executive Officer	Year ended December 31, 2000	--	--	--	--
Antonio R. Pera(5).....	Year ended December 31, 2002	140,000	--	50,000	148,000
Former President and	Year ended December 31, 2001	145,186	--	500,000	12,591
Chief Operating Officer	Year ended December 31, 2000	--	--	--	--
Bernard J. Pothast(6).....	Year ended December 31, 2002	148,263	--	100,000	--
Sr. Vice President,	Year ended December 31, 2001	39,094	--	75,000	--
Chief Financial Officer, Secretary and Treasurer	Year ended December 31, 2000	--	--	--	--

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(1) Represents contributions to the Company's Savings and Retirement Plan, except as indicated in notes (4), (5), (6) and (7).

(2) There were no executive officer bonuses awarded for 2002, 2001 or 2000.

(3) Dr. Kapoor currently serves as Chairman and served as Chief Executive Officer of the Company from March 2001 to December 2002. In lieu of a salary for 2001, the Company issued Dr. Kapoor options to purchase 500,000 shares of the Company's common stock. Dr. Kapoor was not paid a salary or granted options in 2002.

(4) Mr. Przybyl became President and Chief Operating Officer on September 23, 2002. His "Other Compensation" for 2002 includes $3,307 for auto allowance. Mr. Przybyl became Interim Chief Executive Officer on February 17, 2003.

(5) Mr. Pera became President and COO of the Company on June 4, 2001. Mr. Pera's "Other Compensation" for 2002 includes $140,000 for severance, $6,000 for auto allowance and $2,000 for Company sponsored life insurance. His "Other Compensation" for 2001 includes $7,000 for auto allowance and $4,486 for Company sponsored life insurance. Mr. Pera's employment with the Company terminated June 7, 2002.

(6) Mr. Pothast has been Chief Financial Officer, Secretary and Treasurer of the Company since September 2001.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information with respect to stock options granted to each of the Named Executive Officers in the fiscal year ended December 31, 2002, including the potential realizable value over the five-year term of the options, based on assumed rates of stock appreciation of 5% and 10% of the market price of the underlying security on the date of grant, compounded annually. These assumed rates of appreciation comply with the rules of the SEC and do not represents Akorn's estimate of future stock price. Actual gains, if any, on stock option exercises will be dependent on the future performance of Akorn's common stock.

NAME	INDIVIDUAL GRANTS: NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	INDIVIDUAL GRANTS: PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM: 5%($)	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM: 10%($)
Arthur S. Przybyl.....	175,000(1)	40%	1.00	8/05/07	223,349	281,839
	125,000(1)		1.20	9/16/07	191,442	241,577
Antonio R. Pera.....	50,000(1)	40%	3.54	2/19/07	225,902	285,060
Bernard J. Pothast.....	25,000(1)	40%	3.54	2/19/07	112,901	142,530
	75,000(1)		1.20	9/16/07	114,865	144,946

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(1) Issued pursuant to the Amended and Restated 1988 Incentive Compensation Program.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FY-END OPTION/SAR VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/ SARS AT FY-END (#) EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FY-END ($)(1) EXERCISABLE/ UNEXERCISABLE
John N. Kapoor.....	5,000	$20,475	383,438/250,000	--/ --
Antonio R. Pera.....	--	--	550,000/ --	--/ --
Arthur S. Przybyl.....	--	--	75,000/125,000	12,500/50,000
Bernard J. Pothast.....	--	--	62,500/112,500	938/ 3,750

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(1) Value of Unexercised in-the-Money options calculated using the 12/31/02 closing price of $1.25.

EMPLOYMENT AGREEMENTS

In May 2001 the Company entered into an employment agreement with Mr. Pera pursuant to which Mr. Pera served as President and Chief Operating Officer of the Company. The employment agreement provides for an annual salary of $260,000, increased annually at the discretion of the Board of Directors, plus bonuses determined by a formula stated in the agreement. In addition, the employment agreement contains

restrictive covenants concerning the use of confidential information, non-competition and non-solicitation of the Company's employees, both during the term of and after termination of Mr. Pera's employment with the Company. Mr. Pera's employment with the Company terminated on June 7, 2002. In accordance with the employment agreement and the severance agreement executed at the time of his termination, the Company is committed to pay Mr. Pera salary continuance for one year, provide continuation of health benefits and fully vest all stock option grants.

In September 2001, Mr. Pothast received and accepted an employment offer letter for the position of Vice President Finance and Chief Financial Officer of the Company. His letter provides for an annual salary of $135,000 (to be increased to $150,000 following the Company's first full quarter of positive operating income), a discretionary bonus of up to 30% of his base salary, a grant of options to purchase 75,000 shares of the Company's common stock, severance for six months of his base salary if he is terminated without cause, and other customary benefits for employees of the Company.

In January 2003, Mr. Przybyl received and accepted an employment offer letter of the position of Interim Chief Executive Officer of the Company. His letter provides for an annual salary of $260,000, a discretionary bonus of up to 50% of his base salary, a grant of options to purchase 50,000 shares of the Company's common stock, severance for one year at his base salary if he is terminated without cause, and other customary benefits for employees of the

Company. The Company currently has no other employment agreements in place. In connection with his serving as interim Chief Executive Officer of the Company, the Company has provided to Mr. Przybyl supplemental indemnity assurances with respect to any claims associated with his execution, filing and submission Chief Executive Officer Certifications of SEC reports for periods preceding his direct supervision of financial and accounting matters.

COMPENSATION COMMITTEE INTERLOCKS

Dr. Bruhl and Mr. Gaw, who currently comprise the Compensation Committee, are each independent, non-employee directors of the Company. No executive officer of the Company served as a director or member of (i) the compensation committee of another entity in which one of the executive officers of such entity served on the Company's Compensation Committee, (ii) the board of directors of another entity in which one of the executive officers of such entity served on the Company's Compensation Committee, or (iii) the compensation committee of any other entity in which one of the executive officers of such entity served as a member of the Company's Board of Directors, during the year ended December 31, 2002.

COMPENSATION OF DIRECTORS

Each director who is not a salaried officer of the Company receives a fee for his services as a director of $2,500 per regular meeting of the Board of Directors, $500 per telephone meeting and $500 per committee meeting, plus reimbursement of his expenses related to those services

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 Company common stock on the day after each annual meeting of shareholders 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 vest immediately and expire five years from the date of grant. Upon joining the Board in 2001, Mr. Ellis was granted an option under the plan for 20,000 shares. 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.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors reviews, analyzes and makes recommendations related to compensation packages for the Company's executive officers, evaluates the performance of the Chief Executive Officer and the Chief Operating Officer and administers the grant of stock options under the Company's Incentive Compensation Program.

The Company's executive compensation policies are designed to (a) provide competitive levels of compensation to attract and retain qualified executives, (b) reward achievements in corporate performance, (c) integrate pay with annual and long-term performance goals and (d) align the interests of executives with the goals of shareholders.

Compensation paid to Company executives consists of salaries, annual cash incentive bonuses and long-term incentive opportunities in the form of stock options.

Salary

Mr. Przybyl's salary for 2002 was fixed in his employment offer letter at an annual rate of $260,000. Mr. Pera's salary for 2002 and 2001 was fixed in his employment agreement.

Incentive Bonus

Annual incentive compensation for executive officers during 2002, 2001 and 2000 was based on corporate earnings objectives as well as position-specific

performance objectives. There were no performance bonuses granted to executive officers for 2002 or 2001.

Stock Options

The Committee's practice with respect to stock options has been to grant options based upon the attainment of Company performance goals and to vest options based on the passage of time. The option grants noted in the compensation tables include grants upon initial employment and annual grants as well as grants issued under the Stock Option Plan for Directors to those named executive officers that are also directors.

It is the responsibility of the Committee to address the issues raised by tax laws under which certain non-performance based compensation in excess of $1 million per year paid to executives of public companies is non-deductible to the Company and to determine whether any actions with respect to this limit need to be taken by the Company. It is not anticipated that any executive officer of the Company will receive any compensation in excess of this limit.

SUBMITTED BY THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS
Daniel E. Bruhl, M.D. Doyle S. Gaw

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As of April 28, 2003, the following persons were directors, nominees, Named Executive Officers (as defined in "Executive Compensation" above), or others with beneficial ownership of five percent or more of the Company's common stock. The information set forth below has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 based upon information furnished to the Company or to the SEC by the persons listed. Unless otherwise noted the address of each of the following persons is 2500 Millbrook Drive, Buffalo Grove, Illinois 60089.

BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED	PERCENT OF CLASS
DIRECTORS AND NOMINEES		
John N. Kapoor, Ph.D.	9,198,146(1)	37.72%
Daniel E. Bruhl, M.D.	316,767(2)	1.61%
Doyle S. Gaw	107,860(2)	0.55%
Jerry N. Ellis	20,000(2)	0.10%
Ronald M. Johnson	--(3)	
NAMED EXECUTIVE OFFICERS		
Arthur S. Przybyl	94,947(4)	0.48%
Bernard J. Pothast	75,000(5)	0.38%
Directors and officers as a group (6 persons)	9,812,720(6)	39.88%
OTHER BENEFICIAL OWNERS		
Arjun C. Waney(7)	1,918,500	9.76%

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(1) Of such 9,198,146 shares, (i) 851,800 are owned directly by the John N. Kapoor Trust dated September 20, 1989 (the "Trust") of which Dr. Kapoor is the sole trustee and beneficiary, (ii) 3,395,000 are owned by EJ financial/Akorn Management, L.P. of which Dr. Kapoor is managing general partner, (iii) 25,000 are owned directly by Dr. Kapoor, (iv) 63,000 are owned by a trust, the trustee of which is Dr. Kapoor's wife and the beneficiaries of which are their children, (v) 633,438 are issuable pursuant to options granted by the Company directly to Dr. Kapoor, (vii) 1,667,000 are issuable upon exercise of warrants issued to the John N. Kapoor Trust dated September 20, 1989, (viii) 2,426,900 are issuable upon the conversion of a convertible note held by the John N. Kapoor Trust dated September 20, 1989 and (ix) 376,658 are issuable upon the conversion of interest related to the convertible note held by the John N. Kapoor Trust dated September 20, 1989.

