AKORN INC
Form 10-K
March 14, 2014

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

Form 10-K

þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2013

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-32360

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.)

1925 W. Field Court, Suite 300, Lake Forest, Illinois 60045
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (847) 279-6100

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	The NASDAQ Stock Market LLC

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
(None)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes R No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No R

Indicate by check mark whether the registrant (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 R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer: R	Accelerated filer: £	Non-accelerated filer: £	Smaller reporting company: £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes £ No R

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 June 30, 2013 was approximately $742,940,000 based on the closing market price of $13.52 reported on the Nasdaq Stock Market LLC on Friday, June 28, 2013.

The number of shares of the registrant's common stock, no par value per share, outstanding as of March 3, 2014 was 96,652,900.

Documents incorporated by reference: Definitive Proxy Statement for the 2014 Annual Meeting incorporated by reference into Part III, Items 10-14 of this Form 10-K.

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 our intent, belief or expectations are not guarantees of future performance. These statements are subject to 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:

Our ability to continue to comply with all of the requirements of the Food and Drug Administration, including current Good Manufacturing Practices regulations;

Our ability to obtain additional funding or financing to operate and grow our business;

The effects of federal, state and other governmental regulation on our business;

Our ability to obtain and maintain regulatory approvals for our products;

Our success in developing, manufacturing, acquiring and marketing new products;

Our ability to generate cash from operations sufficient to meet our working capital requirements;

The success of our strategic partnerships for the development and marketing of new products;

Our ability to bring new products to market and the effects of sales of such products on our financial results;

Our ability to successfully integrate acquired businesses and products;

The effects of competition from other generic pharmaceuticals and from other pharmaceutical companies;

Availability of raw materials needed to produce our products; and

Other factors referred to in this Form 10-K and our other Securities and Exchange Commission filings.

See "Item 1A. Risk Factors". You should read this report completely with the understanding that our actual results may differ materially from what we expect. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

Item 1. Business

Akorn, Inc. ("Akorn", the "Company") manufactures and markets a full line of diagnostic and therapeutic ophthalmic pharmaceuticals as well as niche hospital drugs and injectable pharmaceuticals. In addition, through our subsidiary Advanced Vision Research, Inc. ("AVR"), we manufacture and market a line of over-the-counter ("OTC") ophthalmic products for the treatment of dry eye under the TheraTears® brand name, as well as a portfolio of private label OTC ophthalmic products. The Company is a manufacturer and/or marketer of diagnostic and therapeutic pharmaceutical products in various specialty areas, including ophthalmology, antidotes, anti-infectives, vaccines, and controlled substances for pain management and anesthesia, among others. Our customers include physicians, optometrists, hospitals, wholesalers, group purchasing organizations, retail pharmacy chains and other pharmaceutical companies. Akorn, Inc. is a Louisiana corporation founded in 1971 in Abita Springs, Louisiana. In 1997, we relocated our corporate headquarters to the Chicago, Illinois area and currently maintain our corporate offices in Lake Forest, Illinois. We operate pharmaceutical manufacturing facilities in Decatur, Illinois and Somerset, New Jersey, and in Paonta Sahib, Himachal Pradesh, India. We also operate a Research and Development ("R&D") center in Vernon Hills, Illinois and a distribution warehouse in Gurnee, Illinois.

In this annual report, we have reported results for three operating segments: ophthalmic; hospital drugs & injectables; and contract services. These three segments are described in greater detail below. For information regarding revenues and gross profit for each of our segments, see Item 7 under the heading "Results of Operations" and Item 8. Financial Statements and Supplementary Data, Note 12 — "Segment Information."

Ophthalmic Segment. We market a full 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, chain drug stores and other national account customers, include antibiotics, steroids, steroid combinations, glaucoma medications, decongestants/antihistamines and anti-edema medications. Non-pharmaceutical products include various artificial tear solutions, preservative-free lubricating ointments and eyelid cleansers.

We also market a line of over-the-counter ("OTC") dry eye and other eye health products principally under the TheraTears® brand name, as well as an assortment of private-labeled ophthalmic products. These products are sold through major chain drug stores and big box retailers, as well as directly to optometrists, ophthalmologists and other eye care practitioners and clinics.

Hospital Drugs & Injectables Segment. We market a line of niche hospital drug and injectable pharmaceutical products, including antidotes, anti-infectives, controlled substances for pain management and anesthesia, and other selected pharmaceutical products. These products are predominately sold to hospitals through the wholesale distribution channel. We target products with limited competition due to difficulty in manufacturing and/or the product's market size.

Contract Services Segment. We manufacture a variety of pharmaceutical products for third party pharmaceutical customers based on their specifications from both our domestic and India manufacturing plants.

Manufacturing. We operate domestic U.S. manufacturing facilities in Decatur, Illinois and Somerset, New Jersey, and a foreign manufacturing facility in Paonta Sahib, Himachal Pradesh, India. (See Item 2. Properties, for more information.) Through these manufacturing facilities, we manufacture a diverse group of sterile pharmaceutical products, including dye products, liquid injectables, lyophilized injectables, gels, and ophthalmic solutions and ointments for our ophthalmic and hospital drugs & injectables segments. Our Somerset facility manufactures

ophthalmic solutions and ointment products for our ophthalmic and contract services segments, and gels for our hospital drugs & injectables segment. Our Decatur manufacturing facility manufactures dye products, liquid injectables, lyophilized injectables and ophthalmic solutions for our ophthalmic, hospital drugs & injectables and contract services segments. The manufacturing complex in Paonta Sahib, Himachal Pradesh, India manufactures sterile general injectables, sterile injectable and oral cephalosporins, sterile injectable carbapenems, and sterile injectable hormones. The Paonta Sahib plant currently manufactures product for Indian contract customers and for export to Africa, Asia and other unregulated markets. We are working toward obtaining approval from the U.S. Food and Drug Administration ("FDA") to manufacture various products from this plant for export to the U.S., as well as approvals to supply other regulated markets.

Sales and Marketing. We rely on our sales and marketing teams to help us maintain and, where possible, increase our market share in our predominantly non-proprietary product offering. Our sales organization consists of multiple teams, including: (1) regional outside sales teams focused on (a) ophthalmic sales and (b) injectable and other acute care sales; (2) an inside sales team focused on customers in smaller markets; and (3) a national accounts sales team focused on wholesale, retail pharmacy chain and group purchasing organization ("GPO") markets. Our outside sales representatives sell ophthalmic products directly to retinal surgeons and ophthalmologists, and sell hospital drugs & injectables directly to local hospitals in order to support compliance and pull-through against GPO contracts. The inside sales team augments our outside sales teams in the sale of ophthalmic and hospital drugs & injectables products in markets where outside sales would not be cost effective. Our national accounts sales team seeks to establish and maintain contracts with wholesalers, retail pharmacy chains and GPOs that represent hospitals in the United States. We also utilize contracted salespeople for maintaining and expanding the presence of our OTC ophthalmic products within major drugstore chains in the U.S. and other countries. To support our sales efforts, we have a customer service team, as well as a marketing department focused on educating current and future customers about our product offerings and manufacturing capabilities.

Research and Development. We seek to continually grow our business by developing new products, either internally or with the assistance of external partners. Internal R&D projects are managed at our new state of the art R&D facility located in Vernon Hills, Illinois. The majority of product development activity takes place at the Vernon Hills facility, while our manufacturing plants in Decatur, IL, Somerset, NJ and Paonta Sahib, India, provide support for the latter phases of product development and exhibit batch production. We believe that having our own centralized and dedicated R&D facility allows us to significantly increase the size of our product pipeline as well as shorten the time between project launch and filing with the FDA. We also continue to work with strategic partners for the external development of certain products. As of December 31, 2013, we had 35 full-time employees directly involved in product research and development activities.

R&D costs are expensed as incurred. Such costs amounted to $19.9 million, $15.9 million and $11.6 million for the years ended December 31, 2013, 2012 and 2011, respectively, and includes both internal R&D expenses and milestone fees paid to our strategic partners.

We received two Abbreviated New Drug Application ("ANDA") product approvals and one tentative ANDA approval from the FDA in 2013, five approvals in 2012 and one approval in 2011. During 2013, we submitted 15 new filings to the FDA, increasing to 63 the number of our ANDA filings currently under review by the FDA Office of Generic Drugs. We plan to continue to submit additional ANDA filings on a regular basis in anticipation of selected pharmaceutical products coming off patent, thereby allowing us to compete by marketing generic equivalents. For more information, see "Government Regulation."

No assurance can be given as to:

(1) whether we will file New Drug Applications ("NDAs") or ANDAs when anticipated;
(2) whether or when such NDAs or ANDAs will be approved by the FDA;
(3) whether or not we will ultimately develop marketable products based on any filings we do make;
(4) the actual size of the market for any such products, or
(5) whether our participation in such market would be profitable.

See "Government Regulation" and Item 1A. Risk Factors – "Our growth depends on our ability to timely develop and successfully market new pharmaceutical products."

Mergers and Acquisitions. We actively seek to expand and enhance our business through strategic acquisitions. We seek to acquire independently-operating businesses that we believe would complement our existing business and provide us opportunities for synergistic growth.

Hi-Tech Acquisition:

On August 27, 2013, we entered into a definitive agreement to acquire Hi-Tech Pharmacal Co, Inc. ("Hi-Tech") for a total purchase price of approximately $640 million, or $43.50 per outstanding share of Hi-Tech common stock. The acquisition was approved by vote of the shareholders of Hi-Tech on December 19, 2013, but is still subject to review by the Federal Trade Commission pursuant to provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. We expect the acquisition to close early in the second quarter of 2014. Upon closing, Akorn Enterprises, Inc., a wholly-owned subsidiary of Akorn, Inc., will be merged with and into Hi-Tech, which will then be a wholly-owned subsidiary of Akorn, Inc.

Hi-Tech is a specialty pharmaceutical company that develops, manufactures and markets generic and branded prescription and OTC products. Hi-Tech specializes in difficult to manufacture liquid and semi-solid dosage forms and produces and markets a range of oral solutions and suspensions, as well as topical ointments and creams, nasal sprays, otics, sterile ophthalmics and sterile ointment and gel products. Hi-Tech's Health Care Products division is a

developer and marketer of OTC products, and their ECR Pharmaceuticals subsidiary (“ECR”) markets branded prescription products. Hi-Tech operates a manufacturing facility and corporate offices in Amityville, New York, and ECR maintains its corporate offices in Richmond, Virginia.

The goal of the acquisition of Hi-Tech is to strengthen Akorn’s current position as the third largest company in the U.S. generic ophthalmic market and to broaden our product offering to include other niche dosage forms such as oral liquids, topical creams and ointments, nasal sprays and otics. Also, this transaction is expected to significantly increase our retail presence in both prescription and OTC products, and expand our R&D pipeline.

We intend to fund the transaction principally through a $600 million term loan and through cash of Hi-Tech assumed through the acquisition. As of January 31, 2014, Hi-Tech reported cash and cash equivalents of approximately $86 million, and we anticipate that Hi-Tech will have roughly $90 million of cash on its balance sheet at closing. JPMorgan Chase Bank, N.A. has committed financing for the transaction. The $600 million term loan was syndicated during the quarter ended December 31, 2013, and we anticipate entering into the loan agreement once the FTC review is completed and a closing date has been set. (For additional information on the purchase agreement and committed financing please refer to our Current Report on Form 8-K filed on August 28, 2013 and our Schedule 13D filed on September 5, 2013.)

Kilitch Acquisition:

On February 28, 2012, we acquired selected assets of Kilitch Drugs (India) Limited ("Kilitch") pursuant to a Business Transfer Agreement ("BTA") between our subsidiary, Akorn India Private Limited ("AIPL"), and Kilitch signed on October 6, 2011 (the "Kilitch Acquisition"). We paid approximately $60.1 million in cash at closing, which included consideration of $55.2 million and acquisition related costs of $4.9 million. The primary assets acquired were Kilitch's pharmaceutical manufacturing complex in Paonta Sahib, Himachal Pradesh, India and its ongoing book of business. We also acquired pursuant to the BTA selected assets of NBZ Pharma Limited, a company affiliated with Kilitch, from which we acquired the rights to manufacture and distribute certain pharmaceuticals products. The Paonta Sahib plant currently manufactures pharmaceutical products primarily for contract customers in India and for export to unregulated markets. We are working actively toward gaining FDA approval to manufacture certain of our product at the Paonta Sahib plant for export to the U.S. See Item 1A. Risk Factors — "Failure to obtain regulatory certification of our manufacturing plant in India for production of pharmaceutical products for export to the United States, as well as other regulated world markets, could impair our ability to grow and adversely affect our business, financial condition and results of operations" and "Failure to comply with the U.S. Foreign Corrupt Practices Act could subject us to, among other things, penalties and legal expenses that could harm our reputation and have a material adverse effect on our business, financial condition and operating results" for more information.

AVR Acquisition:

On May 3, 2011, we acquired AVR Business Trust and its subsidiaries, Advanced Vision Research, Inc. and Advanced Vision Pharmaceuticals, LLC (collectively, "AVR") for $26.0 million in cash. AVR is a developer and marketer of a line of OTC eye care products marketed primarily under the TheraTears® brand name. AVR products are carried by major drug retailers throughout the United States and are being marketed in various foreign countries.

Business Development. In addition to our internal research and development, we also maintain a business development program that identifies potential product acquisition or product licensing opportunities. We have strategically focused our business development efforts on products that complement our existing product lines and which are expected to have few competitors.

Merck Products Acquisition:

On November 15, 2013, we acquired three ophthalmic products from Merck for $52.8 million in cash (the "Merck Products Acquisition"). The products acquired were:

AzaSite® – (azithromycin ophthalmic solution), a prescription sterile eye drop solution used to treat bacterial conjunctivitis,
Cosopt® – (dorzolamide hydrochloride and timolol maleate ophthalmic solution), a prescription sterile eye drop solution that is used to lower the pressure in the eye (intraocular pressure) in people with open-angle glaucoma or ocular hypertension

Cosopt® PF – a preservative-free prescription version of Cosopt, supplied in sterile, single-use containers.

This acquisition expands our line of prescription ophthalmic products to include additional branded products, and is expected to provide a platform to support future acquisitions and in-licensing of branded pharmaceuticals. Upon entering into the product acquisition agreement, we entered into supply agreements with Merck and a third party to ensure continued supply of the three products. The Merck Products Acquisition included our acquisition of a Merck subsidiary corporation, Inspire Pharmaceuticals, Inc. ("Inspire"), which was and continues to be the holder of the product rights to AzaSite®. Inspire has significant net operating loss carry-forwards, which we expect to fully utilize as an offset against our future tax liabilities.

Lundbeck Products Acquisition:

On December 22, 2011, we acquired three NDAs from H. Lundbeck A/S ("Lundbeck"). On the date of closing of this acquisition (the "Lundbeck Acquisition"), we made an initial payment of $45.0 million and will owe a subsequent milestone payment of $15.0 million in cash on the third anniversary of the closing date. The initial payment and the subsequent milestone payment are subject to a reduction if certain sales targets are not met in the first three years and the subsequent three years post-closing. The acquired portfolio consists of Nembutal®, a Schedule II controlled drug, Diuril® and Cogentin®. In addition, we signed a transition services agreement with Lundbeck to ensure product availability, and separately paid approximately $4.6 million for Lundbeck's existing inventory of the three acquired products. This acquisition provided us with three branded, hospital injectables to add to our portfolio.

We strategically partner with drug development and manufacturing companies throughout the world for the development of drug products that we believe will be complementary to our existing product offering, but for which we may lack the developing expertise and/or the manufacturing capacity or capabilities. We may owe payments to these partners from time to time based on their achievement of development milestones, up to and including FDA approval of the product. Frequently, our development partner will become the manufacturer of the product if and when FDA approval is received, and we may owe royalties or have other profit sharing arrangements with our development partner.

Patents, Trademarks and Proprietary Rights. We consider the protection of our patents, trademarks and proprietary rights important to maintaining and growing our business. Through our acquisitions, we have increased the number and importance of trademarks related to our products and product lines. One of our acquired companies, AVR, maintains a line of OTC eye care products sold under trade names such as TheraTears® and SteriLid®, among others. We are committed to maintaining and defending the trade names of AVR's products, as they are important in supporting the success and growth of this business. Through the Merck Products Acquisition, we also acquired rights to the trade names for the branded, prescription ophthalmic products AzaSite® and Cosopt®. In addition, we maintain and defend trademarks related to a number of internally-developed products, as well as others acquired or licensed from other companies.

We have sought, and intend to continue to seek, patent protection in the United States and selected foreign countries where deemed appropriate and advantageous to us. The importance of these patents does not vary among our business segments. We currently have five patents, none of which expire within the next three years.

We also rely upon trade secrets, unpatented proprietary know-how and continuing technological innovation to maintain and develop our competitive position. We enter into confidentiality agreements with certain of our employees pursuant to which such employees agree to assign to us any inventions relating to our business made by them while in our 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 we will be able to maintain information pertinent to such research as proprietary technology or trade secrets. See Item 1A. Risk Factors — "Our patents and proprietary rights may not adequately protect our products and processes" and "Third parties may claim that we infringe their proprietary rights and may prevent or delay us from manufacturing and selling some of our new products" for more information.

Employee Relations. As of December 31, 2013, we had ---786 permanent, full-time employees and nine (9) part-time or temporary employees in the United States and 313 permanent and 354 temporary employees working for our subsidiary in India. Of our full-time employees working in the U.S., 419 worked at our manufacturing facilities in Decatur, Illinois, 158 worked at our manufacturing facility in Somerset, New Jersey, 57 were field-based salespersons, 26 worked at our R&D facility in Vernon Hills, Illinois, and the remaining 135 worked in corporate support functions, either at our corporate offices in Lake Forest, Illinois or Ann Arbor, Michigan, or at our distribution facility in Gurnee, Illinois. We believe we have good relations with our employees. None of our employees are represented by a collective bargaining agreement.

