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

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

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

COMMISSION FILE NUMBER: 0-13976

AKORN, INC.
(Exact Name of Registrant as Specified in its Charter)

LOUISIANA	72-0717400
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2500 MILLBROOK DRIVE BUFFALO GROVE, ILLINOIS	60089
(Address of Principal Executive Offices)	(Zip Code)

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

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

Yes X No

At April 30, 2001 there were 19,300,644 shares of common stock, no par value, outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	March 31, 2001	December 31, 2000*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,422	$ 807
Trade accounts receivable (less allowance for uncollectibles of $8,321 and $801)	8,812	24,144
Inventory	11,154	14,058
Deferred income taxes	8,689	2,016
Income taxes recoverable	722	-
Prepaid expenses and other assets	999	1,098
TOTAL CURRENT ASSETS	31,798	42,123
OTHER ASSETS	19,868	20,364
PROPERTY, PLANT AND EQUIPMENT, NET	33,439	34,031
TOTAL ASSETS	$85,105	$96,518
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current installments of long-term debt	$45,058	$ 7,753
Trade accounts payable	7,378	5,900
Accrued compensation	743	854
Accrued expenses and other liabilities	920	1,261
TOTAL CURRENT LIABILITIES	54,099	15,768
LONG-TERM DEBT	2,123	39,089
OTHER LONG-TERM LIABILITIES	1,829	1,829
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock	22,846	22,647
Retained earnings	4,208	17,185

TOTAL SHAREHOLDERS' EQUITY	27,054	39,832
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$85,105	$96,518

*Condensed from audited consolidated financial statements.

See notes to condensed consolidated financial statements.

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

	Three months ended March 31, 2001	2000
Net sales	$ 6,076	$ 16,644
Cost of sales	11,859	8,231
GROSS (LOSS)/PROFIT	(5,783)	8,413
Selling, general and administrative expenses	12,831	3,775
Amortization of intangibles	357	380
Research and development	1,157	734
	14,345	4,889
OPERATING (LOSS)/INCOME	(20,128)	3,524
Interest expense	(715)	(672)
Interest and other income, net	(85)	40
	(800)	(632)
(LOSS)/INCOME BEFORE INCOME TAXES	(20,928)	2,892
Income tax (benefit)/expense	(7,951)	1,098
NET (LOSS)/INCOME	$(12,977)	$ 1,794
PER SHARE:		
NET (LOSS)/INCOME - BASIC	$ (0.67)	$ 0.10
NET (LOSS)/INCOME - DILUTED	(A)	$ 0.09
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	19,271	18,802
DILUTED	19,271	19,710

(A) Not presented where the effect of potential shares is antidilutive.

See notes to condensed consolidated financial statements.

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

	Three months ended March 31, 2001	2000
OPERATING ACTIVITIES		
Net (loss)/income	$(12,977)	$ 1,794
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	1,010	830
Writedown of long-lived assets	1,307	-
Changes in operating assets and liabilities	11,966	(5,971)
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	1,306	(3,347)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,229)	(3,218)
NET CASH USED IN INVESTING ACTIVITIES	(1,229)	(3,218)
FINANCING ACTIVITIES		
Repayment of long-term debt	(961)	(7,757)
Increased borrowings under bank credit agreement	1,300	13,000
Proceeds from exercise of stock options	199	1,835
NET CASH PROVIDED BY FINANCING ACTIVITIES	538	7,078
INCREASE IN CASH AND CASH EQUIVALENTS	615	513
Cash and cash equivalents at beginning of period	807	25
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,422	$ 538

See notes to condensed consolidated financial statements.

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

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Akorn, Inc. and its wholly owned subsidiary (the Company). Intercompany transactions and balances have been eliminated in consolidation. These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and accordingly do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for a full year. For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 2000, included in the Company's Annual Report on Form 10-K.

NOTE B - INVENTORY

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

	March 31, 2001	December 31, 2000
Finished goods	$ 4,117	$ 5,014
Work in process	1,670	3,644
Raw materials and supplies	5,365	5,400
	$11,154	$14,058

Inventory at March 31, 2001 and December 31, 2000 is reported net of reserves for slow-moving, unsalable and obsolete items of $4,583,000 and $3,171,000, respectively, primarily related to finished goods.