(2) The reported shares include options to purchase shares. The shares reported for Directors Bruhl, Gaw and Ellis include options to purchase 20,000, 20,000 and 20,000 shares, respectively. In addition, Dr. Bruhl's retirement plan holds 64,266 of the listed shares.

(3) Mr. Johnson was appointed to the Akorn board on March 22, 2003.

(4) Mr. Przybyl's shares reported include options to purchase 87,500 shares. These stock options represent presently exercisable options from three separate grants totaling 350,000 shares, each of which vest in four equal increments, one quarter on the grant date and one quarter for each of the next three successive anniversary dates.

(5) Mr. Pothast's shares reported include options to purchase 75,000 shares. These stock options represent presently exercisable options from three separate grants totaling 200,000 shares, each of which vest in four equal increments, one quarter on the grant date and one quarter for each of the next three successive anniversary dates.

(6) Of such 9,812,720 shares, 4,949,838 are not presently outstanding, but are issuable pursuant to option rights described in the preceding footnotes.

(7) Of such 1,918,500 shares, (i) 458,500 are owned by Argent Fund Management Ltd., a United Kingdom corporation having a mailing address of 67 Cheval Place, London SW7 1HP, U.K. ("Argent") for which Mr. Waney serves as Chairman and Managing Director and of which 51% is owned by Mr. Waney, (ii) 628,400 are owned by First Winchester Investments Ltd., a British Virgin Islands corporation having a mailing address of 8 Church Street, St. Helier, Jersey JE4 0SG, Channel Islands, which operates as an equity fund for investors unrelated to Mr. Waney and whose investments are directed by Argent, (iii) 506,000 are owned by Mr. Waney through certain Individual Retirement Accounts maintained in the United States, and (iv) 325,600 are owned directly by Mr. Waney and his spouse.

EQUITY COMPENSATION PLANS

Equity Compensation Plans Approved by Stockholders.

The stockholders have approved the Akorn, Inc. 1988 Incentive Compensation Program, under which any officer or key employee of the Company is eligible to receive stock options as designated by the Company's Board of Directors, and the Akorn, Inc. 1991 Stock Option (the "1991 Directors' Plan"), under which, prior to the Plan's expiration in December 2001, options were issuable to directors of the Company.

Equity Compensation Plans not Approved by Stockholders.

With the expiration of the 1991 Directors' Plan, the Board of Directors has approved, subject to obtaining stockholders' approval at the Company's next Annual Meeting, the Akorn, Inc. 2002 Stock Option Plan for Directors (the "2002 Directors' Plan"). The terms of the proposed plan are almost identical to the 1991 Director's Plan, with the following exceptions: (i) only independent Directors will be eligible to receive options under the proposed plan (versus all Directors under the 1991 plan) and (ii) Directors will receive annual grants of 15,000 shares of common stock which will vest over one year (versus 5,000 vesting over six months). Additionally, the number of shares authorized for the Director's plan will be increased from 500,000 shares to 1,000,000 shares.

On November 21, 2002, the Company entered into a success fee arrangement with its restructuring consultants AEG Partners which provides that the Company will issue 1,250,000 warrants to purchase common stock at an exercise price of $1.00 per warrant share upon the date on which each of the following conditions have been met or waived by the Company: (i) the Forbearance Agreement shall have been terminated, (ii) the consultants engagement pursuant to its consulting agreement shall have been terminated and (iii) the Company shall have executed a new or restated multi-year credit facility. All unexercised warrants shall expire on the fourth anniversary of the date of issuance.

Summary Table. The following table sets forth certain information as of December 31, 2002, with respect to compensation plans under which shares of Akorn common stock were issuable as of that date.

NUMBER OF SECURITIES TO	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY

PLAN CATEGORY	BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHT.	WEIGHTED-AVERAGE PRICE OF OUTSTANDING OPTIONS, WARRANT AND RIGHTS	COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN THE FIRST COLUMN)
Equity Compensation plans approved by security holders:.....	2,087,625	$3.9816	2,052,751
Equity Compensation plans not approved by security holders:.....	623,750	$1.2892	1,626,250
TOTAL.....	1,711,375	--	3,679,001

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. John N. Kapoor, Ph.D., the Company's current Chairman of the Board and Chief Executive Officer from March 2001 to December 2002, and a principal shareholder, is affiliated with EJ Financial Enterprises, Inc., a health care consulting investment company ("EJ Financial"). EJ Financial is involved in the management of health care companies in various fields, and Dr. Kapoor is involved in various capacities with the management and operation of these companies. The John N. Kapoor Trust, the beneficiary and sole trustee of which is Dr. Kapoor, is a principal shareholder of each of these companies. As a result, Dr. Kapoor does not devote his full time 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. In addition, one of these companies, NeoPharm, Inc. of which Dr. Kapoor is Chairman and a major stockholder, recently entered into a loan agreement with the Company. The Company also owes EJ Financial $18,000 in consulting fees for each of 2002 and 2001, as well as expense

reimbursements of $1,987.30 and $182,369.84 for 2002 and 2001, respectively. Further, The John N. Kapoor Trust has loaned the Company $5,000,000 resulting in Dr. Kapoor becoming a major creditor of the Company as well as a major shareholder.

On March 21, 2001, in consideration of Dr. Kapoor assuming the positions of President and interim CEO of the Company, the Compensation Committee of the Board of Directors agreed to issue Dr. Kapoor 500,000 options under the Amended and Restated Akorn, Inc. 1988 Incentive Compensation Program in lieu of cash compensation.

On July 12, 2001, the Company entered into a $5,000,000 subordinated debt transaction with the John N. Kapoor Trust dtd. 9/20/89 (the "Trust"), the sole trustee and sole beneficiary of which is Dr. John N. Kapoor, the Company's Chairman of the Board of Directors. The transaction is evidenced by a Convertible Bridge Loan and Warrant Agreement (the "Trust Agreement") in which the Trust agreed to provide two separate tranches of funding in the amounts of $3,000,000 ("Tranche A" which was received on July 13, 2001) and $2,000,000 ("Tranche B" which was received on August 16, 2001). As part of the consideration provided to the Trust for the subordinated debt, the Company issued the Trust two warrants which allow the Trust to purchase 1,000,000 shares of common stock at a price of $2.85 per share and another 667,000 shares of common stock at a price of $2.25 per share. The exercise price for each warrant represented a 25% premium over the share price at the time of the Trust's commitment to provide the subordinated debt. All unexercised warrants will expire on December 20, 2006.

Under the terms of the Trust Agreement, the subordinated debt bears interest at prime plus 3%, which is the same rate the Company pays on its senior debt. Interest cannot be paid to the Trust until the repayment of the senior debt pursuant to the terms of a subordination agreement, which was entered into between the Trust and the Company's senior lenders. Should the subordination agreement be terminated, interest may be paid sooner. The convertible feature of the Trust Agreement, as amended, allows for conversion of the subordinated debt plus interest into common stock of the Company, at a price of $2.28 per share of common stock for Tranche A and $1.80 per share of common stock for Tranche B.

In December 2001, the Company entered into a $3,250,000 five-year loan with NeoPharm, Inc. ("NeoPharm") to fund Akorn's efforts to complete its lyophilization facility located in Decatur, Illinois. Under the terms of the

promissory note, dated December 20, 2001, evidencing the loan (the Promissory Note") interest will accrue at the initial rate of 3.6% and will be reset quarterly based upon NeoPharm's average return on its cash and readily tradable long and short-term securities during the previous calendar quarter. The principal and accrued interest is due and payable on or before maturity on December 20, 2006. The note provides that Akorn will use the proceeds of the loan solely to validate and complete the lyophilization facility located in Decatur, Illinois. In consideration for the loan, under a separate manufacturing agreement between the Company and NeoPharm, the Company, upon completion of the lyophilization facility, agrees to provide NeoPharm with access to at least 15% of the capacity of Akorn's lyophilization facility each year. The Promissory Note is subordinated to Akorn's senior debt owed to The Northern Trust Company but is senior to Akorn's subordinated debt owed to the Trust. Dr. John N. Kapoor, the Company's chairman is also chairman of NeoPharm and holds a substantial stock position in that company as well as in the Company.

Commensurate with the completion of the Promissory Note between the Company and NeoPharm, the Company entered into an agreement with the Trust, which amended the Trust Agreement. The amendment extended the Trust Agreement to terminate concurrently with the Promissory Note on December 20, 2006. The amendment also made it possible for the Trust to convert the interest accrued on the $3,000,000 tranche into common stock of the Company. Previously, the Trust could only convert the interest accrued on the $2,000,000 tranche. The change related to the convertibility of the interest accrued on the $3,000,000 tranche requires that shareholder approval be received by August 31, 2002, which date has been extended to June 30, 2003.