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. Many of our competitors have substantially greater financial and other resources, including greater sales volume, larger sales forces and greater manufacturing capacity. See Item 1A. Risk Factors — "Our industry is very competitive. Additionally, changes in technology could render our products obsolete" for more information.

The companies that compete with our ophthalmic segment include Allergan Pharmaceuticals, Inc., Novartis, Valeant Pharmaceuticals International, Inc., Apotex and Sun Pharmaceuticals, among others. The ophthalmic segment

competes primarily on the basis of price and service.

The companies that compete with our hospital drugs & injectables segment include both generic and name brand companies such as Hospira, Inc., Teva Pharmaceutical Industries, Pfizer, Sagent Pharmaceuticals, Novartis, Fresenius-Kabi, Daiichi Sankyo, and Hikma. The hospital drugs & injectables segment competes primarily on the basis of price.

Suppliers and Customers. We require a supply of quality raw materials and components to manufacture and package pharmaceutical products for ourselves and for third parties with which we have contracted. The principal components of our 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 our 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 our development and marketing efforts. If for any reason we are unable to obtain sufficient quantities of any of the raw materials or components required to produce and package our products, we may not be able to manufacture our products as planned. In addition, certain of the pharmaceutical products that we market are manufactured by third parties that serve as our only supplier of those products. Any delays or failure of a contract manufacturing partner to supply finished goods timely or in adequate volume could impede our marketing of those products.

No supplier represented 10% or more of our purchases in 2013, 2012 or 2011. See Item 1A. Risk Factors – “Many of the raw materials and components used in our products come from a single source” for more information.

In 2013, 2012 and 2011, a high percentage of our sales were to the three large wholesale drug distributors noted below. These three wholesale drug distributors account for a large portion of our gross sales, net revenues and accounts receivable in our ophthalmic and hospital drugs & injectables business segments. The three large wholesale drug distributors are:

- AmerisourceBergen Corporation ("AmerisourceBergen");
- Cardinal Health, Inc. ("Cardinal"); and
- McKesson Drug Company ("McKesson").

On a combined basis, these three wholesale drug distributors accounted for approximately 58% of our total gross sales and 41% of our net revenue in 2013, and 67% of our gross accounts receivable as of December 31, 2013. The difference between gross sales and net revenue is that gross sales is calculated before allowances for chargebacks, rebates, promotions and product returns (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — "Critical Accounting Policies" for more information).

The table below presents the percentages of our total gross sales, net revenue and gross trade accounts receivable attributed to each of these three wholesale drug distributors as of and for the years ended December 31, 2013, 2012 and 2011:

	2013			2012			2011		
	Gross Sales	Net Revenue	Gross Accounts Receivable	Gross Sales	Net Revenue	Gross Accounts Receivable	Gross Sales	Net Revenue	Gross Accounts Receivable
AmerisourceBergen	19 %	14 %	25 %	19 %	14 %	29 %	23 %	23 %	29 %
Cardinal	23 %	16 %	26 %	23 %	17 %	30 %	27 %	25 %	34 %
McKesson	16 %	11 %	12 %	16 %	11 %	14 %	16 %	15 %	9 %
Combined Total	58 %	41 %	63 %	58 %	42 %	73 %	66 %	63 %	72 %

AmerisourceBergen, Cardinal and McKesson are key distributors of our products, as well as a broad range of health care products for many other companies. None of these distributors is an end user of our products. Generally speaking, if sales to any one of these distributors were to diminish or cease, we believe that the end users of our products would likely find little difficulty obtaining our products either directly from us or from another distributor. However, the loss of one or more of these distributors, together with a delay or inability to secure an alternative distribution source for end users, could have a material negative impact on our revenue, business, financial condition and results of operations. Furthermore, AmerisouceBergen, Cardinal and McKesson have recently entered into strategic alliances with Walgreens, CVS Caremark and Rite-Aid, respectively. Since Walgreens, CVS Caremark and Rite-Aid are customers for various of our products, the loss of our distributor relationship with any of the three large wholesalers could result in a reduction to our revenues.

We consider our business relationships with AmerisourceBergen, Cardinal and McKesson to be in good standing and have fee for services contracts with each of them. However, a change in purchasing patterns, a decrease in inventory levels, an increase in returns of our products, delays in purchasing products and delays in payment for products by one or more of these distributors could have a material negative impact on our revenue, business, financial condition and results of operations. See Item 1A Risk factors – "We depend on a small number of distributors, the loss of any of which could have a material adverse effect" for more information.

Backorders. As of December 31, 2013, we had approximately $3.9 million of products on backorder as compared to approximately $0.8 million of backorders as of December 31, 2012. We anticipate filling all open backorders during 2014.

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 that we manufacture and market. The FDA inspects drug manufacturers and storage facilities to determine compliance with its current Good Manufacturing Practices ("cGMP") regulations, non-compliance with which can result in fines, recall and seizure of products, total or partial suspension of production, refusal to approve NDAs and ANDAs and criminal prosecution. The FDA also has the authority to revoke approval of drug products.

FDA approval is required before any application drug product can be manufactured and marketed. New drugs require the application 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 application 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, for example, provide data demonstrating the equivalency of the generic formulation in terms of bioavailability. The time required by the FDA to review and approve NDAs and ANDAs is variable and, to a large extent, beyond our control.

We are subject to periodic inspections by the FDA and the DEA. Throughout the five year period ended December 31, 2013, there have been no product interruptions associated with regulatory inspection or review activities. The most recent inspections conducted during January/February 2013 at our Somerset, New Jersey plant and April / May 2013 at our Decatur, Illinois plant resulted in no regulatory actions.

Product Recalls. There were no recalls of any of our products during 2013, 2012 or 2011.

DEA Regulation. We also manufacture and distribute 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. There were no DEA citations issued to us in 2013, 2012 or 2011.

Environment. We do 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.

Foreign Sales. During 2013, 2012 and 2011, approximately $27.3 million, $29.4 million, and $5.3 million of our net revenue, respectively, was related to sales to customers in foreign countries. Of our total foreign sales in 2013 and 2012, $15.8 million and $16.7 million, respectively, were generated by AIPL, our subsidiary in India, which exclusively sells product to customers in India and other unregulated world markets.

Seasonality and other Cyclical Sales Fluctuations. Most of our business segments do not experience significant seasonality. We do market certain allergy products that typically generate higher sales volume in the warmer months, but these products do not materially impact our overall sales trends. Additionally, we market various antidote products through our hospital drugs & injectables segment, the sales of which are largely timed to the expiration of existing stock held by our ongoing customers. In addition, since the fourth quarter of 2012 we have been a distributor of Td vaccines, which tends to generate higher sales in spring through fall.

Government Contracts. None of our business segments is generally subject to renegotiation of profits or termination of contracts at the election of the Federal government.

Available Information. We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). Materials filed with the SEC can be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet web site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Our filings are available to the public at the website maintained by the SEC, http://www.sec.gov. We also make available, free of charge, through our web site at www.akorn.com, our reports on Forms 10-K, 10-Q, and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with or furnished to the SEC. The information contained on our web site is not a part of this document.

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Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. In addition to the other information included in this Annual Report on Form 10-K, you should carefully consider each of the risks described below before purchasing shares of our common stock. The risk factors set forth below are not the only risks that may affect our business. Our business could also be affected by additional risks not currently known to us or that we currently deem to be immaterial. If any of the following risks actually occur, our business, financial condition and results of operations could materially suffer. As a result, the trading price of our common stock could decline, and you may lose all or part of your investment.

Failure to close on the acquisition of Hi-Tech Pharmacal Co., Inc. ("Hi-Tech") due to our failure to secure financing, obtain regulatory approval for the acquisition, or for any other reason, would result in significant financial harm to the Company.

The Agreement and Plan of Merger (the "Merger Agreement") among the Company, its wholly-owned subsidiary, Akorn Enterprises, Inc. and Hi-Tech contains termination rights that potentially expose the Company to significant fees should the Hi-Tech acquisition fail to close for certain reasons. Pursuant to the Merger Agreement, the Company would be required to pay Hi-Tech a termination fee of $41,639,000 if, on or prior to April 26, 2014, (i) the Merger Agreement is terminated by Hi-Tech as a result of a Financing Failure (as defined in the Merger Agreement) or (ii) the Merger Agreement is terminated as a result of a failure to obtain regulatory approval or clearance from the Federal Trade Commission ("FTC") with respect to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the " HSR Act "), or other applicable antitrust laws. In certain circumstances, the Company has the right to extend the date on which the Merger Agreement automatically terminates to May 26, 2014. In the event that the Company exercises such right and the Merger Agreement is terminated after April 26, 2014 for either of the reasons set forth above, Akorn would be required to pay Hi-Tech a termination fee of $48,045,000. Failure to close on the Hi-Tech acquisition and incurring these terminations fees would result in significant financial harm to the Company.

The shareholders of Hi-Tech have approved the transaction, but we must obtain clearance from the FTC before we can close on the acquisition. On October 11, 2013, both parties received a request for additional information (commonly referred to as a "second request") from the FTC in connection with the proposed merger. The effect of the second request is to extend the HSR waiting period until thirty days after the parties have substantially complied with the request, unless that period is terminated sooner by the FTC. The parties have been cooperating with the FTC staff since shortly after the announcement of the transaction and intend to continue to cooperate with the FTC to obtain timely clearance under HSR.

The FTC may impose conditions on the completion of the transaction or require changes to the terms of the transaction which may materially affect the anticipated benefits of the proposed acquisition. Such conditions or changes could have the effect of delaying completion of the transaction, causing the company to incur additional costs, placing operating restrictions on our business, requiring divestitures of products (including products in development stage and pending registrations) or otherwise limiting the revenues of the combined company, any of which may have an adverse effect on the combined company following the transaction. In addition, if we are required to make product divestitures, there can be no assurance that we will find a purchaser for product(s) and be able to negotiate an asset purchase agreement with such purchaser expeditiously or that the FTC will approve the proposed purchaser or the terms of such divestiture, which may potentially delay or derail the acquisition resulting in financial harm to the Company.

Our growth depends on our ability to timely develop and successfully market new pharmaceutical products.

Our strategy for growth is dependent upon our 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. We may fail to meet our anticipated time schedule for the filing of ANDAs and NDAs or may decide not to pursue ANDAs or NDAs that we have submitted or anticipate submitting. Our internal development of new pharmaceutical products is dependent upon the research and development capabilities of our personnel and our strategic business alliance infrastructure. There can be no assurance that our strategic business alliance partners or we will successfully develop new pharmaceutical products or, if developed, that we will successfully commercialize these new pharmaceutical products. In addition, there can be no assurance that we will receive all necessary FDA approvals or that such approvals will not involve delays, which may adversely affect the commercial success of our products. Our failure to develop new products or to receive FDA approval of ANDAs or NDAs could have a material adverse effect on our business, financial condition and results of operations.

Generic and off-patent pharmaceutical products are particularly susceptible to competition, substitution policies and reimbursement policies.

Our success depends, in part, on our ability to identify suitable branded pharmaceutical products to target for development of generic equivalents, determine or anticipate the dates when these branded pharmaceuticals are expected to come off patent, and time our product development activities accordingly so that we will be ready to manufacture and market our generic equivalent products at the most advantageous times. 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 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 developed by other third parties may render our generic products noncompetitive or obsolete, or may glut the market with competing products resulting in a reduction in sale price or market share for the generic products we sell. There can be no assurance that we will be able to consistently bring generic pharmaceutical products to market quickly and efficiently in the future. An increase in competition in the sale of generic pharmaceutical products or our failure to bring such products to market before our competitors could have a material adverse effect on our business, financial condition and results of operations.

Further, there is no proprietary protection for most of the branded pharmaceutical products that either we or other pharmaceutical companies sell. In addition, governmental and cost-containment pressures regarding the dispensing of generic equivalents will likely result in generic substitution and competition generally for our branded pharmaceutical products. We attempt to mitigate the effect of this substitution through, among other things, creation of strong brand-name recognition and product-line extensions for our branded pharmaceutical products, but there can be no assurance that we will be successful in these efforts.

We depend on a small number of distributors, the loss of any of which could have a material adverse effect.

A small number of large wholesale drug distributors account for a significant portion of our gross sales, net revenues and accounts receivable. The following three wholesalers –AmerisourceBergen, Cardinal and McKesson – accounted for approximately 58% of total gross sales and 41% of total net revenues in 2013, and 67% of gross trade receivables as of December 31, 2013. In addition to acting as distributors of our products, these three companies also distribute a broad range of health care products on behalf of many other companies. The loss of our relationship with one or more of these wholesalers, together with a delay or inability to secure an alternative distribution source for end users, could have a material adverse impact on our revenue and results of operations. In particular, AmerisourceBergen, Cardinal and McKesson have entered into strategic drug purchasing alliances with Walgreens, CVS Caremark and Rite-Aid, respectively. The chain drugstores are customers for a number of our products. Therefore, the loss of our relationship with any of the three large wholesalers would likely result in the loss of revenue from sales to these drugstore chains. A change in purchasing patterns or inventory levels, an increase in returns of our products, penalties assessed against us for failure to supply or failure to maintain service levels, delays in purchasing products and delays in payment for products by one or more of these distributors also could have a material adverse impact on our revenue, results of operations and cash flows.

Sales of our products may be adversely affected by the continuing consolidation of our customer base.

In addition to our sales to wholesale drug distributors detailed above, a significant proportion of our sales are made to relatively few retail drug chains and managed care purchasing organizations. These customers are continuing to undergo significant consolidation. Such consolidation has provided and may continue to provide them with additional purchasing leverage, and consequently may increase the pricing pressures that we face. Additionally, the emergence of large buying groups representing independent retail pharmacies, and the prevalence and influence of managed care organizations and similar institutions, enable those groups to extract price discounts on our products.

Our net sales and quarterly growth comparisons may also be affected by fluctuations in the buying patterns of retail chains, major distributors and other trade buyers, whether resulting from seasonality, pricing, wholesaler buying decisions or other factors. In addition, since such a significant portion of our revenues is derived from relatively few customers, any financial difficulties experienced by a single customer, or any delay in receiving payments from a single customer, could have a material adverse effect on our business, results of operations and financial condition.

We are subject to extensive government regulations that increase our costs and could subject us to fines, prevent us from selling our products or prevent us from operating our facilities.

Federal and state government agencies regulate virtually all aspects of our business. The development, testing, manufacturing, processing, quality, safety, efficacy, packaging, labeling, record keeping, distribution, storage and advertising of our 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. Noncompliance with applicable United States and/or state or local regulatory requirements can result in fines, injunctions, penalties, mandatory recalls or seizures, suspensions of production, recommendations by the FDA against

governmental contracts and criminal prosecution. Any of these could have a material adverse effect on our business, financial condition and results of operations. New, modified and additional regulations, statutes or legal interpretation, if any, could, among other things, require changes to manufacturing methods, expanded or different labeling, recall, replacement or discontinuation of certain products, additional record keeping procedures and expanded documentation of the properties of certain products and additional scientific substantiation. Such changes or new legislation could have a material adverse effect on our business, financial condition and results of operations. Certain of the regulatory risks that we are subject to are outlined below.

We are subject to regulation by the FDA. All pharmaceutical manufacturers, including us, 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 authority over the activities of finished drug product manufacturers to ensure compliance with FDA regulations. This authority includes, but is not limited to, the authority to initiate judicial action to seize unapproved or non-complying products, to enjoin non-complying activities, to halt manufacturing operations that are not in compliance with cGMP, to recall products, to seek civil and monetary penalties and to criminally prosecute violators. Other enforcement activities include refusal to approve product applications, withdrawal of previously approved applications or prohibition on marketing of certain grandfathered products. Any such enforcement activities, especially the restriction or prohibition on sales of products we market or the halting of our manufacturing operations, could have a material adverse effect on our business, financial condition and results of operations. In addition, the FDA or other government agencies having regulatory authority over pharmaceutical products may request us to voluntarily or involuntarily conduct product recalls due to disputed labeling claims, manufacturing issues, quality defects or for other reasons. Restriction or prohibition on sales, halting of manufacturing operations, recalls of our pharmaceutical products or other enforcement actions could have a material adverse effect on our business, financial condition and results of operations. Further, such actions, in certain circumstances, may constitute an event of default under the terms of our various financing arrangements.

We must obtain approval from the FDA for each pharmaceutical product that we market. The FDA approval process is typically lengthy, and approval is never certain. Our new products could take a significantly longer time than we expect to gain regulatory approval and may never gain approval. Even if the FDA or another regulatory agency approves a product, the approval may limit the indicated uses for a product, may otherwise limit our ability to promote, sell and distribute a product or may require post-marketing studies or impose other post-marketing obligations, which could have a material adverse effect on marketability and profitability of the new products.

We and our third-party manufacturers are subject to periodic inspection by the FDA to assure regulatory compliance regarding the manufacturing, distribution, and promotion of pharmaceutical products. The FDA imposes stringent mandatory requirements on the manufacture and distribution of pharmaceutical products to ensure their safety and efficacy. The FDA also regulates drug labeling and the advertising of prescription drugs. A finding by a governmental agency or court that we are not in compliance with FDA requirements could have a material adverse effect on our business, financial condition and results of operations.