NOTE C - PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2001	December 31, 2000
Land	$ 396	$ 396
Buildings and leasehold improvements	8,208	8,204
Furniture and equipment	24,451	21,508
Automobiles	55	55
	33,110	30,163
Accumulated depreciation	(14,350)	(13,697)
	18,760	16,466
Construction in progress	14,679	17,565
	$ 33,439	$ 34,031

Construction in progress primarily represents capital expenditures related to the Company's freeze-drying project that will enable the Company to perform processes in-house that are currently being performed by a sub-contractor. The new ERP system developed during 2000 and included in the December 31, 2000 balance sheet as construction in progress was placed in service as of January 1, 2001 and is included in furniture and equipment.

NOTE D - INDUSTRY SEGMENT INFORMATION

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

	Three Months Ended March 31,	
	2001	2000
NET SALES		
Ophthalmic	$ 65	$ 7,179
Injectable	6,011	9,465
Total net sales	$ 6,076	$16,644
OPERATING (LOSS)/INCOME		
Ophthalmic	$(12,446)	$ 1,282
Injectable	(4,867)	2,605

General Corporate	(2,815)	(363)
Total operating (loss)/income	(20,128)	3,524
Interest and other expense, net	(800)	(632)
(Loss)/Income before income taxes	$(20,928)	$ 2,892

NOTE E - DISCONTINUED PRODUCT

In May 2001, the Company decided to no longer sell 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.

NOTE F - CHANGE IN ACCOUNTING ESTIMATES

In May 2001, the Company completed an analysis of its March 31, 2001 allowance for chargebacks and rebates and determined that an increase from the allowance of $3,296,000 at December 31, 2000 was necessary. In performing such analysis, the Company utilized recently obtained reports of wholesaler's inventory information, which had not been previously obtained or utilized. Based on 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. The expense for the three months ended March 31, 2000 was $7,966,000.

Based on the wholesaler's inventory information, the Company also increased its allowance for potential product returns to $2,232,000 at March 31, 2001 from $232,000 at December 31, 2001. The expense for the three months ended March 31, 2001 was $2,559,000.

Based upon its recent unsuccessful efforts to collect past due balances, the Company has updated its analysis of potentially uncollectible accounts receivable balances and has increased the allowance to $8,321,000 at March 31, 2001 from $801,000 at December 31, 2000. The expense for the three months ended March 31, 2001 was $7,520,000.

Based on current sales trends and forecasted sales activity by product, the Company increased its reserve for slow-moving, unsaleable and obsolete inventory items to $4,583,000 at March 31, 2001 from $3,171,000 at December 31, 2000. The expense for the three months ended March 31, 2001 was $1,500,000.

NOTE G - LEGAL PROCEEDINGS

On April 4, 2001, the Company was notified by the International Court of Arbitration (the "ICA") of the International Chamber of Commerce that NovaDAQ Technologies, Inc. ("NovaDAQ") had filed a Request for Arbitration with the ICA on April 2, 2002. 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 fluorescence angiography (the "Products"). Akorn's drug indocyanine green ("ICG") would be used as part of the angiographic procedure. The United States Food and Drug Administration ("FDA") has requested that the parties undertake clinical studies prior to obtaining FDA approval. In its Request for Arbitration, NovaDAQ has asserted that under the terms of the Agreement, Akorn should be responsible for the costs of performing the requested clinical trials, which are estimated to cost approximately $4,400,000. Alternatively, NovaDAQ seeks a declaration that the Agreement should be terminated as a result of Akorn's alleged breach. Finally, in either event, NovaDAQ seeks unspecified damages as a result of any failure or delay on Akorn's part in performing its alleged obligations under the Agreement.

NOTE H - SUBSEQUENT EVENT

On May 15, 2001, the Company failed to make a $1.3 million required principal payment on its existing bank debt. Failure to make the required principal

payment as well as violations of certain other financial covenants violated the terms of the credit agreement. The Company has initiated discussions with the bank group in an attempt to restructure the credit facility.

The Company had previously received a commitment letter from Dr. John N. Kapoor, its President and interim CEO, to provide $3.0 million of subordinated debt on or before May 15, 2001, the terms of which the Company had previously disclosed in its December 31, 2000 Annual Report on Form 10-K. On May 15, 2001, Dr. Kapoor advised the Company that he believes that material changes in the Company's financial position and the Company's covenant violations on the senior bank debt prevented the Company from complying with certain representations and warranties which were to be contained in the subordinated debt financing and thereby necessitated a delay in funding the subordinated debt. The Company is continuing to negotiate both with Dr. Kapoor and with its senior lenders to restructure its senior credit facility and to obtain the subordinated debt on terms acceptable to the Company, its senior lenders and Dr. Kapoor. Management can offer no guarantees or assurances that its efforts will be successful.