The Company has an equity ownership interest in Novadaq Technologies, Inc. ("Novadaq") of 4,132,000 common shares, representing approximately 16.9% of the outstanding stock of Novadaq. Previously, the Company had entered into a marketing agreement with Novadaq, which was terminated in early 2002. The

Company, as part of the termination settlement, received the aforementioned shares and entered into an agreement with Novadaq to be the exclusive future supplier of Indocyanine Green for use in Novadaq's diagnostic procedures. The Company also has the right to appoint one individual to the Board of Directors of Novadaq. Ben J. Pothast, the Company's Chief Financial Officer, currently serves in this capacity.

ITEM 14. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Within 90 days of this report, the Company carried out an evaluation, under the supervision and with the participation of our management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the evaluation date, the disclosure controls and procedures are effective in timely communicating to them the material information relating to the Company required to be included in the Company's periodic SEC filings.

As discussed in greater detail in the Company's Report on Form 8-K dated May 1, 2003, Deloitte & Touche LLP ("Deloitte") informed the Company that, in connection with its audit of the Company's consolidated financial statements for the year ended December 31, 2002, it noted certain matters involving the Company's internal controls that Deloitte considered to be material weaknesses. Although the Company does not necessarily agree with Deloitte's judgment that there existed material weaknesses in the Company's internal controls, the Company is in the process of implementing procedures designed to address all relevant internal control issues.

To date, the Company has expanded its interim evaluation of accounts receivable for purposes of determining the allowance for doubtful accounts and has reassigned certain personnel to strengthen the accounting for fixed assets.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a).2. Financial Statement Schedule. The following Financial Statement Schedule is filed with this Annual Report on Form 10-K on the page indicated:

(a).3. Exhibits

Those exhibits marked with an asterisk (*) refer to exhibits filed herewith. The other exhibits are incorporated herein by reference, as indicated in the following list.

(2.0)	Agreement and Plan of Merger among Akorn, Inc., Taylor, and Pasadena Research Laboratories, Inc. dated May 7, 1996, incorporated by reference to the Company's report on Form 10-K for the fiscal year ended June 30, 1996.
(3.1)	Restated Articles of Incorporation of the Company dated September 6, 1991, incorporated by reference to Exhibit 3.1 to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.
(3.2)	Articles of Amendment to Articles of Incorporation of the company dated February 28, 1997, incorporated by reference to Exhibit 3.2 to the Company's report on Form 10-K for the transition period from July 1, 1996 to December 31, 1996.
(3.3)	Current Composite of By-laws of the Company, incorporated by reference to Exhibit 3.3 to the Company's report on Form 10-K for the transition period from July 1, 1996 to December 31, 1996.
(4.1)	Specimen Common Stock Certificate, incorporated by reference to Exhibit 4.1 to the Company's report on Form 10-K for the fiscal year ended June 30, 1988.
(10.1)	Consulting Agreement dated November 15, 1990 by and between E. J. Financial Enterprises, Inc., a Delaware corporation, and the Company, incorporated by reference to Exhibit 10.24 to the Company's report on Form 10-K for the fiscal year ended June 30, 1991.
(10.2)	Amendment No. 1 to the Amended and Restated Akorn, Inc. 1988 Incentive Compensation Program, incorporated by reference to Exhibit 10.33 to the Company's report on Form 10-K for the fiscal year ended June 30, 1992.
(10.3)	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)	Common Stock Purchase Warrant dated September 3, 1992, issued by the Company to the John N. Kapoor Trust dated September 20, 1989, incorporated by reference to Exhibit No. 7 to Amendment No. 3 to Schedule 13D, dated September 10, 1992, filed by John N. Kapoor and the John N. Kapoor Trust dated September 20, 1989.
(10.5)	Amended and Restated Credit Agreement dated September 15, 1999 among the Company, Akorn (New Jersey), Inc. and The Northern Trust Company (the "Credit Agreement"), incorporated by reference to Exhibit 10.5 to the Company's report on Form 10-K for the fiscal year ended December 31, 1999.
(10.6)	Amendment No. 1 to the Credit Agreement dated December 28, 1999, incorporated by reference to Exhibit 10.6 to the Company's report on Form 10-K for the fiscal year ended December 31, 1999.
(10.7)	Amendment No. 2 to the Credit Agreement dated February 15, 2001, incorporated by reference to Exhibit 10.1 to the

Company's report on Form 8-K filed on April 17, 2001.

(10.8) Amendment No. 3 to the Credit Agreement dated April 16, 2001, incorporated by reference to Exhibit 10.2 to the Company's report on Form 8-K filed on April 17, 2001.

(10.9) Promissory Note among the Company, Akorn (New Jersey), Inc. and The Northern Trust Company dated April 16, 2001, incorporated by reference to Exhibit 10.3 to the Company's report on Form 8-K filed on April 17, 2001.

(10.10) Letter of Commitment to the Company from John. N. Kapoor, incorporated by reference to Exhibit 10.3 to the Company's report on Form 8-K filed on April 17, 2001.

(10.11) Promissory Note among the Company, Akorn (New Jersey), Inc. and The Northern Trust Company dated April 16, 2001, incorporated by reference to Exhibit 10.3 to the Company's report on Form 8-K filed on April 17, 2001.

(10.12) Convertible Bridge Loan and Warrant Agreement dated as of July 12, 2001, by and between Akorn, Inc. and the John N. Kapoor Trust dtd. 9/20/89, incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K filed on July 26, 2001.

(10.13) The Tranche A Common Stock Purchase Warrant, dated July 12, 2001, incorporated by reference to Exhibit 10.2 to the Company's report on Form 8-K filed on July 26, 2001.

(10.14) The Tranche B Common Stock Purchase Warrant, dated July 12, 2001, incorporated by reference to Exhibit 10.3 to the Company's report on Form 8-K filed on July 26, 2001.

(10.15) Registration Rights Agreement dated July 12, 2001, by and between Akorn, Inc. and the John N. Kapoor Trust dtd. 9/20/89, incorporated by reference to Exhibit 10.4 to the Company's report on Form 8-K filed on July 26, 2001.

(10.16) Forbearance Agreement by and among Akorn, Inc., Akorn (New Jersey), Inc. and The Northern Trust Company, dated as of July 12, 2001, incorporated by reference to Exhibit 10.5 to the Company's report on Form 8-K filed on July 26, 2001.

(10.161) *Offer Letter dated September 4, 2001 from the Company to Mr. Pothast.

(10.17) Promissory Note among the Company, Akorn (New Jersey), Inc. and NeoPharm, Inc. dated December 20, 2001, incorporated by reference to Exhibit 10.17 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.18) Processing Agreement dated December 20, 2001, by and between Akorn, Inc. and NeoPharm, Inc., incorporated by reference to Exhibit 10.18 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.19) Subordination, Standby and Intercreditor Agreement dated December 20, 2001, by and between NeoPharm, Inc. and The Northern Trust Company, incorporated by reference to Exhibit 10.19 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.20) Subordination and Intercreditor Agreement dated December 20, 2001, by and between NeoPharm, Inc. and the John N. Kapoor trust dtd. 9/20/89, incorporated by reference to Exhibit 10.20 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.21) Waiver Letter dated December 20, 2001 by and between the Company, Akorn (New Jersey), Inc. and The Northern Trust Company, incorporated by reference to Exhibit 10.21 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.22) Supply Agreement dated January 4, 2002, by and between Akorn, Inc. and Novadaq Technologies, Inc., incorporated by reference to Exhibit 10.22 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.23) Mutual Termination and Settlement Agreements by and between Akorn, Inc. and Johns Hopkins University/Applied Physics Laboratory dtd. July 3, 2002, incorporated by reference to Exhibit 10.23 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.24) Amendment No. 4 to the Credit Agreement dated January 1,

2002, by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company, incorporated by reference to Exhibit 10.24 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.25) Amendment No. 5 to the Credit Agreement dated June 30, 2002, by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company, incorporated by reference to Exhibit 10.25 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.26) Amendment No. 6 to the Credit Agreement dated July 31, 2002, by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company, incorporated by reference to Exhibit 10.26 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.27) Pre-Negotiation Agreement by and among Akorn, Inc., Akorn (NJ) Inc. and The Northern Trust Company, dated as of September 20, 2002, incorporated by reference to Exhibit 10.27 to the Company's report on Form 10-K for fiscal year ended December 31, 2001.

(10.28) Amendment #1 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of October 18, 2002, incorporated by reference to Exhibit 10.28 to the Company's report on Form 10-Q for the period ended September 30, 2002.

(10.29) *Amendment #2 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of November 26, 2002.

(10.30) *Amendment #3 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of December 30, 2002.

(10.31) *Amendment #4 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of January 16, 2003.

(10.32) *Amendment #5 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of January 31, 2003.

(10.33) *Amendment #6 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of February 14, 2003.

(10.34) *Amendment #7 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of February 28, 2003.

(10.35) *Amendment #8 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of March 14, 2003.

(10.36) *Amendment #9 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of April 4, 2003.

(10.37) *Amendment #10 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of May 1, 2003.

(10.38) *Amendment #11 to the Pre-Negotiation Agreement by and among the Company, Akorn (NJ) Inc. and The Northern Trust Company dated as of May 9, 2003.

(10.39) Engagement Letter by and among the Company and AEG Partners LLC dated as of September 26, 2002, incorporated by reference to Exhibit 10.39 to the Company's Report on Form 10-Q for the period ended September 30, 2002.

(10.40) *Amendment to Engagement Letter by and among the Company and AEG Partners LLC dated as of November 21, 2002.

(10.41) *Offer Letter dated January 22, 2003 from the Company to Arthur S. Przybyl.