If the FDA changes its regulatory position, it could force us to delay or suspend our manufacturing, distribution or sales of certain products. FDA interpretations of existing or pending regulations and standards may change over time with the advancement of associated technologies, industry trends, and/or prevailing scientific rationale. If the FDA changes its regulatory position due to such factors, it could result in delay or suspension of the manufacturing, distribution or sales of certain of our products. 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 one of our products not currently subject to the approved NDA or ANDA requirements or any delay in the FDA approving an NDA or ANDA for one of our products could have a material adverse effect on our business, financial condition and results of operations.

We are subject to extensive DEA regulation, which could result in our being fined or otherwise penalized. We also manufacture and sell drugs which are “controlled substances” as defined in the federal Controlled Substances Act and similar state laws, which impose, 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 we are permitted to manufacture and market or issue fines and penalties against us for purported non-compliance with DEA regulations, which could have a material adverse effect on our business, financial condition and results of operations.

Recently enacted and future healthcare law and policy changes may adversely affect our business.

In March 2010, the U.S. Congress enacted the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the "Healthcare Act"). This health care reform legislation is intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms. As examples, the current legislation include measures that would (i) significantly increase Medicaid rebates through both the expansion of the program and significant increases in rebates; (ii) substantially expand the Public Health System (340B) program to allow other entities to purchase prescription drugs at substantial discounts; (iii) extend the Medicaid rebate rate to a significant portion of Managed Medicaid enrollees; (iv) assess a 50% rebate on Medicaid Part D spending in the coverage gap for branded and authorized generic prescription drugs; and (v) levy an excise tax on certain drug and device manufacturers.

While the aforementioned healthcare reform legislation may increase the number of patients who have insurance coverage for our products, such insurance mandate did not commence until January 2014, and the healthcare reform legislation also restructured and reduced payments to Medicare managed care plans and reduces reimbursements to many third-party payers. Accordingly, the timing on the insurance mandate, the change in the Medicaid rebate levels, the additional fees imposed on us to the extent we market branded drugs, other compliance obligations, and the reduced reimbursement levels to institutional customers may result in a loss of revenue and could adversely affect our business. While we will not know the full effects of this health care reform legislation until applicable federal and state agencies issue regulations or guidance under the new law and the new law has been fully implemented, it appears likely to continue the pressure on pharmaceutical pricing, especially under the Medicare program, and to increase our regulatory burdens and operating costs.

In addition, other legislative changes have been proposed and adopted since the Healthcare Act was enacted. Congress passed the Budget Control Act of 2011 which, among other things, created measures for spending reductions by Congress, including a committee tasked with proposing legislation to reduce the federal deficit. The committee did not act, which triggered the legislation's automatic reduction to government programs. Because of this legislation, Medicare reimbursement to providers was reduced overall by 2% beginning April 1, 2013. This, and other new laws, may result in additional reductions in Medicare and other health care funding, which could have a material adverse effect on our customers and accordingly, our financial operations.

The sales of our products depend in part on the availability of reimbursement from third-party payers such as government health administration authorities, private health insurers, health maintenance organizations including pharmacy benefit managers (“PBMs”) and other health care-related organizations. We expect both federal and state governments in the U.S. and foreign governments to continue to propose and pass new legislation, rules and regulations designed to contain or reduce the cost of healthcare while expanding individual healthcare benefits. Existing regulations that affect the price of pharmaceutical and other medical products may also change before any of our products are approved for marketing. Cost control initiatives could decrease the price that we receive for any product we develop in the future. In addition, PBMs and other third-party payers are increasingly challenging the price and cost-effectiveness of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved pharmaceutical products. Our products may not be considered cost effective, or adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize a return on our investments. All of these may harm our ability to market our products and generate profits.

Our growth and profitability is dependent on our ability to successfully utilize our existing cash reserves and operating cash flows to complete strategic acquisitions or to identify, acquire or develop, new products to market and distribute.

We continue to seek growth opportunities, either by completing strategic acquisitions or by developing and introducing new pharmaceutical products. Continued improvement in our financial performance is dependent on our ability to introduce new products on an ongoing basis, whether developed internally or by third party partners, or acquired from other companies. Any delays or an inability to successfully identify suitable acquisition targets, or acquire or develop, and market and distribute new products, or acquisition or development of new products that do not yield sufficient margins, may result in adverse financial consequences to our business.

We may not achieve the anticipated benefits from our acquisitions and may face difficulties in integrating them, which could adversely affect our operating results, increase costs and place a significant strain on our management.

If we fail to manage the integration of our domestic and international acquisitions and achieve expected synergies, our business could be disrupted and our operating results could be negatively impacted. The operating success of both our domestic and international acquisitions involves the integration of products, processes and personnel into our existing model. In addition, the integration of international acquisitions requires both establishing and training a local

management team and overseeing the operations remotely, and can involve cultural, monetary and systems challenges. Our personnel, systems, procedures, or controls may not be adequate to support both our ongoing business and the acquired businesses. If any newly-acquired businesses require a disproportionate share of our resources and management's attention, our overall financial results may suffer.

We have entered into several strategic business alliances that may not result in marketable products.

We have entered into several strategic business alliances that have been formed to supply us with low cost finished dosage form products. We have entered into various purchase and supply agreements and license agreements that are all designed to provide finished dosage form products that can be marketed through our distribution pipeline. There can be no assurance that these agreements will result in additional FDA-approved ANDAs or NDAs, or that we will be able to market any such additional products at a profit. In addition, any clinical trial expenses that we may incur in connection with these strategic business alliances may negatively impact our financial results.

Failure to obtain regulatory certification of our manufacturing plant in India for production of pharmaceutical products for export to the United States, as well as other regulated world markets, could impair our ability to grow and adversely affect our business, financial condition and results of operations.

We operate a manufacturing campus in Paonta Sahib, India, which we acquired through a business combination in 2012. The manufacturing units within this campus were built to the standards of regulated markets, including the United States, but they are not currently approved by the FDA to manufacture products for export to the United States. It is our intention to obtain certification from the FDA and other regulatory authorities to allow this facility to manufacture products for export to the United States and other regulated world markets. Obtaining such certification in a timely manner is critical to our sustaining our growth. An inability to obtain or maintain such certification could restrict our ability to achieve our growth objectives, which would adversely affect our business, financial condition and results of operations.

Further, our operations in India may be adversely affected by general economic conditions and economic and fiscal policy in India, including changes in exchange rates and controls, interest rates and taxation policies; any reversal of India's recent economic liberalization and deregulation policies; as well as social stability and political, economic or diplomatic developments affecting India in the future. In addition, India is known to have experienced governmental corruption to some degree and, in some circumstances, anti-bribery laws may conflict with some local customs and practices. As a result of our policy to comply with the U.S. Foreign Corrupt Practices Act ("FCPA") and similar anti-bribery laws, we may be at a competitive disadvantage to competitors that are not subject to, or do not comply with, such laws.

We may not generate cash flow sufficient to pay interest on our outstanding convertible senior notes or repurchase the notes upon a fundamental change.

In June 2011, we issued $120.0 million aggregate principal amount of 3.50% Convertible Senior Notes due 2016 (the "Notes"). The Notes require us to make semi-annual coupon interest payments of $2.1 million on June 1 and December 1 of each year until the Notes mature on June 1, 2016. If we do not generate sufficient operating cash flows to fund these payments or obtain additional funding from external sources at acceptable terms, we may not have sufficient funds to satisfy our interest payment obligations when those obligations are due which would place us in default under the Indenture (as defined below). If a fundamental change (as defined in the Indenture) occurs, holders of the Notes may require us to repurchase their Notes. If we fail to repurchase the Notes when required, we will be in default under the Indenture.

Availability under our Credit Agreement may be restricted if we fail to meet our covenant requirements and our current and prospective future debt obligations subject the Company to various risks.

We are party to a revolving Credit Agreement with Bank of America, N.A., (the "Agent") and other financial institutions (collectively with the Agent, the "BoA Lenders") through which we obtained a $20.0 million revolving line of credit (the "BoA Credit Facility"), which includes a $2.0 million letter of credit facility. On October 4, 2013, the

BoA Credit Agreement was amended to increase the total credit commitment from $20.0 million to $60.0 million. As of December 31, 2013, we had one outstanding letter of credit in the amount of $0.5 million and no outstanding loan balance under the BoA Credit Facility.

Availability under the BoA Credit Facility is equal to the lesser of (a) $60.0 million reduced by outstanding letter of credit obligations or (b) the amount of a Borrowing Base (as defined in the BoA Credit Agreement) determined by reference to the value of the borrowers' eligible accounts receivable, eligible inventory and fixed assets as of the closing date and the end of each calendar month thereafter. The BoA Credit Agreement contains representations and warranties, and affirmative and negative covenants customary for financings of this type, including, but not limited to, limitations on: distributions; additional borrowings, liens and guarantees; additional investments and asset sales; and fundamental changes to corporate structure or organization documents. The financial covenants require the Company to maintain a fixed charge coverage ratio of at least 1.1 to 1.0 during any period commencing on the date that an event of default occurs or availability under the BoA Credit Agreement is less than 15% of the aggregate BoA Lenders' commitments under the BoA Credit Agreement. In addition, we must periodically provide to the Agent financial statements, compliance certificates and budget projections. Should we fail to maintain compliance with these covenants, availability under the Credit Agreement could be restricted which would negatively impact our liquidity and may require us to seek additional sources of capital in order to maintain our continuing operations or to fund growth opportunities. Further, borrowings under the BoA Credit Facility are secured by all or substantially all of the Company's assets. If the Company defaults on its obligations to the BoA Lenders, the Agent may be able to foreclose upon its security interest and otherwise be entitled to obtain or control Company assets.

The Company expects to terminate the BoA Credit Facility on or about the time the merger transaction with Hi-Tech is completed. At that time, the Company expects to enter into a credit facility and related arrangements with JP Morgan Chase whereby the Company would obtain a $600 million term loan to finance the acquisition and a $75 million revolving credit facility, which may be increased to $150 million under certain circumstances, to fund working capital needs and other corporate purposes. A high level of indebtedness subjects us to a number of adverse risks, may impair our ability to obtain additional financing in the future, and increases the risk that we may default on our debt obligations. Our ability to meet our debt obligations, comply with all required covenants, and ultimately to reduce our level of indebtedness will depend on our future performance. General economic conditions and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. If we do not have sufficient funds to pay our debt obligations when due, we may be required to seek a waiver or amendment from our lenders, refinance our indebtedness, incur additional indebtedness, sell assets or sell additional shares of securities. We may not be able to complete such transactions on terms acceptable to us, or at all. Our failure to generate sufficient funds to pay our debts or to undertake any of these actions successfully could result in a default on our debt obligations, which would materially adversely affect our business, results of operations and financial condition.

We may need to obtain additional capital to continue to grow our business.

We may require additional funds in order to materially grow our business. We require substantial liquidity to implement long-term cost savings and productivity improvement plans, continue capital spending to improve our manufacturing plants to increase capacity and support product development programs, meet scheduled term debt and lease maturities, and run our normal business operations. We 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 to us when needed or on favorable terms. Without sufficient additional capital funding, we may be required to delay, scale back or abandon some or all of our product development, manufacturing, acquisition, licensing and marketing initiatives, or operations. Further, such additional financing, if obtained, may 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 and could include covenants and restrictions that limit our ability to operate or expand our business in a manner that we deem to be in our best interest.

Our industry is very competitive. Additionally, changes in technology could render our products obsolete.

We face significant competition from other pharmaceutical companies, including major pharmaceutical companies with financial resources substantially greater than ours, 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 our current or future products. The industry is characterized by rapid technological change that may render our products obsolete, and competitors may develop their products more rapidly than we can. Competitors may also be able to complete the regulatory process sooner, and therefore, may begin to market their products in advance of ours. We believe that competition in sales of our products is based primarily on price, service and technical capabilities. There can be no assurance that: (i) we will be able to develop or acquire commercially attractive pharmaceutical products; (ii) additional competitors will not enter the market; (iii) our existing products will not be rendered obsolete by the introduction or switch to generic of competing products; or (iv) competition from other pharmaceutical companies will not have a material adverse effect on our business, financial condition and results of operations.

Unstable market and economic conditions may have serious adverse consequences on our business.

Our general business strategy may be adversely affected by general economic conditions, a volatile business environment and continued unpredictable and unstable market conditions. If equity and credit market conditions prove unfavorable, we may have difficulty obtaining desired debt or equity financing, or obtaining such financing may be more difficult, more costly, and more dilutive. A prolonged or profound economic downturn could result in adverse changes to product reimbursement, pricing or sales levels, which would harm our operating results. There is a risk that one or more of our current service providers, manufacturers and other partners may not survive difficult economic times, which would directly affect our ability to attain our operating goals on schedule and on budget. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon development plans. Moreover, our stock price may decline due to the volatility of the stock market and general economic conditions.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results, timely file our periodic reports, maintain our reporting status or prevent fraud.

In connection with our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2013, we concluded there were certain material weaknesses in internal control over financial reporting related to identified control deficiencies in respect of completeness and accuracy of data used in the determination of significant estimates and accounting transaction, the process in place to support the accurate and timely reporting of financial results and disclosures, and certain insufficient segregation of duties. Under standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected or corrected on a timely basis.

We are working to remediate the material weaknesses. We have begun taking steps and plan to take additional measures to remediate the underlying causes of the material weaknesses, primarily through the continued development and implementation of formal policies, improved processes and documented procedures, as well as the hiring of additional finance personnel. The actions that we are taking are subject to ongoing senior management review, as well as audit committee oversight. Although we plan to complete this remediation as quickly as possible, we cannot at this time estimate how long it will take, and our initiatives may not prove to be successful in remediating this material weakness. If our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results.

Our management or our independent registered public accounting firm may identify other material weaknesses in our internal control over financial reporting in the future. The existence of internal control material weaknesses may result in current and potential stockholders losing confidence in our financial reporting, which could harm our business, the market price of our common stock, and our ability to retain our current, or obtain new, alliance and collaboration agreements' partners.

In addition, the existence of material weaknesses in our internal control over financial reporting may affect our ability to timely file periodic reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The inability to timely file periodic reports could result in the SEC revoking the registration of our common stock, which would prohibit us from listing or having our stock quoted on the NASDAQ Global Market or any other stock exchange. This would have an adverse effect on our business and stock price by limiting the publicly available information regarding us and greatly reducing the ability of our stockholders to sell or trade our common stock.

We may become involved in legal proceedings from time to time which may result in losses, damage to our business and reputation and place a strain on our internal resources.

In the ordinary course of our business, we may be involved in legal proceedings with both private parties and certain government agencies, including FDA. Litigation may result in verdicts against us, which may include significant monetary awards, judgments that certain of our intellectual property rights are invalid or unenforceable and injunctions preventing the manufacture, marketing and sale of our products. If disputes are resolved unfavorably, our business, financial condition and results of operations may be adversely affected.

Any litigation, whether or not successful, may damage our reputation. Furthermore, we are likely to incur substantial expense in defending these lawsuits and the time demands of such lawsuits could divert management's attention from ongoing business concerns and interfere with our normal operations.

In the normal course of business, we periodically enter into employment agreements, legal settlements, and other agreements which incorporate indemnification provisions. We maintain insurance coverage which we believe will effectively mitigate our obligations under these indemnification provisions. However, should our obligation under an indemnification provision exceed our coverage or should coverage be denied, it could have a material adverse effect on our business, financial position and results of operations.

Third parties may claim that we infringe their proprietary rights and may prevent or delay us from manufacturing and selling some of our new products.

The manufacture, use and sale of new products that are the subject of conflicting patent rights have been the subject of substantial litigation in the pharmaceutical industry. Pharmaceutical companies with patented brand products frequently sue companies that file applications to produce generic equivalents of their patented brand products for alleged patent infringement or other violations of intellectual property rights, which may delay or prevent the entry of such generic products into the market. Generally, a generic drug may not be marketed until the applicable patent(s) on the brand name drug expire or are held to be not infringed, invalid, or unenforceable. When we or our development partners submit an ANDA to the FDA for approval of a generic drug, we and/or our development partners must certify either (1) that there is no patent listed by the FDA as covering the relevant brand product, (2) that any patent listed as covering the brand product has expired, (3) that the patent listed as covering the brand product will expire prior to the marketing of the generic product, in which case the ANDA will not be finally approved by the FDA until the expiration of such patent, or (4) that any patent listed as covering the brand drug is invalid or will not be infringed by the manufacture, sale or use of the generic product for which the ANDA is submitted.

Under any circumstance in which an act of infringement is alleged to occur, there is a risk that a brand pharmaceutical company may sue us for alleged patent infringement or other violations of intellectual property rights. Also, competing pharmaceutical companies may file lawsuits against us or our strategic partners alleging patent infringement or may file declaratory judgment actions of non-infringement, invalidity, or unenforceability against us relating to our own patents. We have been sued for patent infringement related to several of our current ANDA filings and we anticipate that we will be sued once we file ANDAs for other products in our pipeline. Such litigation is often costly and time-consuming and could result in a substantial delay in, or prevent, the introduction and/or marketing of our products, which could have a material adverse effect on our business, financial condition and results of operations.

Although the parties to patent and intellectual property disputes in the pharmaceutical industry have often settled their disputes through licensing or similar arrangements, the costs associated with these arrangements may be substantial and could include ongoing royalties. Furthermore, we cannot be certain that the necessary licenses would be available to us on terms we believe to be acceptable.

Our patents and proprietary rights may not adequately protect our products and processes.