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 COMPARED TO 2000

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

	Three Months Ended March 31,	
	2001	2000
	(in thousands)	
Ophthalmic segment	$ 65	$ 7,179
Injectable segment	6,011	9,465
Total net sales	$ 6,076	$16,644

Consolidated net sales decreased 63.5% in the quarter ended March 31, 2001 compared to the same period in 2000. Ophthalmic segment sales decreased 99.1%, primarily due to the increases in the allowances for chargebacks and rebates and returns, discussed in Note F to the condensed consolidated financial statements. The allowances for chargebacks and rebates and returns are recorded as reductions to gross sales in computing net sales. The remaining decline in ophthalmic sales reflects declining sales in antibiotic, glaucoma and artificial tear product lines. Ophthalmic net sales were also negatively impacted by price competition for some of the Company's higher volume product lines. Injectable segment sales decreased 36.5% compared to the same period in 2000 primarily due to the increases in the allowances for chargebacks and rebates and returns, discussed in Note F to the condensed consolidated financial statements.

Consolidated gross margin was a loss of $5,783,000 for the 2001 first quarter reflecting the effects of the aforementioned increases in the allowances for chargebacks and rebates and returns, as well as an increase in the reserve for slow-moving, unsaleable and obsolete inventory items (See Note F). Gross margin for the ophthalmic segment was a loss of $5,565,000. The Ophthalmic segment gross margin also reflects under-absorption of plant overhead expenses at the Somerset facility. Gross margin for the injectable segment was a loss of $218,000, reflecting increases in the allowances for chargebacks and rebates and returns, an increase in the reserve for slow-moving, unsaleable and obsolete inventory items (See Note F) and under-absorption of plant overhead expenses at the Decatur facility. The Company incurred unfavorable manufacturing variances of $594,000 at its Somerset, NJ facility and $2,817,000 at its Decatur, IL

facility. Management expects to increase third-party manufacturing business at the Decatur facility in order to increase overhead absorption for the remainder of the year. The Company is actively looking into increasing its manufacturing activity at its Somerset facility either through additional product approvals or increasing its third-party manufacturing business.

Selling, general and administrative (SG&A) expenses increased 239.9% during the quarter ended March 31, 2001 as compared to the same period in 2000, primarily reflecting a $7,320,000 charge for an increase to the Company's allowance for doubtful accounts and asset impairment charges of $1,310,000 (See Note F). Without these charges SG&A would have increased 11.3%, reflecting increased compensation and facility related expenses. Amortization of intangibles decreased from $380,000 to $357,000, or 6.0% over the prior year quarter, reflecting the exhaustion of certain product intangibles.

Research and development (R&D) expense increased 57.6% in the quarter, to $1,157,000 from $734,000 for the same period in 2000. The increase reflects expenses related to clinical trials. Management expects

total R&D expenses in 2001 to decrease over the remainder of the year as current ongoing research efforts are prioritized and pursued at a pace consistent with the Company's available financial resources.

Interest expense of $715,000 was up 6.4% on higher interest rates and higher outstanding debt balances. The Company's effective tax rate for the current and prior year quarter was 38.0%. The Company reported a net loss of $12,977,000 or $0.67 per weighted average share for the three months ended March 31, 2001, compared to a net income of $1,794,000 or $0.10 per weighted average share for the comparable prior year quarter. The Company reported net income of $0.09 per diluted share for the prior year quarter.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133". These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedge activities. They generally require that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. These statements, as amended, are effective January 1, 2001. Adoption of this standard did not have a material effect on the Company's financial position or results of operations.

In December 1999, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". This bulletin, as amended, provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. This bulletin, as amended, is effective no later than the fourth quarter of fiscal years beginning after December 15, 1999. Adoption of this bulletin did not have a material effect on the Company's financial position or results of operations.