(10.42) *Indemnification Agreement dated May 15, 2003 by and between the Company and Arthur S. Przybyl.

(23.1) *Consent of Deloitte & Touche LLP.

(99.1) *Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(99.2) Report on Form 8-K filed by the Company on May 1, 2003, incorporated by reference to such filing.

(b) Reports on Form 8-K:

The Company filed a Current Report on Form 8-K on December 20, 2002 to disclose pursuant to Item 5 of Form 8-K that Dr. John Kapoor resigned as CEO of the Company.

AKORN, INC.

VALUATION AND QUALIFYING ACCOUNTS
YEAR ENDED DECEMBER 31, 2002, 2001 AND 2000

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts				
2000	$ 226,000	$ 8,127,000	$ (32,000)	$8,321,000
2001	8,321,000	4,480,000	(9,095,000)	3,706,000
2002	3,706,000	(55,000)	(2,451,000)	1,200,000
Allowance for returns				
2000	$ --	$ 1,159,000	$ (927,000)	$ 232,000
2001	232,000	4,103,000	(3,787,000)	548,000

2002	548,000	2,574,000	(1,956,000)	1,166,000
Allowance for discounts				
2001	$ --	$ 886,000	$ (743,000)	$ 143,000
2002	143,000	1,014,000	(985,00)	172,000
Allowance for chargebacks and rebates				
2000	$3,174,000	$29,558,000	$(29,436,000)	$3,296,000
2001	3,296,000	28,655,000	(27,761,000)	4,190,000
2002	4,190,000	15,418,000	(15,306,000)	4,302,000
Allowance for inventory obsolescence				
2000	$ 134,000	$ 3,983,000	$ (946,000)	$3,171,000
2001	3,171,000	1,830,000	(3,156,000)	1,845,000
2002	1,845,000	838,000	(1,477,000)	1,206,000

SIGNATURES

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

AKORN, INC.

By: /s/ ARTHUR S. PRZYBYL

Arthur S. Przybyl
Interim Chief Executive Officer

Date: May 21, 2003

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

SIGNATURE	TITLE	DATE
/s/ ARTHUR S. PRZYBYL Arthur S. Przybyl	Interim Chief Executive Officer (Principal Executive Officer)	May 21, 2003
/s/ BERNARD J. POTHAST Bernard J. Pothast	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	May 21, 2003
/s/ JOHN KAPOOR Dr. John Kapoor	Director, Board Chairman	May 21, 2003
/s/ JERRY N. ELLIS Jerry N. Ellis	Director	May 21, 2003
/s/ DANIEL E. BRUHL Daniel E. Bruhl, M.D.	Director	May 21, 2003
/s/ DOYLE S. GAW Doyle S. Gaw	Director	May 21, 2003
/s/ RONALD M. JOHNSON Ronald M. Johnson	Director	May 21, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Arthur S. Przybyl, certify that:

1. I have reviewed this annual report on Form 10-K of Akorn, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

A) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

B) Evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

C) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

A) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

B) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in the other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ ARTHUR S. PRZYBYL

Arthur S. Przybyl
Interim Chief Executive Officer

Date: May 21, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Bernard J. Pothast, certify that:

1. I have reviewed this annual report on Form 10-K of Akorn, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officers and I are responsible for

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

A) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

B) Evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

C) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

A) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

B) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in the other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ BERNARD J. POTHAST

Bernard J. Pothast
Chief Financial Officer

Date: May 21, 2003

EXHIBIT 10.161

(AKORN INC. LETTERHEAD)

September 4, 2001

Ben J. Pothast
1058 Cormar Drive
Lake Zurich, IL 60047

Dear Ben,

I am pleased to offer you the position of Vice-President and Chief Financial Officer, based at our headquarters in Buffalo Grove. Your starting salary will be five thousand one hundred ninety two dollars and thirty-one cents ($5,192.31) biweekly. You will report to Dr. John Kapoor, Interim Chief Executive Officer and Chairman of the Board.

In the event that Akorn becomes profitable, as measured by the company's first full quarterly positive Operating Income, your salary will be increased to five thousand seven hundred sixty nine dollars and twenty-three cents ($5,769.23) biweekly. The earliest this might happen will be at the conclusion of the fourth (4th) quarter, taking effect February 4, 2002. Alternatively, should the company achieve its first positive quarterly Operating Income in a subsequent quarter, the increase would take effect the first full week of the second month after that quarter's close.

You will be eligible to participate in Akorn's management bonus program. As Vice-President your potential annual bonus is thirty percent (30%) subject to plan details and annual Board of Directors approval of payout.

In addition you will receive an initial grant of stock options to purchase seventy five thousand (75,000) shares of Akorn, Inc. common stock priced at closing price on this date. Stock options are subject to the terms of the stock option plan and an agreement, which each participant is required to sign.

You will also be eligible for benefits, which include medical, dental, vision, Smart Choice, Akorn's (401K) Retirement Savings Program, our Employee Stock Purchase program, a Flexible Spending account, an Employee Assistance program, life and disability insurance and Paid Time Off (PTO). Eligibility for these programs will commence on October 1, 2001.

Your employment at Akorn will be "at will," which means that either you or the company may terminate employment at any time. Nothing in this letter should be interpreted as a contract of employment.

Akorn does commit, however, that in the event of your termination without cause, you will be entitled to six (6) months severance, paid biweekly at the salary in effect at the time of your termination. "Without cause" is held to mean that the reason for termination is due to reasons not involving documented inadequate or deficient performance on your part, misuse or misappropriation of company assets, violation of company policy or relevant legal statute, or conduct detrimental to the company.

This offer is contingent upon successful completion of a pre-employment drug-screening test. You should be aware, also, that all salaried employees are required no sign the company's Employee Confidential Information Agreement as a condition of employment.

Ben, we are very pleased at the prospect of your joining us and look forward to working closely with you. Should you have any questions about this offer or any matter related to your employment at Akorn, please do not hesitate to contact me.

May I request that you sign and date below in acknowledgment of the contents of this letter and return to my attention. A copy is enclosed for your records.

Respectfully,

/s/ NEILL E. SHANAHAN

Neill H. Shanahan, Vice-President
Human Resources

CC: John Kapoor
Tony Pera
Payroll file

I accept this offer of employment and understand the terms and conditions outlined above.

/s/ BEN POTHAST — 9/10/01

Ben Pothast — Date
1058 Cormar Drive
Lake Zurich, IL 60047

EXHIBIT 10.29

SECOND AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS SECOND AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of November 26, 2002 (this "Second Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested (i) an amendment to the definition of "Borrowing Base" and (ii) an amendment to Section 7.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Second Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendments.

2.1 Section 1.1 of the Prior Agreement is hereby amended by deleting the definition of "Borrowing Base".

2.2 Section 1.1 of the Prior Agreement is hereby amended by replacing the definitions of "Balance Sheet" and "Tranche B Commitment" with the following:

> "Balance Sheet" shall mean, for purposes of Section 6.7, the Borrowers' consolidated balance sheet as of the end of the calendar month referred to therein.
>
> "Tranche B Commitment" shall mean, at any time, the commitment of the Lender to make Tranche B Loans during the Forbearance Period, which commitment shall be equal to the lower of (a) the difference between (i) the Existing Tranche A Amount and (ii) the aggregate amount of Tranche A Loans outstanding at such time and (b) $1,750,000.

2.3 Section 6.7 of the Prior Agreement is hereby amended by deleting clause (k) thereof.

2.4 Exhibit A attached to the Prior Agreement is hereby amended by deleting paragraph (C) thereof and Annex I thereto.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Second Amendment, the Prior Agreement shall remain in full force and effect as originally executed and delivered by the parties. In order to induce the Lender to enter into this Second Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Second Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or

performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as modified by this Second Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Second Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement arid in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Second Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS

AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Second Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Second Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Second Amendment other than as are herein set forth.

Section 7. Successors. This Second Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Second Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Second Amendment may be amended, changed, modified, altered or terminated only by a written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Second Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Second Amendment are to the designated Sections and other subdivisions of this Second Amendment as originally executed.

(c) The headings of this Second Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include all other genders.

(e) Each party to this Second Amendment and legal counsel for each party have participated in the drafting of this Second Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Second Amendment.

Section 11. Execution of Counterparts. This Second Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Second Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089
Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By _____
Name: _____
Title: _____

AKORN (NEW JERSEY), INC.

By _____
Name: _____
Title: _____

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

By _____
Name: _____
Title: _____

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131

Attention: John K. Cunningham, Esq.

EXHIBIT (10.30)

THIRD AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS THIRD AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of December 30, 2002 (this "Third Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002 and by the Second Amendment dated as of November 26, 2002 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Third Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendment.

2.1 Section 4.1 of the Prior Agreement is hereby amended to read as follows:

4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) January 17, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Third Amendment, the Prior Agreement shall remain in full force and effect as originally executed and delivered by the parties. In order to induce the Lender to enter into this Third

Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Third Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as modified by this Third Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Third Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement arid in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Third Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Third Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Third Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Third Amendment other than as are herein set forth.

Section 7. Successors. This Third Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Third Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Third Amendment may be amended, changed, modified, altered or terminated only by a written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Third Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Third Amendment are to the designated Sections and other subdivisions of this Third Amendment as originally executed.

(c) The headings of this Third Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include all other genders.

(e) Each party to this Third Amendment and legal counsel for each party have participated in the drafting of this Third Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be

employed in the construction and interpretation of this Third Amendment.

Section 11. Execution of Counterparts. This Third Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Third Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089
Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By /s/ Ben Pothast
Name: Ben Pothast
Title: CFO

AKORN (NEW JERSEY), INC.