The patent and proprietary rights 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 or other proprietary rights, including licensed rights, relating to our potential products or processes will result in patents being issued or other proprietary rights secured, or that the resulting patents or proprietary rights, if any, will provide protection against competitors who: (i) successfully challenge our patents or proprietary rights; (ii) obtain patents or proprietary rights that may have an adverse effect on our ability to conduct business; or (iii) are able to circumvent our patent or proprietary rights 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 us, which could prevent us from obtaining patent or other 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 rendering obsolete those that we are planning to develop, or duplicate any of our products. Our inability to obtain patents for, or other proprietary rights in, our products and processes or the ability of competitors to circumvent or obsolete our patents or proprietary rights could have a material adverse effect on our business, financial condition and results of operations. Additionally, our inability to successfully defend our existing patents against P IV challenges by competing drug companies could have a material adverse effect on our business, financial condition and results of operations.

Further, the majority of the drug products that we market are generics, with essentially no patent or proprietary rights attached. While this fact allowed us the opportunity to develop or to purchase and obtain FDA approval to market our generic products, it also allows competing drug companies to do the same. Should multiple additional drug companies choose to develop and market the same generic products that we actively market, our profit margins could decline, which would have a material adverse effect on our business, financial condition and results of operations.

The Chairman of our Board of Directors is subject to conflicts of interest, and through his stock ownership and position as Chairman has substantial influence over our business strategies and policies.

John N. Kapoor, Ph.D., the Chairman of our Board of Directors and a principal shareholder, is the President of EJ Financial Enterprises, Inc. (“EJ Financial”), a health care consulting investment company. 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 dated 9/20/89 (the “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 our business. Although such companies do not currently compete directly with us, certain companies with which EJ Financial is involved are in the pharmaceutical business. Discoveries made

by one or more of these companies could render our products less competitive or obsolete. Potential conflicts of interest could have a material adverse effect on our business, financial condition and results of operations.

As of December 31, 2013, Dr. Kapoor beneficially owns approximately 30% of our common stock. As a result, Dr. Kapoor can strongly influence, and potentially control, the outcome of our corporate actions, including the election of our directors and transactions involving a change of control. This concentrated control limits other shareholders' ability to influence corporate matters and, as a result, the Company may take actions that other shareholders do not view as beneficial. Further, decisions made by Dr. Kapoor with respect to his and his related parties' ownership or trading of our common stock could have an adverse effect on the market value of our common stock and an adverse effect on our business.

We depend on key executive officers and must continue to attract and retain key personnel in order to compete successfully.

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

Further, our performance depends, to a large extent, on the continued service of our key research and development personnel, other technical employees, managers and sales personnel and our 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. We are facing increasing competition from companies with greater financial resources for such personnel. There can be no assurance that we 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 our business, and on our results of operations and financial condition.

We may implement product recalls and could be exposed to significant product liability claims; we may have to pay significant amounts to those harmed and may suffer from adverse publicity as a result.

The manufacturing and marketing of pharmaceuticals involves an inherent risk that our products, or items within our products, may prove to be defective and cause a health risk. In that event, we may voluntarily implement a recall or market withdrawal or may be required to do so by a regulatory authority. We have recalled products in the past and, based on this experience, believe that the occurrence of a recall could result in significant costs to us, potential disruptions in the supply of our products to our customers and adverse publicity, all of which could harm our ability to market our products. There were no product recalls initiated, and no patient impacts or costs associated with prior recalls, during 2013, 2012 or 2011.

Although we are not currently subject to any material product liability proceedings, we may incur material liabilities relating to product liability claims in the future. Even meritless claims could subject us to adverse publicity, hinder us from securing insurance coverage in the future and require us to incur significant legal fees and divert the attention of the key employees from running our business. Successful product liability claims brought against us could have a material adverse effect on our business, financial condition and results of operations.

We currently have product liability insurance in the amount of $10,000,000 for aggregate annual claims with a $250,000 deductible per incident and a $1,250,000 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 our business, financial condition and results of operations.

The FDA may require us to stop marketing certain grandfathered drugs.

We market several generic prescription products which do not have formal FDA approvals because these products have been grandfathered. These products are non-application drugs that are manufactured and marketed without FDA-issued ANDAs or NDAs on the basis of their having been marketed by industry prior to the 1962 Amendment of the FDC Act. We marketed seven such products during 2013, generating net sales revenue of $30.2 million. Following enactment of the FDC Act in 1938, drugs on the market prior to that time were exempted or “grandfathered” and manufacturers were not required to file an NDA. Recently, FDA has increased its efforts to force companies to file and seek FDA approval for grandfathered products. Efforts have included issuing notices to companies currently manufacturing these products to cease its distribution of said products.

On October 2, 2012, we received a warning letter from the FDA citing that we were manufacturing Pilocarpine Hydrochloride Ophthalmic Solution ("PHOS"), a long grandfathered drug, without an approved NDA. We fully cooperated with the FDA and discontinued selling PHOS. No enforcement action was initiated and no fines were assessed by FDA against us and the loss of revenue associated with the discontinuation of PHOS was immaterial. Further, in the second quarter of 2012, we filed an ANDA for PHOS, which is currently under review by the FDA.

If FDA issues additional warning letters with respect one or more of our grandfathered products, we may be forced to discontinue marketing the affected products, which could have an adverse effect on our revenues and results of operations.

The FDA may authorize sales of some prescription pharmaceuticals on a non-prescription basis, which would reduce the profitability of our prescription products.

From time to time, the FDA elects to permit sales of some pharmaceuticals currently sold on a prescription basis, without a prescription. FDA approval of the sale of our products without a prescription would reduce demand for our competing prescription products and, accordingly, reduce our profits.

Our revenues depend on sale of products manufactured by third parties, which we cannot control.

We rely on external third parties to manufacture certain of the products we sell. Currently, this risk is limited to several of our products. However, we expect this risk to become more significant as we receive approvals for new products to be manufactured through our strategic partnerships and as we seek additional growth opportunities beyond the capacity and capabilities of our current manufacturing facilities. If we are unable to obtain or retain third-party manufacturers for these products on commercially acceptable terms, we may not be able to distribute such products as planned. Further, no assurance can be given that the manufacturers we use will be able to provide us with sufficient quantities of our products to meet our needs or that the products supplied to us will meet our specifications. Any delays or difficulties with third-party manufacturers could adversely affect the marketing and distribution of certain of our products, which could have a material adverse effect on our business, financial condition and results of operations.

Many of the raw materials and components used in our products come from a single source.

We require a supply of quality raw materials and components to manufacture and package pharmaceutical products for ourselves and for third parties with which we have contracted. Many of the raw materials and components used in our products come from a single source and interruptions in the supply of these raw materials and components could disrupt our manufacturing of specific products and cause our sales and profitability to decline. Further, in the case of many of our 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 pharmaceutical 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 our development and marketing efforts. If for any reason we are unable to obtain sufficient quantities of any of the raw materials or components required to produce and package our products, we may not be able to manufacture our products as planned, which could have a material adverse effect on our business, financial condition and results of operations.

We could experience business interruptions at our manufacturing facilities, which may have a material adverse effect on our business, financial position and results of operations.

We manufacture drug products at one international and two domestic manufacturing facilities. Any one or more of these facilities may be forced to shut down or may be unable to operate at full capacity as a result of hurricanes, tornadoes, earthquakes, storms and other extreme weather events as well as strikes, war, violent upheavals, terrorist acts and other force majeure events. For example, our manufacturing plant in Somerset, New Jersey was shut down for approximately two weeks in October and November 2012 as a result of power outages and related business disruptions caused by Superstorm Sandy. A significant disruption at any of these facilities, even on a short-term basis, could impair our ability to produce and ship drug products to the market on a timely basis, which may have a material adverse effect on our business, financial position and results of operations.

The testing required for the regulatory approval of our products is conducted by independent third parties. Any failure by any of these third parties to perform this testing properly and in a timely manner may have an adverse effect upon our ability to obtain regulatory approvals.

Our applications for the regulatory approval of our products incorporate the results of testing and other information that is conducted or gathered by independent third parties (including, for example, manufacturers of raw materials, testing laboratories, contract research organizations or independent research facilities). Our ability to obtain regulatory approval of the products being tested is dependent upon the quality of the work performed by these third parties, the quality of the third parties' facilities, and the accuracy of the information provided by third parties. We have little or no control over any of these factors. If this testing is not performed properly, our ability to obtain regulatory approvals could be restricted or delayed.

We may be subject to disruptions or failures in our information technology systems and network infrastructures that could have a material adverse effect on our business.

We rely on the efficient and uninterrupted operation of complex information technology systems and network infrastructures to operate our business. We also hold data in various data center facilities upon which our business depends. A disruption, infiltration or failure of our information technology systems or any of our data centers as a result of software or hardware malfunctions, system implementations or upgrades, computer viruses, third-party security breaches, employee error, theft or misuse, malfeasance, power disruptions, natural disasters or accidents could cause breaches of data security, loss of intellectual property and critical data and the release and misappropriation of sensitive competitive information. Any of these events could result in the loss of key information, impair our production and supply chain processes, harm our competitive position, cause us to incur significant costs to remedy any damages and ultimately materially and adversely affect our business, results of operations and financial condition. While we have implemented a number of protective measures, such measures may not be adequate or implemented properly to prevent or fully address the adverse effect of such events.

Failure to comply with the U.S. Foreign Corrupt Practices Act could subject us to, among other things, penalties and legal expenses that could harm our reputation and have a material adverse effect on our business, financial condition and operating results.

Our U.S. operations are currently subject to the FCPA. We are required to comply with the FCPA, which generally prohibits covered entities and their intermediaries from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business or other benefits. In addition, the FCPA imposes accounting standards and requirements on publicly traded U.S. corporations and their foreign affiliates, which are intended to prevent the diversion of corporate funds to the payment of bribes and other improper payments, and to prevent the establishment of "off books" slush funds from which such improper payments can be made. If our employees, third-party sales representatives or other agents are found to have engaged in such practices, we could suffer severe penalties, including criminal and civil penalties, disgorgement and other remedial measures, including further changes or enhancements to our procedures, policies and controls, as well as potential personnel changes and disciplinary actions.

Any failure to comply with the complex reporting and payment obligations under Medicare, Medicaid and other government programs may result in litigation or sanctions.

We are subject to various federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback, false claims, marketing and pricing laws. We are also subject to Medicaid and other government reporting and payment obligations that are highly complex and somewhat ambiguous. Violations of these laws and reporting obligations are punishable by criminal and/or civil sanctions and exclusion from participation in federal and state healthcare programs such as Medicare and Medicaid. The recent healthcare reform legislation made several changes to the federal anti-kickback statute, false claims laws, and health care fraud statute such as increasing penalties and making it easier for the government to bring sanctions against pharmaceutical companies. If our past, present or future operations are found to be in violation of any of the laws described above or other similar governmental regulations, we may be subject to the applicable penalty associated with the violation which could adversely affect our ability to operate our business and negatively impact our financial results. Further, if there is a change in laws, regulations or administrative or judicial interpretations, we may have to change our business practices or our existing business practices could be challenged as unlawful, which could materially adversely affect our business, financial position and results of operations.

The requirements of being a public company may strain our resources and distract management.

As a public company, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). These requirements are extensive. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight is required. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations.

Exercise of warrants and options, or issuance of shares pursuant to our convertible debt, may have a substantial dilutive effect on our common stock.

If the price per share of our common stock at the time of exercise or conversion of any warrants or stock options is in excess of the various exercise or conversion prices of such convertible securities, exercise or conversion of such convertible securities would have a dilutive effect on our common stock. As of December 31, 2013, holders of our

outstanding warrants and options would receive 16,420,000 shares of our common stock at a weighted average exercise price of $3.00 per share. Any additional financing that we secure likely will require the granting of rights, preferences or privileges senior to those of our common stock which may result in substantial dilution of the existing ownership interests of our common shareholders.

Our earnings per share will be diluted if the average closing price of our common stock exceeds the conversion price (currently $8.76 per share) on our convertible Notes. In addition, the Notes become convertible if the closing trading price of our common stock exceeds 130% of the Conversion Price for any 20 of the last 30 trading days of any calendar quarter through the remaining term of the Notes. The Notes became convertible for the quarter ending on June 30, 2012 as a result of the Company’s stock trading at or above the required price of $11.39 per share for 20 of the last 30 trading days in the quarter ended March 31, 2012. The Notes have remained convertible for each successive quarter as a result of meeting the trading price requirement at the end of each prior quarter. If the Notes are surrendered for conversion, we have the option of satisfying all or a portion of our obligation in shares of our common stock, which could result in substantial dilution of the existing ownership interests of our common shareholders.

We may issue preferred stock and the terms of such preferred stock may reduce the market value of our common stock.

We are authorized to issue up to a total of 5,000,000 shares of preferred stock in one or more series. Our board of directors may authorize issuance of additional shares of preferred stock and the terms of such preferred stock without further action by holders of our common stock. If we issue additional shares of preferred stock, it could affect the rights or reduce the market value of our common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. These terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions. We continue to seek capital for the growth of our business, and this additional capital may be raised through the issuance of additional preferred stock.

We experience significant quarterly fluctuation of our results of operations, which may increase the volatility of our stock price.

Our 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 our products, expenditures to comply with governmental requirements for manufacturing facilities, expenditures incurred to acquire and promote pharmaceutical products, changes in our customer base, a customer’s termination of a substantial account, the availability and cost of raw materials, interruptions in supply by third-party manufacturers, seasonal or cyclical fluctuations in the sales of certain of our products, the introduction of new products or technological innovations by our competitors, loss of key personnel, changes in the mix of products sold by us, changes in sales and marketing expenditures, competitive pricing pressures, expenditures incurred to pursue or contest pending or threatened legal action and our ability to meet our financial covenants. There can be no assurance that we will be successful in avoiding losses in any future period. Such fluctuations may result in volatility in the price of our common stock.

Further, concentrated ownership of our common stock creates a risk of sudden changes in our share price. As such, the sale by any of our large shareholders of a significant portion of that shareholder’s holdings could have a material adverse effect on the market price of our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We have two company-owned facilities in Decatur, Illinois. The Wyckles Road facility, which consists of 76,000 square feet of building space located on 15 acres of land, is used for packaging, warehousing, distribution, and office space. The Grand Avenue facility is a 65,000 square-foot manufacturing facility. Our Decatur facilities support our ophthalmic, hospital drugs & injectables, and contract services segments.

Our wholly-owned subsidiary, AIPL, owns and operates approximately 245,000 square feet of pharmaceutical manufacturing, warehousing and distribution facilities situated on approximately 14 acres of land in Paonta Sahib, Himachal Pradesh, India. This facility manufactures drugs primarily for contract customers in India and for export to various unregulated world markets.

Our wholly-owned subsidiary, Akorn (New Jersey) Inc. leases a 50,000 square-foot facility in Somerset, New Jersey pursuant to a seven-year lease agreement that began on August 1, 2010. This lease allows us the option to renew for up to four additional 5-year periods beyond the initial expiration date of July 31, 2017. The Somerset facility is used for drug manufacturing, research and development and administrative activities related to our ophthalmic and hospital drugs & injectables segments.

Our manufacturing facilities in Decatur, Illinois and Somerset, New Jersey are considered adequate to accommodate our current manufacturing needs. At Somerset, we recently completed a project to expand our manufacturing capacity and continue to make capital improvements to accommodate both current demand and anticipated future growth opportunities. In addition, we expect that our manufacturing plant in Paonta Sahib, India will eventually receive FDA approval to manufacture products for shipment to the U.S. market, helping to support our continued growth.

Our corporate headquarters and administrative offices consist of 34,000 square feet of leased space in an office building in Lake Forest, Illinois. We maintain a leased space in Gurnee, Illinois, consisting of 74,000 square feet, to accommodate our product warehousing and distribution needs. Both the Lake Forest lease and the Gurnee lease extend through March 2018. In March 2013, we relocated our R&D operations from Skokie, Illinois to a 19,000-square foot leased facility in Vernon Hills, Illinois pursuant to an 89-month lease expiring April 30, 2020. Our subsidiary, AVR, maintains their corporate offices in a 3,200-square foot leased facility in Ann Arbor, Michigan.

Item 3. Legal Proceedings.

On September 12, 2012, Fera Pharmaceuticals, LLC (“Fera”) filed a civil complaint against the Company and certain individual defendants (together, the “Defendants”) in the Supreme Court of New York (the “Fera lawsuit”). The complaint alleges, among other things, breach of manufacturing and confidentiality agreements and misappropriation of the plaintiff’s trade secrets. On October 15, 2012, the case was removed to the Federal District Court for the Southern District of New York. Fera filed an amended complaint on December 21, 2012. The Company intends to vigorously defend these allegations. However, no assurance may be given regarding the ultimate outcome of this lawsuit.

In April 2012, Allergan Sales (“Allergan”) filed a lawsuit alleging patent infringement claims against the Company relating to the 0.4% ketorolac tromethamine formulation. Allergan sought unspecified monetary damages in this case. The Company had asserted invalidity and non-infringement. The Company and Allergan entered into a confidential settlement agreement which did not have a material impact on the Company or its operations, and on September 28, 2013, the court entered an order dismissing the lawsuit.

In April 2011, Inspire received a Notice Letter from Sandoz, Inc. (“Sandoz”) providing notice that Sandoz has filed an Abbreviated New Drug Application (ANDA) with the FDA seeking marketing approval for a 1% azithromycin ophthalmic solution prior to the expiration of the five U.S. patents licensed to us and listed in the Orange Books for AzaSite. On May 26, 2011, Merck, InSite Vision Incorporated (“InSite”) and Pfizer filed a complaint against Sandoz and related entities in the district court of New Jersey alleging that their proposed product infringes the listed patents. On October 4, 2013, the court issued judgment in favor of us and the other plaintiffs finding all the asserted claims of the patents in the litigation valid and infringed by Sandoz and related entities. Sandoz has appealed this decision. We intend to vigorously contest any Sandoz assertions that these patents should have been found not infringed, invalid or unenforceable.