FINANCIAL CONDITION AND LIQUIDITY

Working capital at March 31, 2001 was $(22.3) million compared to $26.4 million at December 31, 2000. Working capital is negative primarily due to the reclassification of $44.4 million in long-term debt that is due within twelve months of the balance sheet reporting date of March 31, 2001. Future working capital needs will be highly dependent upon the Company's ability to control expenses and collect its past due receivables as well as successfully restructure its bank debt and secure the $3.0 million previously committed subordinated debt as discussed in Note H. Management believes that existing cash, cash flow from operations and the subordinated debt proceeds will be sufficient to meet the cash needs of the business for the immediate future, but that additional financing will be needed to refund the current bank debt. If available funds, cash generated from operations and subordinated debt proceeds, if any, are insufficient to meet immediate liquidity requirements, further financing and/or reductions of existing operations will be required. There are no guaranties that such financing will be available or available on acceptable terms. Further, such additional financing may require the granting of rights,

preferences or privileges senior to those rights of the common stock and existing stockholders may experience substantial dilution of their ownership interests. The Company will need to refinance or extend the maturity of the bank credit agreement as it does not anticipate sufficient cash to make the January 2, 2002 scheduled payment.

For the quarter ended March 31, 2001, the Company provided $1,306,000 in cash from operations to finance its working capital requirements, primarily from an increase in accounts payable balances. Investing activities, which primarily relate to purchase of equipment and in progress construction, required $1,229,000 in cash. Investment activities provided $538,000 in cash, primarily the result of increased borrowings against the line of credit and the exercise of stock options.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 4, 2001, the Company was notified by the International Court of Arbitration (the "ICA") of the International Chamber of Commerce 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 fluorescence angiography (the "Products"). Akorn's drug indocyanine green ("ICG") would be used as part of the angiographic procedure. The United States Food and Drug Administration ("FDA") has requested that the parties undertake clinical studies prior to obtaining FDA approval. In its Request for Arbitration, NovaDAQ has asserted that under the terms of the Agreement, Akorn should be responsible for the costs of performing the requested clinical trials, which are estimated to cost approximately $4,400,000. Alternatively, NovaDAQ seeks a declaration that the Agreement should be terminated as a result of Akorn's alleged breach. Finally, in either event, NovaDAQ seeks unspecified damages as a result of any failure or delay on Akorn's part in performing its alleged obligations under the Agreement.

While Akorn has not yet filed a response to the Request for Arbitration with the ICA, Akorn intends to deny the allegations contained in the Request for Arbitration, including, but not limited to, those asserting that Akorn is solely responsible for the requested clinical trials, and to aggressively defend its position before the ICA.

Certain additional legal proceedings in which the Company is involved are described in Item 3 to the Company's Form 10-K for the year ended December 31, 2000 and in Note N to the consolidated financial statements included in that report.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

The Company is currently in violation of certain covenants on its $45 million credit facility. The Company failed to make a $1,300,000 principal payment that was due on May 15, 2001. There have been no defaults on interest payments due on the loan.

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

No matters were submitted to a vote of security holders during the quarter ended March 31, 2001.

ITEM 5. OTHER INFORMATION

On May 15, 2001, the Company announced that Dr. John N. Kapoor, its President and interim CEO, had, for the present, determined to withhold from the Company $3,000,000 in subordinated debt, the terms of which the Company had previously disclosed in its December 31, 2000 Annual Report on Form 10-K, because of Dr. Kapoor's belief that material changes in the Company's financial position and covenant violations on the Company's senior bank debt, prevented the Company from complying with representations and warranties which were to be contained in the documentation evidencing the subordinated debt. The Company is continuing to negotiate both with Dr. Kapoor and with its senior lenders to restructure the senior credit facility and to obtain the subordinated debt on terms acceptable to the Company, its senior lenders and Dr. Kapoor.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

(11.1) Computation of Earnings (Loss) per Share

(b) Reports on Form 8-K

None.

SIGNATURES

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

AKORN, INC.

/s/ Kevin M. Harris

Kevin M. Harris
Vice President, Chief Financial Officer and Secretary
(Duly Authorized and Principal Financial Officer)

Date: May 21, 2001

AKORN, INC.
EXHIBIT 11.1

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

	Three Months Ended March 31, 2001	2000
(Loss)/Income:		
(Loss)/Income applicable to common stock	$(12,977)	$ 1,794
Weighted average number of shares outstanding	19,271	18,802
Net (loss)/income per share - basic	$ (0.67)	$ 0.10
Additional shares assuming conversion of options and warrants	N/A	908
Pro forma shares	19,271	19,710
Net income per share - diluted	(A)	$ 0.09

(A) Not presented where the effects of potential shares are antidilutive.