By /s/ Ben Pothast
Name: Ben Pothast
Title: CFO

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

THE NORTHERN TRUST COMPANY

By
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089
Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By
Name:
Title:

AKORN (NEW JERSEY), INC.

By

Name:

Title:
---

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

By ILLEGIBLE

Name: ILLEGIBLE

Title: VP

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

EXHIBIT 10.31

FOURTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS FOURTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of January 16, 2003 (this "Fourth Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002, the Second Amendment dated as of November 26, 2002, and the Third Amendment dated as of December 30, 2002 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Fourth Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendment.

2.1 Section 4.1 of the Prior Agreement is hereby amended to read as follows:

4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) January 31, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Fourth Amendment, the Prior Agreement shall remain in full force and effect as originally executed and delivered by the parties. In order to induce the Lender to enter into this Fourth

Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Fourth Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as

modified by this Fourth Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Fourth Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement arid in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Fourth Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Fourth Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Fourth Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Fourth Amendment other than as are herein set forth.

Section 7. Successors. This Fourth Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Fourth Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Fourth Amendment may be amended, changed, modified, altered or terminated only by a written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Fourth Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Fourth Amendment are to the designated Sections and other subdivisions of this Fourth Amendment as originally executed.

(c) The headings of this Fourth Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include

all other genders.

(e) Each party to this Fourth Amendment and legal counsel for each party have participated in the drafting of this Fourth Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Fourth Amendment.

Section 11. Execution of Counterparts. This Fourth Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Fourth Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089

Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By

Name:

Title:

AKORN (NEW JERSEY), INC.

By

Name:

Title:
---

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

By

Name:

Title:

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

EXHIBIT 10.32

FIFTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS FIFTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of January 31, 2003 (this "Fifth Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002, the Second Amendment dated as of November 26, 2002, the Third Amendment dated as of December 30, 2002 and the Fourth Amendment dated as of January 16, 2003 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Fifth Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendment.

2.1 Section 4.1 of the Prior Agreement is hereby amended to read as follows:

4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) February 14, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Fifth Amendment, the Prior Agreement shall remain in full force and effect as originally

executed and delivered by the parties. In order to induce the Lender to enter into this Fifth Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Fifth Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as modified by this Fifth Amendment and as hereafter modified by any amendment,

modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Fifth Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement arid in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Fifth Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Fifth Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Fifth Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Fifth Amendment other than as are herein set forth.

Section 7. Successors. This Fifth Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Fifth Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Fifth Amendment may be amended, changed, modified, altered or terminated only by a written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Fifth Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Fifth Amendment are to the designated Sections and other subdivisions of this Fifth Amendment as originally executed.

(c) The headings of this Fifth Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include all other genders.

(e) Each party to this Fifth Amendment and legal counsel for each party have participated in the drafting of this Fifth Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Fifth Amendment.

Section 11. Execution of Counterparts. This Fifth Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Fifth Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Fifth Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089

Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By

Name:

Title:

AKORN (NEW JERSEY), INC.

By

Name:

Title:
---

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

By

Name:

Title:

EXHIBIT 10.33

SIXTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS SIXTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of February 14, 2003 (this "Sixth Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002, the Second Amendment dated as of November 26, 2002, the Third Amendment dated as of December 30, 2002, the Fourth Amendment dated as of January 16, 2003, and the Fifth Amendment dated as of January 31, 2003 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Sixth Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendment.

2.1 Section 4.1 of the Prior Agreement is hereby amended to read as follows:

4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) February 28, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

2.2 Section 10.1 of the Prior Agreement is hereby amended to read as follows:

10.1 Events of Default. It shall constitute an Event of Default under the Credit Agreement, if (i) either Borrower (x) fails to perform or observe any covenant, term, agreement or condition in this Agreement or (y) is in violation of or non-compliance with any provision of this Agreement after the expiry of any cure period specified thereto or (ii) at any time after the Agreement Closing Date, there shall occur any event or condition of the type described in Section 2.3(b) (Mandatory Prepayments) of the Credit Agreement. Each Borrower specifically agrees that, upon and at any time after the Forbearance Termination Date, all Obligations shall be due in full and payable, and the Lender may, in its sole discretion, without any prior notice to any Borrower, exercise or enforce any or all of its rights and remedies under this Agreement, the other Loan Documents, and/or applicable law, against any one or more of the Borrowers.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Sixth Amendment, the Prior Agreement shall remain in full

force and effect as originally executed and delivered by the parties. In order to induce the Lender to enter into this Sixth Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Sixth Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as modified by this Sixth Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Sixth Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement arid in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Sixth Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE

LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Sixth Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Sixth Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Sixth Amendment other than as are herein set forth.

Section 7. Successors. This Sixth Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Sixth Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Sixth Amendment may be amended, changed, modified, altered or terminated only by a

written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Sixth Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Sixth Amendment are to the designated Sections and other subdivisions of this Sixth Amendment as originally executed.

(c) The headings of this Sixth Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include all other genders.

(e) Each party to this Sixth Amendment and legal counsel for each party have participated in the drafting of this Sixth Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Sixth Amendment.

Section 11. Execution of Counterparts. This Sixth Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Sixth Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Sixth Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089

Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By _____
Name: _____
Title: _____

AKORN (NEW JERSEY), INC.

By _____
Name: _____
Title: _____

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

By ----------
Name: ----------
Title: ----------

EXHIBIT 10.34

SEVENTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS SEVENTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of February 28, 2003 (this "Seventh Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002, the Second Amendment dated as of November 26, 2002, the Third Amendment dated as of December 30, 2002, the Fourth Amendment dated as of January 16, 2003, the Fifth Amendment dated as of January 31, 2003 and the Sixth Amendment, dated as of February 14, 2003 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Seventh Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendments.

2.1 Section 4.1 of the Prior Agreement is hereby amended to read as follows:

4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) March 14, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

2.2 Section 10.1 of the Prior Agreement is hereby amended to read as follows:

10.1 Events of Default. It shall constitute an Event of Default under the Credit Agreement, if (i) either Borrower (x) fails to perform or observe any covenant, term, agreement or condition in this Agreement, (y) is in violation of or non-compliance with any provision of this Agreement after the expiry of any cure period specified thereto or (z) recalls, or totally or partially suspends production of, any of its products, and such recall or suspension of production, individually or in the aggregate, has or results in, or could reasonably be expected to have or result in, a Material Adverse Effect or (ii) at any time after the Agreement Closing Date, there shall occur any event or condition of the type described in Section 2.3(b) (Mandatory Prepayments) of the Credit Agreement. Each Borrower specifically agrees that, upon and at any time after the Forbearance Termination Date, all

Obligations shall be due in full and payable, and the Lender may, in its sole discretion, without any prior notice to any Borrower, exercise or enforce any or all of its rights and remedies under this Agreement, the other Loan Documents, and/or applicable law, against any one or more of the Borrowers.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Seventh Amendment, the Prior Agreement shall remain in full force and effect as originally executed and delivered by the parties. In order to induce the Lender to enter into this Seventh Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Seventh Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as modified by this Seventh Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Seventh Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement arid in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Seventh Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Seventh Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Seventh Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Seventh Amendment other than as are herein set forth.

Section 7. Successors. This Seventh Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this

Seventh Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Seventh Amendment may be amended, changed, modified, altered or terminated only by a written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Seventh Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Seventh Amendment are to the designated Sections and other subdivisions of this Seventh Amendment as originally executed.

(c) The headings of this Seventh Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include all other genders.

(e) Each party to this Seventh Amendment and legal counsel for each party have participated in the drafting of this Seventh Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Seventh Amendment.

Section 11. Execution of Counterparts. This Seventh Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Seventh Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Seventh Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089

Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By

Name:

Title:

AKORN (NEW JERSEY), INC.

By

Name:
---

50 South LaSalle Street
Chicago, Illinois 60675

Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

Title: ----------

THE NORTHERN TRUST COMPANY

By ----------
Name: ----------
Title: ----------

EXHIBIT 10.35

EIGHTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS EIGHTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of March 14, 2003 (this "Eighth Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002, the Second Amendment dated as of November 26, 2002, the Third Amendment dated as of December 30, 2002, the Fourth Amendment dated as of January 16, 2003, the Fifth Amendment dated as of January 31, 2003, the Sixth Amendment, dated as of February 14, 2003, and the Seventh Amendment dated as of February 28, 2003 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Eighth Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendment. Section 4.1 of the Prior Agreement is hereby amended to read as follows:

> 4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) April 4, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Eighth Amendment, the Prior Agreement shall remain in full force and effect as originally

executed and delivered by the parties. In order to induce the Lender to enter into this Eighth Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Eighth Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as

modified by this Eighth Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Eighth Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement arid in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Eighth Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Eighth Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Eighth Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Eighth Amendment other than as are herein set forth.

Section 7. Successors. This Eighth Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Eighth Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Eighth Amendment may be amended, changed, modified, altered or terminated only by a written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Eighth Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Eighth Amendment are to the designated Sections and other subdivisions of this Eighth Amendment as originally executed.

(c) The headings of this Eighth Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include

all other genders.

(e) Each party to this Eighth Amendment and legal counsel for each party have participated in the drafting of this Eighth Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Eighth Amendment.

Section 11. Execution of Counterparts. This Eighth Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Eighth Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Eighth Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089

Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By

Name:

Title:

AKORN (NEW JERSEY), INC.

By

Name:

Title:
---

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

By

Name:

Title:

EXHIBIT 10.36

NINTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS NINTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of April 4, 2003 (this "Ninth Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002, the Second Amendment dated as of November 26, 2002, the Third Amendment dated as of December 30, 2002, the Fourth Amendment dated as of January 16, 2003, the Fifth Amendment dated as of January 31, 2003, the Sixth Amendment, dated as of February 14, 2003, the Seventh Amendment dated as of February 28, 2003, and the Eighth Amendment dated as of March 14, 2003 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Ninth Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendments.