In May 2013, Inspire received a Notice Letter that Mylan Pharmaceuticals, Inc. (“Mylan”), had filed an ANDA with the FDA seeking marketing approval for a 1% azithromycin ophthalmic solution (the “Mylan Product”) prior to the expiration of the five U.S. patents licensed to us and listed in the Orange Books for AzaSite. On June 14, 2013, Insite, Merck, Inspire and Pfizer filed a complaint against Mylan and a related entity alleging that their proposed product infringes the listed patents. We intend to vigorously contest any Mylan assertions that these patents are invalid or unenforceable.

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

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The following table sets forth, for the fiscal periods indicated, the high and low sales prices for our common stock for the two most recent fiscal years and through a portion of the first quarter of our current fiscal year. From February 7, 2007 to the date of this report, our common stock has been listed on the NASDAQ Global Market under the symbol "AKRX". Previously, from November 24, 2004 until February 6, 2007, our common stock was listed on the American Stock Exchange (currently known as the NYSE MKT) under the symbol "AKN."

	High	Low
Year Ending December 31, 2014		
1st Quarter (through March 3, 2014)	$ 28.00	$ 21.12
Year Ended December 31, 2013		
4th Quarter	$ 26.16	$ 19.03
3rd Quarter	20.22	13.34
2nd Quarter	15.49	12.86
1st Quarter	14.70	12.44
Year Ended December 31, 2012		
4th Quarter	$ 13.77	$ 11.73
3rd Quarter	16.87	11.99
2nd Quarter	16.09	10.53
1st Quarter	13.09	10.52

As of March 3, 2014, there were 96,652,900 shares of our common stock outstanding, held by approximately 361 stockholders of record. This number does not include stockholders for which shares are held in a "nominee" or "street" name. The closing price of our common stock on March 3, 2014 was $24.10 per share.

We did not pay cash dividends in 2013, 2012 or 2011 and do not expect to pay dividends on our common stock in the foreseeable future. Moreover, we may be restricted from making dividend payments pursuant to the terms of our $60.0 million revolving Loan and Security Agreement with Bank of America, N.A., and other financial institutions (see Note 6, Financing Arrangements).

We did not repurchase any shares of our common stock during the years 2013, 2012 or 2011.

PERFORMANCE GRAPH

The following Stock Performance Graph and related information shall not be deemed “soliciting material” or “filed” with the Securities and Exchange Commission, nor should such information be incorporated by reference into any future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference in such filing.

The graph below compares the cumulative shareholder return on our common stock with the NASDAQ Stock Market (U.S.) Index, and the Nasdaq Health Care Index (ticker symbol: ^IXHC) over the last five years through December 31, 2013. The graph assumes $100 was invested in our common stock, and also the two indices presented, at the end of December 2008 and that all dividends were reinvested during the subsequent five-year period.

Total Return Chart	2008	2009	2010	2011	2012	2013
NASDAQ Stock Market (U.S.) Index	100	144	168	165	191	265
NASDAQ Health Care Index (^IXHC)	100	117	129	134	171	268
Akorn, Inc. (AKRX)	100	78	264	483	581	1,070

Item 6. Selected Financial Data

The following table sets forth selected summary historical financial data. We have prepared this table using our consolidated financial statements for the five years ended December 31, 2013. Our consolidated financial statements were audited by Ernst & Young LLP, independent registered public accounting firm, during each of the four years ended December 31, 2012, and were audited by KPMG LLP, independent registered public accounting firm, during the year ended December 31, 2013. This summary should be read in conjunction with our audited Consolidated Financial Statements and Notes thereto, and "Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included herein.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
(In thousands, except per share data)					
Revenues	$317,711	$256,158	$136,920	$86,409	$75,891
Gross profit	171,904	148,692	79,689	42,465	15,672
Operating income (loss)	88,204	68,756	33,266	11,272	(19,512)
Interest and other non-operating income (expense)	(5,309)	(11,256)	8,040	10,704	(5,792)
Pretax income (loss)	82,895	57,500	41,306	21,976	(25,304)
Income tax provision (benefit)	30,533	22,122	(1,707)	152	2
Net income (loss)	$52,362	$35,378	$43,013	$21,824	$(25,306)
Weighted average shares outstanding:					
Basic	96,181	95,189	94,549	92,801	90,253
Diluted	113,898	110,510	103,912	99,250	90,253
PER SHARE:					
Equity, per diluted share	$2.28	$1.82	$1.52	$0.87	$0.43
Net income (loss):					
Basic	0.54	0.37	0.45	0.24	(0.28)
Diluted	0.46	0.32	0.41	0.22	(0.28)
Share Price: High	26.16	16.87	11.77	6.50	2.69
Low	12.44	10.52	4.87	1.27	0.73
BALANCE SHEET DATA:					
Current assets	$168,856	$158,707	$155,949	$73,613	$26,069
Net property, plant & equipment	82,108	80,679	44,389	32,731	31,473
Total assets	431,805	369,565	307,145	111,116	68,759
Current liabilities, including debt in default	61,245	43,291	28,289	21,940	21,666
Long-term obligations, less current installments	110,380	125,193	120,648	2,424	8,456
Shareholders' equity	260,180	201,081	158,208	86,752	38,637
CASH FLOW DATA:					
Cash provided by (used in) operating activities	$57,326	$26,244	$19,657	$12,282	$(1,038)
Cash (used in) provided by investing activities	(66,874)	(75,501)	(95,034)	31,555	(1,397)
Cash provided by (used in) financing activities	3,118	6,366	117,716	(3,831)	2,989
Effect of changes in exchange rates	(173)	(290)			
(Decrease)/increase in cash and cash equivalents	(6,603)	(43,181)	42,339	40,006	554

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We manufacture and market a full line of diagnostic and therapeutic ophthalmic pharmaceuticals as well as niche hospital drugs and injectable pharmaceuticals. We manufacture and/or offer products in various specialty areas, including ophthalmology, antidotes, anti-infectives, controlled substances for pain management and anesthesia, and vaccines, among others. We also manufacture and market a line of over-the-counter ("OTC") dry eye and eye health products under the brand name TheraTears®, as well as various private-labeled OTC products for major drugstore chains.

We have three identified operating segments:

- § Ophthalmic – sales of diagnostic and therapeutic ophthalmic drugs and over-the-counter eye care products
- § Hospital Drugs & Injectables – sales of diagnostic and therapeutic injectables and other hospital drugs, as well as biologics and vaccines
- § Contract Services – sales of various drugs that we manufacture for others to be sold under their own brand names

Acquisitions:

Hi-Tech Pharmacal Co. Inc.

On August 27, 2013, we entered into a definitive agreement to acquire Hi-Tech Pharmacal Co, Inc. ("Hi-Tech") for a total purchase price of approximately $640 million, or $43.50 per outstanding share of Hi-Tech common stock. The acquisition has been approved by the shareholders of Hi-Tech, but is subject to review by the Federal Trade Commission pursuant to provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. We expect the acquisition to close early in the second quarter of 2014. Upon closing, Akorn Enterprises, Inc., a wholly-owned subsidiary of the Company, will be merged with and into Hi-Tech, which will then be a wholly-owned subsidiary of the Company.

We believe that the Hi-Tech acquisition will strengthen Akorn's current position as the third largest company in the U.S. generic ophthalmic market, and broaden the Company's product offering to include other niche dosage forms such as oral liquids, topical creams and ointments, nasal sprays and otics. Also, this transaction is expected to significantly increase our retail presence in both prescription and OTC products, and expand our R&D pipeline.

Merck Product Acquisition

On November 15, 2013, we acquired from Merck the U.S. rights to three branded ophthalmic products – AzaSite®, Cosopt® and Cosopt® PF – for a cash purchase price of $52.8 million. We began selling Cosopt® and Cosopt® PF during the fourth quarter of 2013 and began selling AzaSite® in the first quarter of 2014. This acquisition is expected to strengthen our position as a leader in U.S. ophthalmology products and allows us to leverage our existing ophthalmic sales force and physician relationships. The acquired products are anticipated to generate 2014 revenue in the range of $34 million to $38 million and be accretive to earnings.

New Product Development:

We continued the expansion of our product pipeline during 2013, as we submitted 15 new NDAs/ANDAs to the FDA in the year, bringing to 63 the total number of filings currently under FDA review. During 2013, we received FDA approval on two ANDAs and tentative approval on another. During the year, we also moved our R&D center from

Skokie, Illinois to a new, larger facility in Vernon Hills, Illinois, just a few miles away from our corporate offices. We continue to develop new products internally, as well as opportunistically partnering with other drug companies for products that we would not intend to manufacture ourselves. R&D expense in 2013 was $19.9 million compared to $15.9 million in the prior year.

Revenue & Gross Profit:

Our revenue increased to $317.7 million in 2013, an increase of 24% over revenue of $256.2 million in 2012. Of this $61.6 million increase, approximately 71% was related to new products released, approved or acquired since the start of 2012. This includes progesterone capsules and tetanus-diphtheria vaccine (“Td vaccine”), which together accounted for $28.3 million of the revenue increase. We also saw increased revenue from existing products, as we continue to increase our market penetration. Our gross profit increased by $23.2 million in 2013. Our overall gross profit margin was 54.1% in 2013 compared to 58.0% in 2012. The lower margin is primarily due to an increase in sales of products that are not manufactured by us and/or which have profit sharing agreements with co-developers, along with increased competitive pricing pressure for certain products.

RESULTS OF OPERATIONS

For the years 2013, 2012 and 2011, we have identified and reported operating results for three distinct business segments: Hospital drugs & injectables; Ophthalmic; and Contract services. Our reported results by segment are based upon various internal financial reports that disaggregate certain operating information. Our chief operating decision maker, as defined in Accounting Standards Codification ("ASC") Topic 280, Segment Reporting, is our CEO. Our CEO oversees operational assessments and resource allocations based upon the results of our reportable segments, all of which have available discrete financial information.

The following table sets forth amounts and percentages of total revenue for certain items from our Consolidated Statements of Operations and our segment reporting information for the years ended December 31, 2013, 2012 and 2011 (dollar amounts in thousands):

	2013			2012			2011		
	Amount	% of Revenue		Amount	% of Revenue		Amount	% of Revenue	
Revenues:									
Hospital drugs & injectables	$179,625	56.5	%	$129,723	50.6	%	$55,077	40.2	%
Ophthalmic	114,515	36.1	%	103,765	40.5	%	68,591	50.1	%
Contract services	23,571	7.4	%	22,670	8.9	%	13,252	9.7	%
Total revenues	317,711	100.0	%	256,158	100.0	%	136,920	100.0	%
Gross profit and gross margin percentage:									
Hospital drugs & injectables	104,473	58.2	%	83,413	64.3	%	30,057	54.6	%
Ophthalmic	63,481	55.4	%	58,785	56.7	%	43,054	62.8	%
Contract services	3,950	16.8	%	6,494	28.6	%	6,578	49.6	%
Total gross profit	171,904	54.1	%	148,692	58.0	%	79,689	58.2	%
Operating expenses:									
Selling, general & administrative expenses	53,508	16.8	%	48,053	18.8	%	32,392	23.7	%
Research and development expenses	19,858	6.3	%	15,858	6.2	%	11,555	8.4	%
Amortization of intangibles	7,422	2.3	%	6,870	2.7	%	1,733	1.3	%
Acquisition-related costs	2,912	0.9	%	9,155	3.6	%	743	0.5	%
Operating income	$88,204	27.8	%	$68,756	26.8	%	$33,266	24.3	%
Net income	$52,362	16.5	%	$35,378	13.8	%	$43,013	31.4	%

COMPARISON OF YEARS ENDED DECEMBER 31, 2013 AND 2012

Our revenues were $317.7 million in 2013, an increase of $61.6 million, or 24.0%, compared to 2012. This increase in revenue was primarily from increased sales of new and revived products, defined as products that we began selling during 2012 or 2013, which accounted for approximately $48.5 million of the increase. Sales of existing products accounted for $12.0 million of the increase, with a $14.7 million increase related to volume gains being partially offset by a $2.7 million decline from a slight reduction in average sale prices. Business and product acquisitions accounted for an increase of $1.1 million, as new revenue from products acquired late in 2013 more than offset lower revenue from our subsidiary in India, in part due to weakening of the Indian rupee against the U.S. dollar.

In terms of reportable segments, 2013 revenues from our hospital drugs & injectables segment were $179.6 million, an increase of $49.9 million, or 38.5%, over the prior year. This increase was primarily related to sales of new and revived products, with more than half of the $49.9 million increase attributable to progesterone capsules and Td vaccine. Increased dollar sales of existing products accounted for approximately $6.4 million of the increase. Ophthalmic segment revenues were $114.5 million, an increase of $10.8 million, or 10.4%, over the prior year. Of the $10.8 million increase, approximately 42% was related to increases in OTC product sales of TheraTears branded products and private label products, while 19% was related to sales of products acquired late in 2013 from Merck. The remainder was from increased sales of existing products. Contract services revenue was $23.6 million in 2013, an increase of $0.9 million, or 4.0%, over the prior year. An increase of $1.8 million in domestic contract services revenue was partially offset by a $0.9 decrease in revenue of our subsidiary in India, in part due to unfavorable changes in currency exchange rates.

Our 2013 revenues of $317.7 million was net of adjustments totaling $210.9 million for chargebacks, rebates, administration fees, returns, discounts and allowances, and coupons and advertising. Chargeback and rebate expense for 2013 was $183.4 million, or 34.7% of gross revenue, compared to $112.2 million, or 29.0% of gross revenue, in 2012. The $71.2 million increase in chargeback and rebate expense was due to higher gross sales volume and increases in WAC for various products in 2013. The increase in chargeback and rebate expense as a percentage of gross sales was attributable to an overall increase in the gap between WAC and contract price. Our products returns provision in 2013 was $5.0 million, or 0.9% of gross sales, compared to $3.8 million, or 1.0% of gross sales, in 2012. The slight decrease in percentage was due to favorable historical product return trends.

Our consolidated gross profit for 2013 was $171.9 million, or 54.1% of revenue, compared to $148.7 million, or 58.0% of revenue, in 2012. This $23.2 million, or 15.6%, increase in gross profit was principally due to our revenue growth from new and revived products. The decrease in our overall gross profit margin was primarily due to the fact that a significant percentage of our revenue growth was in products that are contract manufactured and which may also involve margin sharing arrangements with development partners. Pricing pressure for various products was also a contributing factor to the overall decrease in gross profit margin. The gross profit margin from sales of hospital drugs & injectables was 58.2% in 2013 compared to 64.3% in 2012. Our sales growth in this segment was heavily weighted toward products that are manufactured by third parties and have profit sharing arrangements, resulting in a decrease in the overall gross profit margin of the segment. Pricing pressures on certain existing products also contributed to the margin contraction. The gross profit margin on ophthalmic segment sales was 55.4% in 2013 compared to 56.7% in the prior year. This slight decrease was due to a variety of factors, including an increase in sales or products subject to margin sharing arrangements with development partners, and pricing pressure on certain products, and introduction of new, lower margin products. The gross profit margin on contract services decreased to 16.8% in 2013 from 28.6% in 2012 primarily due to lower margins generated by our Indian subsidiary, which increased its manufacturing infrastructure costs in preparation for obtaining FDA certification.

Total operating expenses were $83.7 million in 2013, an increase of $3.8 million, or 4.7%, over the prior year. Increases in selling, general and administrative ("SG&A") expenses, R&D expenses and amortization of intangibles were partially offset by a decline in acquisition-related expenses.

Selling, general and administrative ("SG&A") expenses were $53.5 million in 2013, an increase of $5.4 million, or 10.1%, over the prior year expense of $48.1 million. The $5.4 million increase included a $1.5 million increase related to expanding our sales force, an increase of $1.0 million in FDA fees and a $1.0 million increase in legal costs, including settlements. As a percentage of sales, SG&A expenses declined to 16.8% compared to 18.8%, evidence of an improved leveraging of sales.

Research and development ("R&D") expenses were $19.9 million in 2013, an increase of $4.0 million over the R&D expense of $15.9 million recorded in the prior year. This increase was related to the continued growth in our investment in R&D. Among the largest components of the increase in expense were a $1.0 million increase in R&D exhibit batch expense and a $0.7 million increase in FDA fees.

Amortization of intangibles consists of the amortization of NDA and ANDA drug acquisition costs over the anticipated market lives of the acquired products, as well as the amortization of other intangible assets acquired through business combinations. Amortization of intangibles was $7.4 million in 2013 compared to $6.9 million in 2012. This increase of $0.5 million was primarily related to the fourth quarter acquisition of three ophthalmic products from Merck.

We recorded $2.9 million of acquisition-related costs during 2013 compared to $9.2 million in 2012. Of the current year expenses, $1.7 million was related to the Hi-Tech acquisition, $0.5 million was related to milestone achievement payments to the former owners of the business we acquired from Kilitch Drugs (India) Limited, and $0.7 million was related to the Merck Product Acquisition and other acquisition activities. In the prior year, acquisition-related expenses were exclusively related to the Kilitch acquisition.

Amortization of deferred financing costs totaled approximately $0.8 million in both 2013 and 2012. The expense in each year was related to amortizing the deferred financing costs related to our Notes and our BoA Credit Facility.