2.1 Section 4.1 of the Prior Agreement is hereby amended to read as follows:

> 4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) May 1, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

2.2 Article VI (Covenants) of the Prior Agreement is hereby amended by adding a new Section 6.13, immediately following the end of Section 6.12, which new Section 6.13 shall read as follows:

> 6.13 Investment Bank. The Borrowers shall, no later than April 30, 2003, retain an investment bank of recognized national standing (the "Investment Bank") to explore all viable options to maximize value, including but not limited to soliciting offers for investment in, and/or offers to purchase the assets of, any of the Borrowers, pursuant to an agreement (the "Investment Bank Agreement") acceptable to the Lender in its sole discretion setting forth the basis on which the Investment Bank will be retained. Following the execution thereof, the Borrowers shall not amend, modify, supplement or terminate the Investment Bank Agreement.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified

and amended by this Ninth Amendment, the Prior Agreement shall remain in full force and effect as originally executed and delivered by the parties. In order to induce the Lender to enter into this Ninth Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Ninth Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as modified by this Ninth Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Ninth Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement and in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Ninth Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS,

REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Ninth Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Ninth Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Ninth Amendment other than as are herein set forth.

Section 7. Successors. This Ninth Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Ninth Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Ninth Amendment may be amended, changed, modified, altered or terminated only by a

written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Ninth Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Ninth Amendment are to the designated Sections and other subdivisions of this Ninth Amendment as originally executed.

(c) The headings of this Ninth Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include all other genders.

(e) Each party to this Ninth Amendment and legal counsel for each party have participated in the drafting of this Ninth Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Ninth Amendment.

Section 11. Execution of Counterparts. This Ninth Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Ninth Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Ninth Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089

Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By

Name:

Title:

AKORN (NEW JERSEY), INC.

By

Name:

Title:
---

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

By

Name:

Title:

EXHIBIT 10.37

TENTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS TENTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of May 1, 2003 (this "Tenth Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002, the Second Amendment dated as of November 26, 2002, the Third Amendment dated as of December 30, 2002, the Fourth Amendment dated as of January 16, 2003, the Fifth Amendment dated as of January 31, 2003, the Sixth Amendment, dated as of February 14, 2003, the Seventh Amendment dated as of February 28, 2003, the Eighth Amendment dated as of March 14, 2003, and the Ninth Amendment dated as of April 4, 2003 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Tenth Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendments.

2.1 Section 4.1 of the Prior Agreement is hereby amended to read as follows:

> 4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) May 9, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

2.2 Article VI (Covenants) of the Prior Agreement is hereby amended by adding a new Section 6.13, immediately following the end of Section 6.12, which new Section 6.13 shall read as follows:

> 6.13 Investment Bank. The Borrowers shall, no later than May 9, 2003, retain an investment bank of recognized national standing (the "Investment Bank") to explore all viable options to maximize value, including but not limited to soliciting offers for investment in, and/or offers to purchase the assets of, any of the Borrowers, pursuant to an agreement (the "Investment Bank Agreement") acceptable to the Lender in its sole discretion setting forth the basis on which the Investment Bank will be retained. Following the execution thereof, the Borrowers shall not amend, modify, supplement or terminate the Investment Bank Agreement.

Section 3. Pre-Negotiation Agreement and Documents to Remain

In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Tenth Amendment, the Prior Agreement shall remain in full force and effect as originally executed and delivered by the parties. In order to induce the Lender to enter into this Tenth Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Tenth Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as modified by this Tenth Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Tenth Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement and in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and, subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Tenth Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS,

REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Tenth Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Tenth Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Tenth Amendment other than as are herein set forth.

Section 7. Successors. This Tenth Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Tenth Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Tenth

Amendment may be amended, changed, modified, altered or terminated only by a written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Tenth Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Tenth Amendment are to the designated Sections and other subdivisions of this Tenth Amendment as originally executed.

(c) The headings of this Tenth Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include all other genders.

(e) Each party to this Tenth Amendment and legal counsel for each party have participated in the drafting of this Tenth Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Tenth Amendment.

Section 11. Execution of Counterparts. This Tenth Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Tenth Amendment shall be governed by and be construed and enforced in accordance with the laws of the State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Tenth Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089

Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By

Name:

Title:

AKORN (NEW JERSEY), INC.

By

Name:

Title:
---

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

By

Name:

Title:

EXHIBIT 10.38

ELEVENTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT

THIS ELEVENTH AMENDMENT TO PRE-NEGOTIATION AGREEMENT dated as of May 9, 2003 (this "Eleventh Amendment"), by and among AKORN, INC., a Louisiana corporation ("Akorn"), AKORN (NEW JERSEY), INC., an Illinois corporation ("Akorn NJ") (Akorn and Akorn NJ being sometimes referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and THE NORTHERN TRUST COMPANY, an Illinois banking corporation (the "Lender");

WITNESSETH:

WHEREAS, the parties heretofore entered into the Pre-Negotiation Agreement dated as of September 20, 2002, as amended by the First Amendment dated as of October 18, 2002, the Second Amendment dated as of November 26, 2002, the Third Amendment dated as of December 30, 2002, the Fourth Amendment dated as of January 16, 2003, the Fifth Amendment dated as of January 31, 2003, the Sixth Amendment, dated as of February 14, 2003, the Seventh Amendment dated as of February 28, 2003, the Eighth Amendment dated as of March 14, 2003, the Ninth Amendment dated as of April 4, 2003, and the Tenth Amendment dated as of May 1, 2003 (the "Prior Agreement"); and

WHEREAS, the Borrowers have requested an amendment to Section 4.1 of the Prior Agreement;

WHEREAS, the Lender has agreed to the Borrowers' request, but only on the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and the covenants, agreements and acknowledgments contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

Section 1. Defined Terms. All capitalized terms used and not otherwise defined in this Eleventh Amendment shall have the same meanings as in the Prior Agreement.

Section 2. Amendments.

2.1 Section 1.1 of the Prior Agreement is hereby amended to insert the following defined terms in appropriate alphabetical order:

"Investment Bank" shall have the meaning provided in Section 6.13.

"Investment Bank Agreement" shall have the meaning provided in Section 6.13, as the same may be amended, modified or supplemented from time to time with the consent of the Lender (which consent may be granted or withheld in the Lender's sole discretion).

2.2 Section 4.1 of the Prior Agreement is hereby amended to read as follows:

4.1 Forbearance Period. Subject to compliance by each Borrower with each of the terms and conditions of this Agreement, and without waiving the Existing Events, the Lender hereby agrees to forbear from enforcing its rights or remedies pursuant to the Loan Documents and applicable law (including, without limitation, to make a demand for payment as a result of the Payment Default) as a result of the Existing Events from the Agreement Closing Date until the earlier to occur of the following (as the case may be, the "Forbearance Termination Date"): (i) June 30, 2003 and (ii) the date on which a Borrowing Condition Failure occurs.

2.3 Section 6.13 of the Prior Agreement is hereby amended to read as follows:

6.13 Investment Bank. The Borrowers shall, no later than May 9, 2003, retain an investment bank of recognized national standing (the

"Investment Bank") to explore all viable options to maximize value, including but not limited to soliciting offers for investment in, and/or offers to purchase the assets of, any of the Borrowers, pursuant to an agreement (the "Investment Bank Agreement") acceptable to the Lender in its sole discretion setting forth the basis on which the Investment Bank will be retained. Following the execution thereof, the Borrowers shall not amend, modify, supplement or terminate the Investment Bank Agreement without the prior written consent of the Lender (which consent may be granted or withheld in the Lender's sole discretion).

2.2 Section 10.1 of the Prior Agreement is hereby amended to read as follows:

10.1 Events of Default. It shall constitute an Event of Default under the Credit Agreement, if (i) either Borrower (x) fails to perform or observe any covenant, term, agreement or condition in this Agreement, (y) is in violation of or non-compliance with any provision of this Agreement after the expiry of any cure period specified thereto or (z) recalls, or totally or partially suspends production of, any of its products, and such recall or suspension of production, individually or in the aggregate, has or results in, or could reasonably be expected to have or result in, a Material Adverse Effect, (ii) at any time after the Agreement Closing Date, there shall occur any event or condition of the type described in Section 2.3(b) (Mandatory Prepayments) of the Credit Agreement or (iii) at any time following the effectiveness of the Investment Bank Agreement, any Borrower or the Investment Bank shall breach any of its respective obligations under the Investment Bank Agreement, or the Investment Bank Agreement shall be amended, modified, supplemented or terminated without the Lender's consent (which consent may be granted or withheld in the Lender's sole discretion). Each Borrower specifically agrees that, upon and at any time after the Forbearance Termination Date, all Obligations shall be due in full and payable, and the Lender may, in its sole discretion, without any prior notice to any Borrower, exercise or enforce any or all of its rights and remedies under this Agreement, the other Loan Documents, and/or applicable law, against any one or more of the Borrowers.

Section 3. Pre-Negotiation Agreement and Documents to Remain In Effect; Confirmation of Obligations; References. Except as expressly modified and amended by this Eleventh Amendment, the Prior Agreement shall remain in full force and effect as originally executed and delivered by the parties. In order to induce the Lender to enter into this Eleventh

Amendment, the Borrowers hereby (i) confirm and reaffirm all of their obligations under the Documents, as modified and amended as described above and under the Pre-Negotiation Agreement, as modified and amended as described above; (ii) acknowledge and agree that the Lender, by entering into this Eleventh Amendment, does not waive any existing or future default or event of default under any of the Documents or the Prior Agreement, or any rights, powers or remedies under any of the Documents or the Pre-Negotiation Agreement; (iii) acknowledge and agree that the Lender has not heretofore waived any Borrowing Condition Failure, or any rights or remedies under any of the Documents or the Prior Agreement; and (iv) acknowledge that they do not have any defense, set-off or counterclaim to the payment or performance of any of their obligations under the Documents or the Prior Agreement, as amended hereby. All references to the Prior Agreement shall henceforth be deemed to refer to the Prior Agreement as modified by this Eleventh Amendment and as hereafter modified by any amendment, modification or supplement thereto.

Section 4. Confirmation of Certifications, Representations and Warranties. In order to induce the Lender to enter into this Eleventh Amendment the Borrowers hereby certify, represent and warrant to the Lender that, except as otherwise disclosed to the Lender in writing prior to the date hereof, including in the Pre-Negotiation Agreement and in the Exhibits and Schedules attached thereto and/or in documents submitted to the Lender prior to the date hereof (including, but not limited to, any and all financial statements and reports, budgets, statements of cash flow and governmental reports and filings) (collectively referred to herein as "Disclosures"), all certifications, representations and warranties contained in the Documents and in the Pre-Negotiation Agreement and in all certificates heretofore delivered to the Lender are true and correct as of the date hereof in all material respects, and,

subject to such Disclosures, all such certifications, representations and warranties are hereby remade and made to speak as of the date of this Eleventh Amendment.

Section 5. RELEASE. EACH BORROWER ON BEHALF OF ITSELF AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS, HEREBY JOINTLY AND SEVERALLY RELEASES, WAIVES AND FOREVER DISCHARGES EACH OF THE LENDER AND ITS AFFILIATES, SUBSIDIARIES, SUCCESSORS, ASSIGNS, PRINCIPALS, SHAREHOLDERS, BENEFICIARIES, OFFICERS, MANAGERS, DIRECTORS, AGENTS, REPRESENTATIVES, ADVISORS, EMPLOYEES AND ATTORNEYS OF, FROM, AND WITH RESPECT TO ANY AND ALL MANNER OF ACTIONS, CAUSES OF ACTIONS, SUITS, DISPUTES, CLAIMS, COUNTERCLAIMS AND/OR LIABILITIES, CROSS CLAIMS, DEFENSES THAT ARE KNOWN OR UNKNOWN, SUSPECTED OR UNSUSPECTED, PAST OR PRESENT, ASSERTED OR UNASSERTED, CONTINGENT OR LIQUIDATED, WHETHER OR NOT WELL FOUNDED IN FACT OR LAW, WHETHER IN CONTRACT, IN TORT OR OTHERWISE, AT LAW OR IN EQUITY, BASED UPON, RELATING TO OR ARISING OUT OF ANY AND ALL TRANSACTIONS, RELATIONSHIPS OR DEALINGS WITH OR LOANS MADE TO THE BORROWERS PURSUANT TO THE LOAN DOCUMENTS AND/OR THE PRIOR AGREEMENT PRIOR TO THE EFFECTIVENESS HEREOF.

Section 6. Entire Agreement. This Eleventh Amendment sets forth all of the covenants, promises, agreements, conditions and understandings of the parties relating to the subject matter of this Eleventh Amendment, and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them relating to the subject matter of this Eleventh Amendment other than as are herein set forth.

Section 7. Successors. This Eleventh Amendment shall inure to the benefit of and shall be binding upon the parties and their respective successors, assigns and legal representatives.

Section 8. Severability. In the event any provision of this Eleventh Amendment shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 9. Amendments, Changes and Modifications. This Eleventh Amendment may be amended, changed, modified, altered or terminated only by a written instrument executed by all of the parties hereto:

Section 10. Construction.

(a) The words "hereof," "herein," and "hereunder," and other words of a similar import refer to this Eleventh Amendment as a whole and not to the individual Sections in which such terms are used.

(b) References to Sections and other subdivisions of this Eleventh Amendment are to the designated Sections and other subdivisions of this Eleventh Amendment as originally executed.

(c) The headings of this Eleventh Amendment are for convenience only and shall not define or limit the provisions hereof.

(d) Where the context so requires, words used in singular shall include the plural and vice versa, and words of one gender shall include all other genders.

(e) Each party to this Eleventh Amendment and legal counsel for each party have participated in the drafting of this Eleventh Amendment, and accordingly the general rule of construction to the effect that any ambiguities in a contract are to be resolved against the party drafting the contract shall not be employed in the construction and interpretation of this Eleventh Amendment.

Section 11. Execution of Counterparts. This Eleventh Amendment may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12. Governing Law. This Eleventh Amendment shall be governed by and be construed and enforced in accordance with the laws of the

State of Illinois.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Eleventh Amendment to be executed by their respective officers thereunto duly authorized, as of the date first written above.

Address for Notices:

2500 Millbrook Drive
Buffalo Grove, IL 60089

Attention: Chief Financial Officer
Telecopier No.: (847) 279-6191
Telephone No.: (847) 279-6100

AKORN, INC.

By

Name:

Title:

AKORN (NEW JERSEY), INC.

By

Name:

Title:
---

50 South LaSalle Street
Chicago, Illinois 60675
Attention: Olga Georgiev
Telecopier No.: (312) 630-6105
Telephone No.: (312) 444-2438

THE NORTHERN TRUST COMPANY

With a copy to

White & Case LLP
200 S. Biscayne Blvd., Suite 4900
Miami, FL 33131
Attention: John K. Cunningham, Esq.

By

Name:

Title:

EXHIBIT (10.40)

(AEG LETTERHEAD)

November 21, 2002

Board of Directors
Akorn, Inc.
2500 Milibrook Drive
Buffalo Grove, Illinois 60089

Dear Members of the Board:

Following discussions with two independent directors of Akorn, Inc. (the "Company") and outside counsel to the Company and AEG Partners LLC ("AEG"), AEG hereby rescinds its resignation letter dated November 18, 2002. By your countersignature below, the Company and AEG agree that AEG will be re-engaged as Chief Restructuring Officer, effective as of the date hereof, on the same terms and conditions as are set forth in the Engagement Letter, dated September 26, 2002, between AEG and the Company (the "Engagement Letter"), except as modified in this letter agreement.

Notwithstanding anything in the Engagement Letter or any other prior agreement to the contrary, the Company and AEG agree as follows:

1. The Company shall immediately take all necessary corporate action to establish a Corporate Governance Committee of the Board of Directors of the Company. The Corporate Governance Committee shall initially be comprised of Jerry N. Ellis and Daniel E. Bruhl, M.D. Any changes to the composition of the Committee during the period of AEG's engagement shall be subject to AEG's approval. AEG shall interface with the Corporate Governance Committee during the conduct of its engagement, and the Committee shall have been delegated all authority otherwise vested in the full Board of Directors with respect to restructuring matters and corporate compliance matters, including without limitation regulatory affairs, quality assurance and quality control.

2. The Company's outside securities counsel shall be engaged to review an audiotape of the Company's November 15, 2002 teleconference with securities analysts for the purpose of determining whether any statements were made by officers of the Company that require correction.

3. The Success Fee (as defined in and contemplated by Section IV.C. of the Engagement Letter) shall have the terms set forth on Annex A attached hereto.

Very truly yours,

AEG PARTNERS, LLC

By: /s/ LAWRENCE M. ADELMAN

Name: Lawrence M. Adelman
Its: Managing Director
ACCEPTED AND AGREED TO:

AKORN, INC.

By: /s/ BEN J. POTHAST

Name: Ben J. Pothast

Its: CFO

ANNEX A

TERMS OF SUCCESS FEE

The Success Fee will be comprised of two components, a percentage-based cash fee and a grant of warrants, as follows:

Part A -- Cash Fee

- Fee will be equal to 1.5% of the aggregate amount of the Company's indebtedness for borrowed money, including all then existing principal and accrued interest, that is refinanced or restructured pursuant to a new or restated credit facility maturing on or after January 1, 2004

- Fee will be payable in cash at any closing of a refinancing or restructuring

Part B -- Warrants

- Immediately upon the execution of the letter agreement to which this Annex A is attached, AEG, the Company and their respective counsel shall begin negotiating and drafting the terms of a Warrant Purchase Agreement between AEG and the Company. The parties will use their best good faith efforts to complete the negotiations as soon as possible.

- Pursuant to the Warrant Purchase Agreement, the Company shall issue to AEG 1,250,000 warrants to purchase the common stock of the Company at an exercise price of $1.00 per warrant share.

- Pursuant to the Warrant Purchase Agreement, the warrants shall be issued on the date on which each of the following conditions shall have been met or waived by the Company: (i) the Pre-Negotiation Agreement, dated as of September 20, 2002, by and among the Company, Akorn (New Jersey), Inc. and The Northern Trust Company shall have been terminated, (ii) AEG's engagement pursuant to the Engagement Letter shall have been terminated (it being understood that the condition set forth in this clause (ii) shall be deemed to have been waived by the Company in the event that the Company has requested or agreed that AEG's engagement shall continue beyond the date on which the condition set forth in clause (i) above is satisfied) and (iii) the Company shall have executed a new or restated multi-year credit facility.

- The warrants shall contain customary registration rights and anti-dilution protections.

- All unexercised warrants shall expire on the fourth anniversary of the date of grant.

In the event that the restructuring of the Company's existing indebtedness is not successfully completed prior to the termination of the Engagement Letter, the Company and AEG agree to renegotiate in good faith the incentives and fees applicable to AEG.