Total interest expense was $8.6 million in 2013 compared to $10.4 million in the prior year. In 2013, we recorded non-cash interest expense of $4.6 million compared to $6.4 million of non-cash interest in the prior year. Our non-cash interest expense was related to the debt discount on our Notes and to the change in fair value of our

additional consideration of $15 million payable to Lundbeck in December 2014 related to our acquisition of various injectable products from them in December 2011. The year to year decline was primarily related to a decrease in interest accrued on the Lundbeck additional consideration. Our net cash interest expense in each year principally consisted of interest payable on our Notes.

In the fourth quarter of 2013, we recorded a $3.7 million gain from our “bargain purchase” of three ophthalmic products from Merck. The bargain purchase was largely derived from the excess of the fair value of acquired net deferred tax assets over their economic value as calculated by discounting their future cash flows. We also recognized income of $0.2 million in relation to foreign currency forward contracts designed to hedge future capital expenditures at AIPL against strengthening of the Indian rupee against the U.S. dollar.

COMPARISON OF YEARS ENDED DECEMBER 31, 2012 AND 2011

Our revenues were $256.2 million in 2012, an increase of $119.2 million, or 87.1%, compared to 2011. This increase in revenue was related to a number of factors, including the acquisitions, sales of new and revived products and increased sales of existing products. Of the $119.2 million increase in revenues, $67.1 million was related to business combinations and products acquisitions completed since the start of 2011, $45.1 million was from a combination of newly-approved products and re-launch products in response to more favorable market conditions, and $9.3 million was related to sales volume increases for continuing products, partially offset by a $2.3 million reduction attributable to price changes on continuing products.

In terms of reportable segments, 2012 revenues from our hospital drugs & injectables segment were $129.7 million, an increase of $74.6 million, or 135.5%, over the prior year. The increase was principally attributable to sales of products acquired through the Lundbeck acquisition, and sales of newly-approved and revived products. Ophthalmic segment revenues were $103.8 million, an increase of $35.2 million, or 51.3% over the prior year. The three main factors contributing to this increase were sales from new and revived products, a full year's revenue from the AVR acquisition, and sales increases from existing ophthalmic products. Contract services revenue was $22.7 million in 2012, an increase of $9.4 million, or 71.1%, over the prior year. This increase was related to the $16.7 million revenue generated from the Kilitch Acquisition, partially offset by a decline in U.S. contract business of $7.3 million due to a shift in manufacturing toward Akorn products.

Our 2012 revenues of $256.2 million was net of adjustments totaling $130.8 million for chargebacks, rebates, administration fees, returns, discounts and allowances, and coupons and advertising. Chargeback and rebate expense for 2012 was $112.2 million, or 29.0% of gross revenue, compared to $68.1 million, or 31.5% of gross revenue, in 2011. The $44.1 million increase in chargeback and rebate expense was due to higher gross sales volume in 2012. The slight decrease in chargeback and rebate expense as a percentage of gross sales was attributable to increases in sales outside the wholesale channel. Our products returns provision in 2012 was $3.8 million, or 1.0% of gross sales, compared to $2.7 million, or 1.3% of gross sales, in 2011. The slight decrease in percentage was due to favorable historical product return trends and a higher percentage of sales of non-returnable products.

Our consolidated gross profit for 2012 was $148.7 million, or 58.0% of revenue, compared to $79.7 million, or 58.2% of revenue, in 2011. This gross profit increase of $69.0 million, or 86.6%, was principally due to our revenue growth from acquisitions, new product introductions and product revivals. The slight decrease in overall profit margin was due to lower margin business, such as the contract revenue of Akorn India, which offset higher-margin business, such as the sales of products acquired through Lundbeck Acquisition. The gross profit margin on ophthalmic segment sales was 56.7% in 2012 compared to 62.8% in 2011, this decline being primarily attributable to increased sales of over-the-counter ophthalmic products by our subsidiary, AVR, which was acquired in May 2011. The gross profit margin on hospital drugs & injectables increased to 64.3% in 2012 from 54.6% in 2011 primarily due to the higher gross margin on the Lundbeck products. The gross profit margin on contract services decreased to 28.6% in 2012 from 49.6% in 2011 primarily due to lower margin business from our Indian subsidiary.

Selling, general and administrative ("SG&A") expenses were $48.1 million in 2012, an increase of $15.7 million, or 48.3%, over the prior year SG&A expenses of $32.4 million. This increase was due primarily to compensation-related costs resulting from higher headcount supporting our growth, operating expenses associated with our India operations that were acquired during the first quarter of 2012 and marketing costs associated with our AVR business. As a percentage of sales, SG&A expense was 18.8%, down from 23.7% in 2011.

Research and development ("R&D") expenses were $15.9 million in 2012 compared to $11.6 million in 2011. This increase of $4.3 million was the result of continued increases in R&D activities, both internally and through strategic partnerships and includes $1.2 million of expenses associated with the FDA's backlog and new filing fees that went

into effect in the fourth quarter of 2012.

Amortization of intangibles consists of the amortization of NDA and ANDA drug acquisition costs over the anticipated market lives of the acquired products, as well as the amortization of other intangible assets acquired through business combinations. Amortization of intangibles was $6.9 million in 2012 compared to $1.7 million in 2011. This increase of $5.2 million was primarily due to amortization of the product rights acquired through the Lundbeck Acquisition, and amortization of intangible assets acquired through the Kilitch Acquisition.

Amortization of deferred financing costs totaled $0.8 million in 2012 compared to $1.9 million in 2011. The 2012 expense was related to amortizing the financing costs on our Notes and our BoA Credit Facility. The 2011 expense included a $1.2 million write-off of the unamortized deferred financing costs to our EJ Credit Facility, which we elected to early terminate in June 2011. Our 2011 expense also included $0.4 million in amortization of deferred financing costs related to our Notes.

In 2012, we recorded non-cash interest expense of $6.4 million compared to $2.1 million in prior year. Our non-cash interest expense was related to the debt discount on our Notes and to the change in fair value of our contingent consideration payable related to the acquisition of Lundbeck products.

Cash interest expense was $4.0 million in 2012 compared to $2.3 million in 2011. Our cash interest in each year was principally related to the Notes, which were issued effective June 1, 2011.

We are a 50% partner in Akorn-Strides LLC (the "Joint Venture Company"), which we account for using the equity method. During 2011, we recorded $14.6 million of equity in income from this unconsolidated joint venture, of which $13.4 million was related to our share of the gain from Joint Venture Company's sale of its ANDAs to Pfizer on December 29, 2010, and the remaining $1.2 million was from the Joint Venture Company's operations. The Joint Venture Company essentially ceased operations in 2011 and no income was recorded in 2012.

In 2011, we recorded a non-operating expense of $0.2 million related to an option agreement we entered into to protect ourselves from a negative movement in the foreign exchange rate between U.S. dollars and Indian rupees. We entered into this option agreement in October 2011 following our entry into an agreement to buy certain assets from Kilitch in India, as the purchase price for the Kilitch Acquisition was established in Indian rupees. We incurred no similar expenses in 2012.

FINANCIAL CONDITION AND LIQUIDITY

Cash Flow

As of December 31, 2013, we had cash and cash equivalents of $34.2 million, which is $6.6 million lower than our cash and cash equivalents balance of $40.8 million as of December 31, 2012. This decrease in cash and cash equivalents was primarily related to the $52.8 million we used to acquire three branded ophthalmic products from Merck in the fourth quarter of 2013, and the $11.6 million spent to acquire property, plant and equipment, more than offsetting our positive operating cash flow for the year. Our net working capital was $107.6 million at December 31, 2013 compared to $115.4 million at December 31, 2012. This $7.8 million decrease in working capital closely paralleled our decrease in cash during the year.

During 2013, we generated $57.3 million in cash flow from operations. This positive operating cash flow was primarily the result of our net income of $52.4 million and non-cash expenses of $19.2 million, partially offset by a $14.3 million increase in accounts receivable and a $3.8 million increase in inventory. In 2012, we generated $26.2 million in positive cash flow from operations. This positive operating cash flow was primarily the result of our net income of $35.4 million and non-cash expenses of $20.6 million, partially offset by a $23.9 million increase in accounts receivable and a $15.4 million increase in inventory.

In 2013, we used $66.9 million cash in investing activities. Of this total, $55.5 million was used for product acquisitions, including $52.8 million used to acquire three branded ophthalmic products from Merck, and $11.6 million was used to acquire property, plant and equipment. These uses of cash were partially offset by $0.2 million received in distribution from our non-consolidated Joint Venture Company. In the prior year, we used $75.5 million in investing activities, of which $54.2 million was used to complete the Kilitch Acquisition in February of 2012 and $20.5 million was used to acquire property, plant and equipment, principally as part of the expansion project at our Somerset, New Jersey manufacturing plant.

Financing activities generated $3.1 million in cash during 2013, which included $6.1 million generated from stock option exercises and participation in the employee stock purchase plan ("ESPP"), partially offset by $3.0 million in debt financing costs. During 2012, we generated $6.4 million in cash through financing activities, all of which was related

to stock option exercises and participation in the ESPP.

Liquidity and Capital Needs

On August 26, 2013, we entered into an Agreement and Plan of Merger to acquire Hi-Tech Pharmacal Co., Inc. ("Hi-Tech") for a purchase price of approximately $640 million in cash, or $550 million net of Hi-Tech's projected cash reserves at closing. Concurrent with negotiating this acquisition, we obtained a loan commitment from JP Morgan Chase Bank, N.A. ("JP Morgan") for a $600 million term loan to finance the acquisition (the "JPM Term Loan") and a $75 million revolving credit facility (the "JPM Revolver") to fund working capital needs and other corporate purposes. The JPM Term Loan was syndicated to a number of investors during the fourth quarter of 2013. As negotiated, the JPM Term Loan will mature in seven (7) years and accrue interest at a variable margin over either prime or LIBOR. Full or partial prepayments of principal will be allowed. The JPM Revolver will carry a term of five (5) years and a total loan commitment of $75 million, or up to $150 million at our election, if oversubscribed by participating lenders. Our $60 million revolving Loan and Security Agreement with Bank of America, N.A. (the "B of A Credit Agreement"), as described below, will be terminated when we enter into a final JPM Revolver agreement. (For further details regarding JP Morgan's commitments to us regarding the JPM Term Loan and JPM Revolver, please refer to Exhibit 4 to the Company's Schedule 13D filed with the SEC on September 5, 2013.)

JP Morgan completed syndication of the loan in the quarter ended December 31, 2013. We expect that the JPM Term Loan agreement will be signed after we receive FTC clearance for the Hi-Tech Acquisition and once a closing date has been agreed upon by the parties. The loan itself will take place upon closing the Hi-Tech Acquisition. We believe that the $600 million term loan and the approximately $90 million of cash reserves expected to be on Hi-Tech's balance sheet at closing will be sufficient to finance the Hi-Tech acquisition and all applicable deal-related costs.

We require certain capital resources in order to maintain and expand our business. Our future capital expenditures may include substantial projects undertaken to upgrade, expand and improve our manufacturing facilities, both in the U.S. and India. We believe that our cash reserves, operating cash flows, the committed Hi-Tech Term Loan and availability under our credit facilities will be sufficient to finance the Hi-Tech acquisition and meet our cash needs for the foreseeable future.

We continue to evaluate opportunities to grow and expand our business through the acquisition of new businesses, manufacturing facilities, or pharmaceutical product rights. Such acquisitions may require us to obtain additional sources of capital. We cannot predict the amount of capital that may be required to complete such acquisitions, and there is no assurance that sufficient financing for these activities would be available on terms acceptable to us, if at all.

Convertible Notes

On June 1, 2011, we completed an offering of $120.0 million aggregate principal amount of 3.50% Convertible Senior Notes due 2016 (the "Notes"), which includes $20.0 million of Notes issued in connection with the full exercise by the initial purchasers of their over-allotment option. The Notes are governed by our indenture with Wells Fargo Bank, National Association, as trustee (the "Indenture"). The Notes were offered and sold only to qualified institutional buyers. The net proceeds from the sale of the Notes were approximately $115.3 million, after deducting underwriting fees and other related expenses.

The Notes have a maturity date of June 1, 2016 and pay interest at an annual rate of 3.50% semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2011. The Notes are convertible into our common stock, cash or a combination thereof at an initial conversion price of $8.76 per share, which is equivalent to an initial conversion rate of approximately 114.1553 shares per $1,000 principal amount of Notes. The conversion price is subject to adjustment for certain events described in the Indenture, including certain corporate transactions which will increase the conversion rate and decrease the conversion price for a holder that elects to convert its Notes in connection with such corporate transaction.

The Notes may be converted at any time prior to the close of business on the business day immediately preceding December 1, 2015 only under the following circumstances: (1) during any calendar quarter commencing after September 30, 2011, if the closing sale price of the our common stock, for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price in effect on each applicable trading day; (2) during the five consecutive trading-day period following any five consecutive trading-day period in which the trading price for the Notes per $1,000 principal amount of Notes for each such trading day was less than 98% of the closing sale price of our common stock on such date multiplied by the then-current conversion rate; or (3) upon the occurrence of specified corporate events. On or after December 1, 2015 until the close of business on the business day immediately preceding the stated maturity date, holders may surrender all or any portion of their Notes for conversion at any time, regardless of the foregoing circumstances. Upon conversion, we will pay or deliver, at our option, cash, shares of our common stock, or a combination thereof. We may not redeem the Notes prior to the maturity date. If a fundamental change (as defined in the Indenture) occurs prior to the stated maturity date, holders may require us the purchase for cash all or a portion of their Notes. The Notes became convertible for the second quarter of 2012 as a result of the Company's stock trading at or above the required

price of $11.39 per share for 20 of the last 30 trading days in the quarter ended March 31, 2012. The Notes have remained convertible for each successive quarter as a result of meeting the trading price requirement at the end of each prior quarter.

The Company recorded the following expenses in relation to the Notes during the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Interest expense at 3.50% coupon rate	$ 4,200	$ 4,200	$ 2,450
Debt discount amortization	4,113	3,828	2,109
Deferred financing cost amortization	744	692	382
	$ 9,057	$ 8,720	$ 4,941

Credit Facilities:

Bank of America Credit Facility

On October 7, 2011, the Company and its domestic subsidiaries (the "Borrowers") entered into a Loan and Security Agreement (as defined above, the "BoA Credit Agreement") with Bank of America, N.A. (the "Agent") and other financial institutions (collectively with the Agent, the "BoA Lenders") through which we obtained a $20.0 million revolving line of credit (as defined above, the " BoA Facility"), which includes a $2.0 million letter of credit facility. On October 4, 2013, the parties entered into an amendment increasing the total loan commitment under the revolving credit agreement to $60.0 million. The BoA Facility matures in March 2016. We may early terminate the BoA Lenders' commitments under the BoA Facility upon 90 days' notice to the Agent at any time after the first year.

Under the terms of the BoA Credit Agreement, amounts outstanding will bear interest at our election at (a) LIBOR or (b) the bank's Base Rate (which is the greatest of: (i) the prime rate, (ii) the federal funds rate plus 0.50%, or (iii) LIBOR plus 1.0%), plus an applicable margin, which margin is based on the consolidated fixed charge coverage ratio of Akorn, Inc. and its subsidiaries from time to time. Additionally, the Borrowers will pay an unused line fee of 0.250% per annum on the unused portion of the BoA Facility. Interest and unused line fees will be accrued and paid monthly. In addition, with respect to any letters of credit that may be issued, the Borrowers will pay: (i) a fee equal to the applicable margin times the average amount of outstanding letters of credit, (ii) a fronting fee equal to 0.125% per annum on the stated amount of each letter of credit, and (iii) any additional fees incurred by the applicable issuer in connection with issuing the letter of credit. During an event of default, any interest or fees payable will be increased by 2% per annum.

Availability under the revolving credit line is equal to the lesser of (a) $60.0 million reduced by outstanding letter of credit obligations or (b) the amount of a Borrowing Base (as defined in accordance with the terms of the BoA Credit Agreement) determined by reference to the value of the Borrowers' eligible accounts receivable, eligible inventory and fixed assets as of the closing date and the end of each calendar month thereafter.

Obligations under the BoA Credit Agreement are secured by substantially all of the assets of each of the Borrowers and a pledge by the Borrowers of their respective equity interest in each of our domestic subsidiaries and 65% of their respective equity interests in any foreign subsidiaries. The BoA Credit Agreement contains representations and warranties, and affirmative and negative covenants customary for financings of this type, including, but not limited to, limitations on: distributions while we have any outstanding commitments or obligations under the BoA Credit Agreement; additional borrowings and liens; additional investments and asset sales; and fundamental changes to corporate structure or organization documents. The financial covenants require the Borrowers to maintain a fixed charge coverage ratio of at least 1.1 to 1.0 during any period commencing on the date that an event of default occurs or availability under the BoA Credit Agreement is less than 15% of the aggregate BoA Lenders' commitments under the BoA Credit Agreement. During the term of the agreement, we must provide the Agent with monthly, quarterly and annual financial statements, monthly compliance certificates, annual budget projections and copies of press releases and SEC filings.

As of December 31, 2013, we had availability on our line of credit of $59.1 million. As of that date, there was one outstanding letter of credit in the amount of approximately $0.5 million and there were no outstanding loans.