EXHIBIT (10.41)

January 22, 2003

Arthur Przybyl
2301 E. Ancient Mesa Lane
Tucson, AZ 85718

Dear Art,

Art, on behalf of the Board of Directors, I am pleased to offer you the position of Interim Chief Executive Officer (CEO) based in our corporate offices in Buffalo Grove, IL. Your new salary shall be ten thousand dollars ($10,000) bi-weekly and you will report to Larry Adelman, Chief Restructuring Officer, AEG Partners, Inc. and to the Governance Committee of the Board. Your new salary shall be effective January 20, 2003

You will be eligible to participate in Akorn's Performance Incentive Program. As CEO your potential annual bonus is fifty percent (50%) subject to plan details and annual Board of Directors approval of payout.

In addition, you will receive a new grant of stock options to purchase fifty thousand (50,000) shares of Akorn, Inc. common stock priced at today's closing price. Stock options are subject to the terms of the stock option plan and an agreement, which each participant is required to sign.

You will continue to receive a car allowance of eight hundred thirty three dollars and thirty three cents ($833.33) per month.

As we committed in our original offer letter, Akorn will pay costs associated with your relocation to the Buffalo Grove area in accordance with the terms and conditions of our Relocation Policy, a copy of which has been given to you. You will note that, in accordance with the policy, Akorn will pay you four (4) weeks salary to cover any unforeseen, additional costs. Should you voluntarily leave the company within one (1) year following your relocation, you agree to return a pro-rated amount of all relocation expenditures paid to you and to vendors on your behalf. Pro-ration shall be calculated using calendar days.

You will continue to be eligible for benefits, which include medical, dental, vision, Smart-Choice, Akorn's (401k) Retirement Savings Program, our Employee Stock Purchase program, flexible spending account, an Employee Assistance Program, life and disability insurance and Paid Time Off (PTO).

Your employment at Akorn continues to be "at-will," which means that either you or the company may terminate your employment at any time. Nothing in this letter shall be interpreted as a contract of employment.

Akorn does commit, however, that in the event you are terminated without cause, you will be entitled to one (1) year severance, not including car allowance, paid biweekly at the base salary in effect at the time of your termination. "Without cause" is held to mean that the reason for termination in not due to significant performance failure on your part, gross negligence, theft or misuse of company assets, willful violation of company policy or relevant legal statue or conduct detrimental to the company.

Art, the entire Akorn team is very pleased that you will undertake this key role and we look forward to working closely with you. Should you have any questions about this offer or any related matter, please do not hesitate to contact me.

May I request that you sign and date below in acknowledgment of the contents of this letter and return to Neill Shanahan, Vice-President Human Resources. I have enclosed a second original for your records.

Respectfully,

Dan Bruhl, Director, Chairman of the

Compensation Committee and Member,
Governance Committee of the Board of Directors

CC: Jerry Ellis, Director
Larry Adelman, AEG
Neill Shanahan, VPHR

EXHIBIT (10.42)

INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made this 15th day of May, 2003 between Akorn, Inc., a Louisiana corporation (the "Company"), and Arthur S. Przybyl ("Indemnitee").

Recitals.

A. Indemnitee is an executive officer of the Company and in such capacity is performing valuable services for the Company.

B. The Bylaws of the Company provide for the indemnification of its officers and directors as permitted by the General Corporation Law of the State of Louisiana (the "State Law"). Such Bylaws and the State Law specifically provide that they are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of its Board of Directors and its executive officers with respect to indemnification of such directors and officers.

To induce Indemnitee to continue to serve as an executive officer of the Company, the parties hererto hereby agree as follows:

1. Intentionally Omitted.

2. Additional Indemnity. Subject to Section 3 below, the Company further agrees to hold harmless and indemnify the Indemnitee against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action brought in the right of the Company) to which Indemnitee is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Indemnitee executes, submits to or files with the U.S. Securities and Exchange Commission any certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 or Rule 13(a)-14 promulgated under the Securities Exchange Act of 1934.

3. Limitations on Additional Indemnity. No indemnity pursuant to Section 2 of this Agreement shall be paid by the Company (a) to the extent Indemnitee is indemnified pursuant to any policy of directors and officers liability insurance purchased and maintained by the Company or (b) on account of Indemnitee's conduct which is finally adjudged by a Court having jurisdiction in the matter to have been knowingly fraudulent, deliberately dishonest, willful or intentional misconduct; or (c) if a final decision by a Court having jurisdiction in the matter shall determine that such indemnification is unlawful. In no event shall the additional indemnity provided herein apply to any certifications executed, submitted to or filed with the U.S. Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 or Rule 13(a)-14 promulgated under the Securities Exchange Act of 1934 covering periodic reports for any period throughout which the Chief Financial Officer of the Company reports on financial and accounting matters directly to Indemnitee (each, an "Excluded Period").

4. Contribution. If for any reason the indemnification provided for in this Agreement is unavailable to the Indemnitee or is insufficient to hold Indemnitee harmless as contemplated by this Agreement, then the Company shall contribute to the amount paid or payable by the Company to any Indemnitee as a result of such loss, claims, damage or liability in such proportion as is appropriate to reflect not only the relative benefits received by the Company and the Indemnitee, but also the relative fault of the past or present employees, officers, directors and agents and contractors of the Company and the Indemnitee, as well as any other relevant equitable considerations. Absent a final decision by a Court having jurisdiction in the matter to the contrary, the applicable contributions shall be 99% by the Company and 1% by the Indemnitee.

5. Continuation of Indemnity. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is a director, officer, employee or agent of the Company and shall continue thereafter so long as Indemnitee shall be subject to any possible claim or threatened, pending or completed action, suit, proceeding, whether civil, criminal, administrative, or investigative, by reason of the fact that Indemnitee executed, submitted to, or filed a certification with the U.S. Securities and Exchange Commission pursuant to Section 906 of the Sarbanes-Oxley

Act of 2002 or Rule 13(a)-14 promulgated under the Securities Exchange Act of 1934 other than for an Excluded Period.

6. Notification and Defense of Claim. Promptly after receipt by Indemnitee of notice of the commencement of any action, suit or proceeding, Indemnitee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not relieve it from any liability which it may have to Indemnitee otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Indemnitee notifies the Company of the commencement thereof:

(a) The Company shall be entitled to participate therein at its own expense;

(b) Except as otherwise provided below, to the extent that it may wish, the Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel reasonably acceptable to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense thereof, the Company will not be liable to Indemnitee under this Agreement for any legal or other expense subsequently incurred by Indemnitee in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ counsel of his own choice in such action, suit or proceeding, provided that the fees and expenses of any such counsel incurred after notice from the Company of its assumption of the defense thereof shall be the sole obligation of Indemnitee unless (i) the employment of such counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of the defense of such action, or (iii) the Company shall not have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of such counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense

of any action, suit or proceeding brought by or on behalf of the Company or as to which Indemnitee shall have made the conclusion provided for in (ii) above; and

(c) The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Company nor Indemnitee will unreasonably withhold, delay or condition their consent to any proposed settlement.

7. Advancement and Repayment of Expenses. Expenses incurred by Indemnitee in defending any action, suit or proceeding referred to in Section 2 of this Agreement shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall ultimately be determined in a final decision by a Court having jurisdiction in the matter that the Indemnitee is not entitled to indemnification by the Company for such expenses. Indemnitee agrees to reimburse the Company in accordance with any such undertaking.

8. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Company hereby in order to induce Indemnitee to continue as an officer of the Company, and acknowledges that Indemnitee is relying upon this Agreement in continuing in such capacity.

(b) In the event Indemnitee is required to bring any action to enforce rights or to collect monies due under this Agreement and is successful in such action, the Company shall reimburse Indemnitee for all of Indemnitee's reasonable fees and expenses in bringing and pursuing such action (including attorneys' fees at any stage including on appeal).

9. Severability. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others. If any provisions hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other

provisions hereof.

10. Governing Law; Binding Effect; Amendment.

(a) This Agreement shall be interpreted and enforced in accordance with the laws of the State of Louisiana.

(b) This Agreement shall be binding upon Indemnitee and upon the Company and its successors and assigns including any purchaser of all or substantially all of the assets of the Company, and shall inure to the benefit of Indemnitee, his heirs, personal representatives and assigns and to the benefit of the Company and its successors and assigns including any purchaser of all or substantially all of the assets of the Company.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

AKORN, INC.	INDEMNITEE:
By: /s/ Bernard J. Pothast	/s/ Arthur S. Przybyl
Bernard J. Pothast Chief Financial Officer	Arthur S. Przybyl

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-44785, 33-24970 and 33-70686 of Akorn, Inc. on Form S-8 of our report dated May 9, 2003 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's ability to continue as a going concern), appearing in this annual report on Form 10-K of Akorn, Inc. for the year ended December 31, 2002.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Chicago, Illinois
May 19, 2003

Exhibit 99.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Akorn, Inc. (the "Company") on Form 10-K for the period ended December 31, 2002, as filed with the Securities and Exchange Commission and to which this Certification is an exhibit (the "Report"), the undersigned officer of Akorn, Inc. does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 21, 2003

/s/ ARTHUR S. PRZYBYL

Arthur S. Przybyl
Interim Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Akorn, Inc. (the "Company") on Form 10-K for the period ended December 31, 2002, as filed with the Securities and Exchange Commission and to which this Certification is an exhibit (the "Report"), the undersigned officer of Akorn, Inc. does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 21, 2003

/s/ BERNARD J. POTHAST

Bernard J. Pothast
Chief Financial Officer