EJ Funds Credit Facility

On January 7, 2009, we entered into a Credit Agreement (the "GE/EJ Credit Agreement") with General Electric Capital Corporation ("GE Capital") as agent for several financial institutions (the "Lenders") to replace our previous credit agreement with Bank of America which expired on January 1, 2009. Pursuant to the GE/EJ Credit Agreement, the

Lenders agreed to extend loans to us under a revolving credit facility up to an aggregate principal amount of $25.0 million (the "Credit Facility"). On February 19, 2009, GE Capital applied a reserve against availability which effectively reduced availability to $5.5 million, which was the outstanding balance at that time. On March 31, 2009, the GE/EJ Credit Agreement was assigned to EJ Funds, L.P., a company controlled by the Chairman of our Board of Directors. Various subsequent amendments increased the loan commitment to $10.0 million, and reduced the number of financial covenants we were required to meet. The GE/EJ Credit Agreement was scheduled to terminate, and all amounts outstanding thereunder were to become due and payable, on January 7, 2013, or on an earlier date as specified in the GE/EJ Credit Agreement. On June 17, 2011, we elected to early terminate the GE/EJ Credit Agreement. There was no early termination fee upon termination of the GE/EJ Credit Agreement.

In connection with the Assignment, on April 13, 2009, we entered into a Modification, Warrant and Investor Rights Agreement (the "Modification Agreement") with EJ Funds that, among other things, (i) reduced the revolving loan commitment under the GE/EJ Credit Agreement to $5.7 million, and (ii) set the interest rate for all amounts outstanding under the GE/EJ Credit Agreement at an annual rate of 10% with interest payable monthly. The Modification Agreement also granted EJ Funds the right to require us to nominate two directors to serve on our Board of Directors. The Kapoor Trust is entitled to require us to nominate a third director under our Stock Purchase Agreement dated November 15, 1990 with the Kapoor Trust. Pursuant to the Modification Agreement, on April 13, 2009, we granted EJ Funds a warrant (the "Modification Warrant") to purchase 1,939,639 shares of our common stock at an exercise price of $1.11 per share, subject to certain adjustments. The Modification Warrant expires five years after its issuance and is exercisable upon payment of the exercise price in cash or by means of a cashless exercise yielding a net share figure.

On August 17, 2009, we completed negotiations with EJ Funds for additional capacity on our Credit Facility, increasing the loan commitment from $5.7 million to $10.0 million. In consideration of this amendment, EJ Funds was granted a warrant to acquire 1,650,806 shares of our common stock at $1.16 per share, the closing market price on August 14, 2009 (the "Restatement Warrants"). The estimated fair value of the Restatement Warrants, using a Black-Scholes valuation model, was $1.2 million on the date of grant. The Credit Facility was secured by our assets and per the terms of this amendment was not subject to debt covenants until April 1, 2010.

On June 17, 2011, we elected to early terminate our $10.0 million revolving GE/EJ Credit Agreement with EJ Funds. We had not borrowed against the GE/EJ Credit Agreement since repaying its outstanding balance in the first quarter of 2010. Upon terminating the GE/EJ Credit Agreement, we expensed $1.2 million in remaining unamortized deferred financing costs related to the GE/EJ Credit Agreement. We incurred no fees or penalties related to the early termination of the GE/EJ Credit Agreement.

Preferred Stock and Warrants

Kapoor Warrants

During 2009, we granted various warrants to acquire our common stock (the "Kapoor Warrants") to EJ Funds and the Kapoor Trust, companies controlled by the Chairman of our Board of Directors, Dr. John N. Kapoor. These warrants were issued in relation to the modification to various financing and other agreements, including the GE/EJ Credit Agreement, whereby our Chairman, through entities he controls, provided financing to the Company in its time of need. Each of the Kapoor Warrants is scheduled to expire five years after its grant date, if not exercised.

The fair value of each of the Kapoor Warrants was calculated at their grant dates using the Black-Scholes option pricing model. From their grant dates until June 28, 2010, the Kapoor Warrants were classified as current liabilities on our consolidated balance sheets and adjusted quarterly to reflect changes in their calculated fair values. Increases in fair value, or decreases in fair value to, but not below, their initial calculated fair values, were recorded as non-operating expenses or income in our condensed consolidated statements of operations for the applicable periods. We classified the fair value of the Kapoor Warrants as a current liability in accordance with ASC 815-40-15-3, Derivatives and Hedging, (formerly EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock). This was the result of a requirement in the Registration Rights Agreement – entered into among the Kapoor Trust, EJ Funds and us on August 17, 2009 – that the shares to be issued upon exercise of the warrants be registered shares, which cannot be absolutely assured.

On June 28, 2010, we entered into an Amended and Restated Registration Rights Agreement (the "Amended Agreement") with Dr. Kapoor which modified certain terms related to our obligation to obtain and maintain registration of any shares issued pursuant to exercise of the Kapoor Warrants. The Amended Agreement still requires us to use "commercially reasonable efforts" to file a registration statement pursuant to Rule 415 of the Securities Act of 1933 ("Registration Statement") for any shares of common stock that may be issued under the applicable warrant agreements, and to maintain the continuous effectiveness of such Registration Statement. However, the Registration Rights Agreement has been amended to explicitly state that in the event that we, after using good faith commercially reasonable efforts, are not able to obtain or maintain registration of the common stock, delivery of unregistered shares upon exercise of the Kapoor Warrants will be deemed acceptable and a net cash settlement will not be required.

On June 28, 2010, upon entering into the Amended Agreement, we completed a final Black-Scholes calculation of the fair value of the Kapoor Warrants and adjusted their book value accordingly, then reclassified the Kapoor Warrants from a current liability to a component of shareholders' equity. After reclassifying the Kapoor Warrants to shareholders' equity, no subsequent fair value adjustments were required.

The following table provides summarized information about the Kapoor Warrants as of December 31, 2013:

Granted To:	Grant Date	Warrants Granted	Exercise Price	Book Value ($000s)
EJ Funds	Apr.13, 2009	1,939,639	$ 1.11	$ 4,829
Kapoor Trust	Apr.13, 2009	1,501,933	$ 1.11	3,740
EJ Funds	Aug.17, 2009	1,650,806	$ 1.16	4,127
Kapoor Trust	Aug.17, 2009	2,099,935	$ 1.16	5,250
		7,192,313		$ 17,946

CONTRACTUAL OBLIGATIONS

In order to support the continued increase in the number of relevant and marketable pharmaceutical products that we market and sell, we will from time to time partner with outside firms for the development of selected products. These development agreements frequently call for the payment of "milestone payments" as various steps in the process are completed in relation to product development and submission to the FDA for approval. The dollar amount of these payments is generally fixed contractually, assuming that the required milestones are achieved. However, the timing of such payments is contingent based on a variety of factors and is therefore subject to change. The amounts disclosed in the below table under the caption "Strategic Partners – Contingent Payments" represents our best estimate of the amount and expected timing of the "milestone payments" and other fees we expect to pay to outside development partners based on our current contractual agreements with them. These milestone payments are accrued as liabilities on our balance sheets once the milestones have been achieved.

On December 22, 2011, we entered into the Lundbeck Agreement through which we acquired the NDA rights to three branded, off-patent drugs. In addition to an initial cash payment of $45.0 million, the Lundbeck Agreement committed us to paying additional consideration of $15.0 million in cash on the third anniversary of the agreement date, assuming that subsequent sales of the applicable products achieved certain targets. We believe it is probable that these targets will be reached and that the additional consideration will be paid when due. This liability has been recorded on our books at the initial discounted value of $11.3 million, which considers both the time value of money and the slight possibility that less than the full amount will ultimately become due. At December 31, 2013 the liability was $14.7 million.

As more fully described under Item 2, Properties, we lease the facilities that we occupy in Gurnee, Lake Forest and Vernon Hills, Illinois, as well as in Ann Arbor, Michigan, and in Somerset, New Jersey. We also lease various pieces of office equipment at these facilities, as well as at our manufacturing plant in Decatur, Illinois. Our remaining obligations under these leases are summarized in the table below.

As of December 31, 2013, our principal outstanding debt obligation was related to our Notes. We had no outstanding loans under our BoA Credit Agreement at December 31, 2013 or any time since we entered into this agreement on October 7, 2011.

The following table details our future contractual obligations as of December 31, 2013 (in thousands):

Description	Total	2014	2015	2016	2017	2018	2019 and beyond
3.5% convertible senior notes due 2016	$ 120,000	$ —	$ —	$ 120,000	$ —	$ —	$ —
Interest payable – 3.5% convertible notes	10,500	4,200	4,200	2,100	—	—	—
Contingent consideration – acquisitions	15,000	15,000	—	—	—	—	—
Inventory purchase commitments	24,735	12,368	12,367	—	—	—	—
Leases	8,603	1,973	1,970	2,000	1,791	529	340
Strategic partners – contingent payments 1	5,322	4,524	598	200	—	—	—
Total:	$ 184,160	$ 38,065	$ 19,135	$ 124,300	$ 1,791	$ 529	$ 340

1 Note the Strategic Partner Payments are estimates which assume that various contingencies and market opportunities occur in 2014 and beyond

OFF BALANCE SHEET ARRANGEMENTS

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our shareholders.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue from product sales is recognized when title and risk of loss have passed to the customer.

Provision for estimated doubtful accounts, 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.

Allowance for Chargebacks and Rebates

We enter into contractual agreements with certain third parties such as hospitals and GPOs to sell certain products at predetermined prices. The parties have elected to have these contracts administered through wholesalers that buy the product from us and subsequently sell it to those third parties. When a wholesaler sells products to one of the third parties that are subject to a contractual price agreement, the difference between the price paid to us by the wholesaler and the price under the specific contract is charged back to us by the wholesaler. We track sales and submitted chargebacks by product number and contract for each wholesaler. Utilizing this information, we estimate a chargeback percentage for each product. We reduce gross sales and increase the chargeback allowance by the estimated chargeback amount for each product sold to a wholesaler. We reduce the chargeback allowance when we process a request for a chargeback from a wholesaler. Actual chargebacks processed can vary materially from period to period based upon actual sales volume through the wholesalers. However, our provision for chargebacks is fully reserved for at the time when sales revenues are recognized.

We obtain certain wholesaler inventory reports to aid in analyzing the reasonableness of the chargeback allowance. We assess the reasonableness of our chargeback allowance by applying the product chargeback percentage based on historical activity to the quantities of inventory on hand per the wholesaler inventory reports. In accordance with our accounting policy, our estimate of the percentage amount of wholesaler inventory that will ultimately be sold to a third party that is subject to a contractual price agreement is based on a six-quarter trend of such sales through wholesalers. We use this percentage estimate until historical trends or new information indicates that a revision should be made. On an ongoing basis, we evaluate our actual chargeback rate experience and new trends are factored into our estimates each quarter as market conditions change.

Set forth below are the historical estimates of the percentage of sales that are subject to chargebacks that we used during each quarterly period in the three years ended December 31, 2013:

Year Ended December 31,	Q1	Q2	Q3	Q4
2013	90.0%	90.0%	90.0%	90.0%
2012	98.5%	98.5%	95.0%	90.0%
2011	98.5%	98.5%	98.5%	98.5%

We will continue to use the 90.0% estimate in future periods until trends indicate that a revision should be made.

Similarly, we maintain an allowance for rebates related to fee for service contracts and other programs with certain customers. Rebate percentages vary by product and by volume purchased by each eligible customer. We track sales by product number for each eligible customer and then apply the applicable rebate percentage, using both historical trends and actual experience to estimate our rebate allowance. We reduce gross sales and increase the rebate allowance by the estimated rebate amount when we sell our products to our rebate-eligible customers. We reduce the rebate allowance when we process a customer request for a rebate. At each balance sheet date, we analyze the allowance for rebates against actual rebates processed and make necessary adjustments as appropriate. Actual rebates processed can vary materially from period to period. However, our provision for rebates is fully reserved for at the time when sales revenues are recognized.

The recorded allowances reflect our current estimate of the future chargeback and rebate liability to be paid or credited to our wholesaler and other customers under the various contracts and programs. For the years ended December 31,

2013, 2012, and 2011, we recorded chargeback and rebate expense of $183.4 million, $112.2 million and $68.1 million, respectively. The allowances for chargebacks and rebates were $12.9 million and $13.5 million as of December 31, 2013 and 2012, respectively. The current year decline in our allowance for chargebacks and rebates was primarily due to a reduction in the number of days' inventory of our products held by the major drug wholesalers as of December 31, 2013 compared to December 31, 2012.

Allowance for Product Returns

Certain of our products are sold with the customer having the right to return the product within specified periods and guidelines for a variety of reasons, including but not limited to pending expiration dates. Provisions are made at the time of sale based upon tracked historical experience, by customer in some cases. We estimate our required product returns reserve based on historical percentage of returns to sales by product, considering actual returns processed to date, the expected impact of product recalls and current wholesaler inventory levels of our products to assess the magnitude of unconsumed product that may result in future product returns. We also consider one-time historical return events or pending new developments that would impact the expected level of future returns. For new products, we assess the market dynamics for that product and consider our past returns experience for similar products in our portfolio. Our sales returns level can be impacted by factors such as overall market demand and market competition and availability for substitute products which can increase or decrease the end-user pull through for sales of our products and ultimately impact the level of sales returns. Actual returns experience and trends are factored into our estimates each quarter as market conditions change. Actual returns processed can vary materially from period to period.

For the years ended December 31, 2013, 2012 and 2011, we recorded a net provision for product returns of $5.0 million, $3.8 million and $2.7 million, respectively. The year-over-year increases in the product returns provision was related to our increase in sales in the applicable periods. As of December 31, 2013 and 2012, our allowances for product returns were $8.2 million and $8.4 million, respectively.

Allowance for Coupons and Promotions

We issue coupons from time to time redeemable against our TheraTears® eye care products. Upon release of coupons into the market, we record an estimate of the dollar value of coupons we expect to be redeemed. This estimate is based on historical experience and is adjusted as needed based on actual redemptions. In addition to couponing, from time to time we authorize various retailers to run in-store promotional sales of our products. Upon confirmation that a promotion was run, we accrue an estimate of the dollar amount we expect to owe back to the retailer. This estimate is trued up upon receipt of invoice from the retailer.

For the years ended December, 31, 2013 and 2012, we recorded provisions for coupons and promotions totaling $4.5 million and $3.0 million, respectively. As of December 31, 2013 and 2012, the balance in our reserve for coupons and promotions was $0.7 million and $0.8 million, respectively.

Allowance for Doubtful Accounts

Provisions for doubtful accounts, which reflect trade receivable balances owed to us that are believed to be uncollectible, are recorded as a component of SG&A expenses. In estimating the allowance for doubtful accounts, we consider our historical experience with collections and write-offs, the credit quality of our customers and any recent or anticipated changes thereto, and the outstanding balances and past due amounts from our customers.

On a monthly basis, we perform a detailed analysis of the receivables due from our wholesaler customers and provide a specific reserve against known uncollectible items for each of the wholesaler customers. We also include in the allowance for doubtful accounts an amount that we estimate to be uncollectible for all other customers based on a percentage of the past due receivables. The percentage we reserve increases as the age of the receivables increases.

For the years ended December 31, 2013, 2012 and 2011, our net provisions for doubtful accounts have been insignificant, equaling less than $0.1 million in each year. As of December 31, 2013, we had $6.1 million of accounts receivable that was past due, of which $0.8 million was past due for greater than 60 days.

Allowance for Slow-Moving and Obsolete Inventory

Inventories are stated at the lower of cost (average cost method) or market. We maintain an allowance for slow-moving and obsolete inventory as well as inventory with a carrying value in excess of its net realizable value (“NRV”). For finished goods inventory, we estimate the amount of inventory that may not be sold prior to its expiration or is slow-moving based upon recent sales activity by unit and wholesaler inventory information. We also analyze our raw material and component inventory for slow moving items. For the years ended December 31, 2013, 2012 and 2011, we recorded a provision for inventory obsolescence in cost of sales of $2.1 million, $2.4 million, and $0.6 million, respectively. The allowance for inventory obsolescence/NRV was $2.9 million and $2.2 million as of December 31, 2013 and 2012, respectively.

We capitalize inventory costs associated with our products prior to regulatory approval when, based on management judgment, future commercialization is considered probable and the future economic benefit is expected to be realized. We assess the regulatory approval process and where the product stands in relation to that approval process including any known constraints or impediments to approval. We consider the shelf life of the product in relation to

the product timeline for approval.

Business Combinations

Business combinations are accounted for under ASC 805, Business Combinations, using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. Fair value determinations are based on discounted cash flow analyses or other valuation techniques. In determining the fair value of the assets acquired and liabilities assumed in a material acquisition, we may utilize appraisals from third party valuation firms to determine fair values of some or all of the assets acquired and liabilities assumed, or may complete some or all of the valuations internally. In either case, we take full responsibility for the determination of the fair value of the assets acquired and liabilities assumed. The value of goodwill will be determined as the excess of the fair value of the consideration conveyed to the seller over the fair value of the net assets received. Under the acquisition method of accounting, we will identify the acquirer and the closing date and apply applicable recognition principles and conditions.

Acquisition-related costs are costs incurred by us to effect a business combination. We account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. During the years ended December 31, 2013, 2012 and 2011, we recorded acquisition-related costs of $2.9 million, $9.2 million and $0.7 million, respectively.

Warranty Liability

The product warranty liability was related to a ten-year expiration guarantee on injectable radiation antidote products ("DTPA Products") sold to HHS in 2006. We had been performing yearly stability studies for this product and, if the annual stability did not support the ten-year product life, we would have been obliged to replace the product at no charge. Our supplier, Hameln Pharmaceuticals, was to share one-half of this cost if the product did not meet the stability requirement. If the product testing confirmed the ten-year stability for the DTPA Products, we would not incur a replacement cost and this reserve would be eliminated with a corresponding reduction to cost of sales after the ten-year period.

During the quarter ended June 30, 2013, Hameln and we terminated and settled our contractual relationship related to our marketing of DTPA products supplied by Hameln. As part of the settlement arrangement, we were released from our remaining product warranty obligations. Accordingly, during the quarter ended June 30, 2013, we reversed our $1.3 million product warranty reserve and recognized a corresponding reduction to cost of sales.

Income Taxes

Deferred income tax assets and liabilities are determined based on differences between the tax and book basis of assets and liabilities, as well as net operating loss and other tax credit carry-forwards. Our deferred tax assets and liabilities are measured using the enacted tax rates that will likely be in effect when the book-to-tax differences are expected to reverse. We record a valuation allowance to reduce deferred income tax assets to the amount that is more likely than not to be realized.

Intangible Assets

Our intangible assets consist primarily of goodwill, trademarks and customer relationships acquired through business acquisitions and product licensing rights obtained through our acquisition of ANDAs and NDAs from other pharmaceutical companies. Goodwill is deemed to be an indefinite-lived asset and is not amortized. Our other intangible assets are deemed to be finite-lived and are amortized on a straight-line basis over estimated useful lives, which range from 4 to 30 years. Intangible assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the asset may not be recoverable.

We recorded amortization expense of $7.4 million, $6.9 million, and $1.7 million for the years ended December 31, 2013, 2012, and 2011, respectively, in relation to our intangible assets. Accumulated amortization was $39.1 million and $31.9 million at December 31, 2013 and 2012, respectively.

Goodwill is tested for impairment annually or more frequently if changes in circumstances or the occurrence of events suggest that impairment may exist. We use widely accepted valuation techniques to determine the fair value of our reporting units used in our annual goodwill impairment analysis. Our valuation is primarily based on qualitative and quantitative assessments regarding the fair value of goodwill relative to its carrying value. We modeled the fair value of the reporting unit based on actual projected earnings and cash flows of the reporting unit. The goodwill of our contract services operating segment relates to the acquisition of certain assets of Kilitch Drugs (India) Limited on February 28, 2012 by our wholly-owned subsidiary, Akorn India Private Limited ("AIPL"). We performed an assessment of the goodwill of AIPL as of October 1, 2013 and determined that there was no impairment. The goodwill

of our ophthalmic operating segment relates to our acquisition of Advanced Vision Research, Inc. on May 4, 2011. We conducted an annual impairment test of our ophthalmic segment goodwill on October 1, 2013 and determined that the fair value of this operating segment exceeded its carrying value and, therefore, concluded that there was no impairment .

Stock-Based Compensation

Stock-based compensation cost is estimated at the grant date based on the fair value of the award, and this cost is recognized as expense ratably over the vesting period. We use the Black-Scholes model for estimating the grant date fair value of the stock options we grant. Determining the assumptions that enter into the model is subjective and requires a certain amount of judgment. We use an expected volatility that is based on the historical volatility of our stock. The expected life assumption is based on historical employee exercise patterns and employee post-vesting terminations experience. The risk-free interest rate for the expected term of the option is based on the average market rate on U.S. treasury securities in effect during the quarter in which the options were granted. The dividend yield has historically been set at zero, reflecting the fact that we have not historically issued dividends and do not anticipate issuing dividends in the foreseeable future. We estimate forfeitures at the time of grant and revise our estimates in subsequent periods, when necessary, if actual forfeitures differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2012, the FASB issued ASU No. 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this update aim to simplify the impairment test for indefinite-lived intangible assets by permitting an entity the option to first assess qualitative factors to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired as a basis for determining whether the quantitative impairment test included in Accounting Standards Codification Subtopic 350-30, Intangibles – Goodwill and Other – General Intangibles Other than Goodwill must be performed. The amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Adoption of this amendment did not, and is not expected to, have a material effect on our financial position or operating results.

On February 5, 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This amendment requires an entity to present either parenthetically on the face of the financial statements or in the notes significant amounts reclassified from each component of accumulated other comprehensive income and the line item(s) affected by the reclassification. An entity would not need to show the income statement line item affected for certain components that are not required to be reclassified in their entirety to net income, such as amounts amortized into net periodic pension cost. For public companies, this amendment is effective for annual periods beginning after December 15, 2012, and for interim periods within those annual periods. Adoption of ASU No. 2013-02 did not impact our financial position or results of operations, and did not have a significant effect on our financial reporting.

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 was issued to eliminate the diversity in practice in presentation of unrecognized tax benefits, and amends Accounting Standards Codification (“ASC”) 740, “Income Taxes,” to provide clarification of the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. According to the new guidance, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforward that would be utilized, rather than only being netted against carryforwards that are created by the unrecognized tax benefits. The revised guidance is effective for interim and annual periods beginning after December 15, 2013, with early adoption permitted. We do not expect the adoption of this guidance to have a material impact on our financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As of December 31, 2013, our principal debt obligation was related to our Notes. Interest accrues at a fixed rate of 3.50% on the outstanding principal amount of the Notes and is paid semi-annually every June 1st and December 1st until the Notes mature on June 1, 2016. Since the interest rate is fixed, we have no market risk related to the Notes.

Our revolving Credit and Security Agreement with Bank of America, N.A. calls for interest to accrue based on a premium above either the current prime rate or current LIBOR rates. Therefore, borrowings pursuant to this revolving credit facility would be subject to market risk. However, as of December 31, 2013, we had no outstanding loans and therefore no market risk related to this revolving credit facility.

We acquired the principal manufacturing facility and ongoing business of Kilitch, an Indian pharmaceutical company on February 28, 2012. Accordingly, we are subject to foreign exchange risk based on changes in the exchange rate between U.S. dollars and Indian rupees. Additionally, the business we acquired from Kilitch is itself subject to foreign exchange risk related to certain of its export sales to unregulated markets in Africa, Asia and elsewhere, which are typically denominated in U.S. dollars rather than the local currency, Indian rupees.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable and the Notes. The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate book value because of the short maturity of these instruments. Based on the closing price of our common stock at the end of 2013, the fair value of our Notes was approximately $341.3 million compared to their face value of $120.0 million as of December 31, 2013. However, this variance is due to the conversion feature in the Notes rather than to changes in market interest rates. As noted above, the Notes carry a fixed interest rate and therefore do not subject us to interest rate risk.

At December 31, 2013, the bulk of our cash and cash equivalents balance was invested in overnight instruments, the interest rates of which may change daily. Accordingly, these overnight investments are subject to market risk.

Item 8. Financial Statements and Supplementary Data

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Akorn, Inc.

We have audited the accompanying consolidated balance sheet of Akorn, Inc. and subsidiaries (Akorn, Inc.) as of December 31, 2013, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for the year then ended. We also have audited Akorn, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Akorn, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A of Akorn Inc.'s annual report on Form 10-K for the year ended December 31, 2013. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on Akorn Inc.'s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses related to 1) the completeness and accuracy of underlying data used in the determination of significant estimates and accounting transactions, 2) the process in place to support the accurate and timely reporting of the financial results and disclosures, and 3) insufficient

segregation of duties, have been identified and included in management's assessment (Item 9A). These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Akorn, Inc. and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, because of the effect of the aforementioned material weaknesses on the achievement of the objectives of the control criteria, Akorn, Inc. has not maintained effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We do not express an opinion or any other form of assurance on management's statements referring to corrective actions taken after December 31, 2013, relative to the aforementioned material weaknesses in internal control over financial reporting.

/s/ KPMG LLP
Chicago, Illinois
March 14, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Akorn, Inc.

We have audited the accompanying consolidated balance sheet of Akorn, Inc. as of December 31, 2012, and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Akorn, Inc. at December 31, 2012, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/Ernst & Young LLP
Chicago, Illinois
March 1, 2013

AKORN, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands,
Except Share Data)

	December 31, 2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$34,178	$40,781
Trade accounts receivable, net	64,998	51,017
Inventories, net	55,982	52,495
Deferred taxes, current	7,945	9,190
Prepaid expenses and other current assets	5,753	5,224
TOTAL CURRENT ASSETS	168,856	158,707
PROPERTY, PLANT AND EQUIPMENT, NET	82,108	80,679
OTHER LONG-TERM ASSETS		
Goodwill	29,831	32,159
Product licensing rights, net	115,900	63,654
Other intangibles, net	14,605	16,731
Deferred financing costs, net	5,676	3,078
Long-term investments	10,006	10,299
Deferred taxes, non-current	1,643	930
Other	3,180	3,328
TOTAL OTHER LONG-TERM ASSETS	180,841	130,179
TOTAL ASSETS	$431,805	$369,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade accounts payable	$22,999	$21,784
Purchase consideration payable, current	14,728	—
Accrued compensation	7,692	7,533
Accrued royalties	6,004	5,768
Accrued administration fees	2,544	2,204
Accrued expenses and other liabilities	7,278	6,002
TOTAL CURRENT LIABILITIES	61,245	43,291
LONG-TERM LIABILITIES		
Long-term debt	108,750	104,637
Purchase consideration payable, non-current	—	16,113
Deferred taxes – non-current	—	1,991
Product warranty liability	—	1,299
Lease incentive obligations and other long-term liabilities	1,630	1,153
TOTAL LONG-TERM LIABILITIES	110,380	125,193
TOTAL LIABILITIES	171,625	168,484
SHAREHOLDERS' EQUITY		
Common stock, no par value — 150,000,000 shares authorized; 96,569,186 and 95,844,012 shares issued and outstanding at December 31, 2013 and 2012	239,235	226,035
Warrants to acquire common stock	17,946	17,946
Retained earnings (accumulated deficit)	15,366	(36,996)
Accumulated other comprehensive loss	(12,367)	(5,904)

TOTAL SHAREHOLDERS' EQUITY	260,180	201,081
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$431,805	$369,565

See notes to the consolidated financial statements.

AKORN, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands, Except Per Share Data)

	Year ended December 31,		
	2013	2012	2011
REVENUES	$317,711	$256,158	$136,920
Cost of sales (exclusive of amortization of intangibles, included within operating expenses below)	145,807	107,466	57,231
GROSS PROFIT	171,904	148,692	79,689
Selling, general and administrative expenses	53,508	48,053	32,392
Research and development expenses	19,858	15,858	11,555
Amortization of intangibles	7,422	6,870	1,733
Acquisition-related costs	2,912	9,155	743
TOTAL OPERATING EXPENSES	83,700	79,936	46,423
OPERATING INCOME	88,204	68,756	33,266
Amortization of deferred financing costs	(842)	(782)	(1,948)
Interest expense, net	(8,649)	(10,474)	(4,392)
Equity in earnings of unconsolidated joint venture	80	—	14,550
Bargain purchase gain	3,707	—	—
Other non-operating income (expense), net	395	—	(170)
INCOME BEFORE INCOME TAXES	82,895	57,500	41,306
Income tax provision (benefit)	30,533	22,122	(1,707)
CONSOLIDATED NET INCOME	$52,362	$35,378	$43,013
CONSOLIDATED NET INCOME PER COMMON SHARE:			
BASIC	$0.54	$0.37	$0.45
DILUTED	$0.46	$0.32	$0.41
SHARES USED IN COMPUTING CONSOLIDATED NET INCOME PER COMMON SHARE:			
BASIC	96,181	95,189	94,549
DILUTED	113,898	110,510	103,912
COMPREHENSIVE INCOME:			
Consolidated net income	$52,362	$35,378	$43,013
Foreign currency translation loss	(6,463)	(5,904)	—
COMPREHENSIVE INCOME	$45,899	$29,474	$43,013

See notes to the consolidated financial statements.

AKORN, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013
(In Thousands)

	Common Stock Shares	Common Stock Amount	Warrants to acquire Common Stock	Retained Earnings (Accumulated Deficit)	Other Comprehensive Loss	Total
BALANCES AT DECEMBER 31, 2010	93,975	$182,466	$19,673	$ (115,387)	$ —	$86,752
Consolidated net income	—	—	—	43,013	—	43,013
Exercise of stock warrants	365	3,454	(1,727)	—	—	1,727
Exercise of stock options	454	867	—	—	—	867
Employee stock purchase plan issuances	129	220	—	—	—	220
Restricted stock awards	15	17	—	—	—	17
Equity portion of convertible notes offering	—	20,470	—	—	—	20,470
Stock-based compensation expense	—	5,142	—	—	—	5,142
BALANCES AT DECEMBER 31, 2011	94,938	$212,636	$17,946	$ (72,374)	$ —	$158,208
Consolidated net income	—	—	—	35,378	—	35,378
Exercise of stock options	806	1,511	—	—	—	1,511
Employee stock purchase plan issuances	71	368	—	—	—	368
Restricted stock awards	29	351	—	—	—	351
Stock-based compensation expense	—	6,681	—	—	—	6,681
Foreign currency translation loss	—	—	—	—	(5,904)	(5,904)
Excess tax benefit – stock compensation	—	4,488	—	—	—	4,488
BALANCES AT DECEMBER 31, 2012	95,844	$226,035	$17,946	$ (36,996)	$ (5,904)	($201,081
Consolidated net income	—	—	—	52,362	—	52,362
Exercise of stock options	630	2,634	—	—	—	2,634
Employee stock purchase plan issuances	61	588	—	—	—	588
Restricted stock awards	34	579	—	—	—	579
Stock-based compensation expense	—	6,471	—	—	—	6,471
Foreign currency translation loss	—	—	—	—	(6,463)	(6,463)
Excess tax benefit – stock compensation	—	2,928	—	—	—	2,928

BALANCES AT DECEMBER 31, 2013	96,569	$239,235	$17,946	$ 15,366	$ (12,367)	$260,180

See notes to the consolidated financial statements.

AKORN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year ended December 31,		
	2013	2012	2011
OPERATING ACTIVITIES:			
Consolidated net income	$52,362	$35,378	$43,013
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Depreciation and amortization	14,476	11,455	5,246
Amortization of deferred financing fees	842	782	1,948
Amortization of unfavorable contract liability	(1,905)	(635)	—
Non-cash stock compensation expense	7,050	7,032	5,159
Non-cash interest expense	4,634	6,436	2,109
Non-cash gain on bargain purchase	(3,707)	—	—
Non-cash settlement of product warranty liability	(1,299)	—	—
Deferred tax assets, net	2,091	67	(4,411)
Excess tax benefit from stock compensation	(2,928)	(4,488)	—
Equity in earnings of unconsolidated joint venture	(80)	—	(14,550)
Changes in operating assets and liabilities:			
Trade accounts receivable	(14,277)	(23,856)	(13,581)
Inventories	(3,797)	(15,447)	(9,307)
Prepaid expenses and other current assets	(648)	(5,689)	(183)
Trade accounts payable	1,975	4,489	2,546
Accrued expenses and other liabilities	2,537	10,720	1,668
NET CASH PROVIDED BY OPERATING ACTIVITIES	57,326	26,244	19,657
INVESTING ACTIVITIES:			
Payments for acquisitions and equity investments	(55,482)	(55,047)	(87,412)
Purchases of property, plant and equipment	(11,642)	(20,454)	(11,503)
Distributions from unconsolidated joint venture	250	—	3,881
NET CASH USED IN INVESTING ACTIVITIES	(66,874)	(75,501)	(95,034)
FINANCING ACTIVITIES:			
Proceeds from issuance of convertible notes	—	—	120,000
Debt financing costs	(3,032)	—	(5,098)
Net proceeds from common stock offering and warrant exercises	—	—	1,727
Excess tax benefit from stock compensation	2,928	4,488	—
Proceeds under stock option and stock purchase plans	3,222	1,878	1,087
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,118	6,366	117,716
Effect of changes in exchange rates on cash and cash equivalents	(173)	(290)	—
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,603)	(43,181)	42,339
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	40,781	83,962	41,623
CASH AND CASH EQUIVALENTS AT END OF YEAR	$34,178	$40,781	$83,962

See notes to the consolidated financial statements.

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AKORN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Business and Basis of Presentation

Business: Akorn, Inc. and its wholly-owned subsidiaries (collectively, the "Company") manufacture and market a full line of diagnostic and therapeutic ophthalmic pharmaceuticals as well as niche hospital drugs and injectable pharmaceuticals. In addition, through its subsidiary Advanced Vision Research, Inc. ("AVR"), the Company manufactures and markets a line of over-the-counter ("OTC") ophthalmic products for the treatment of dry eye, eyelid hygiene and macular degeneration primarily under the TheraTears® brand name, as well as marketing various private-labeled OTC eye care products to various major drug chains. The Company is a manufacturer and/or marketer of diagnostic and therapeutic pharmaceutical products in various specialty areas, including ophthalmology, antidotes, anti-infectives, vaccines, and controlled substances for pain management and anesthesia, among others. The Company operates pharmaceutical manufacturing plants in the U.S. at Decatur, Illinois and Somerset, New Jersey, and internationally at Paonta Sahib, Himachal Pradesh, India, as well as a central distribution warehouse in Gurnee, Illinois, an R&D center Vernon Hills, Illinois and corporate offices in Lake Forest, Illinois. Customers of the Company's products include physicians, optometrists, wholesalers, chain drug stores, group purchasing organizations and their member hospitals, alternate site providers, wholesalers, distributors, and other pharmaceutical companies.

Note 2 — Summary of Significant Accounting Policies

Consolidation: The accompanying consolidated financial statements include the accounts of Akorn, Inc. and its wholly owned domestic and foreign subsidiaries. All inter-company transactions and balances have been eliminated in consolidation, and the financial statements of AIPL have been translated from Indian rupees to U.S. dollars based on the currency translation rates in effect during the period or as of the date of consolidation, as applicable. The Company has no involvement with variable interest entities.

The Company is a 50% owner of a dormant joint venture, Akorn-Strides, LLC (the "Joint Venture Company") (See Note 17.). The Company and its strategic partner each have equal voting rights and shared operational control. Accordingly, the Company accounts for its investment in the Joint Venture Company using the equity method of accounting. The Company's proportionate share of the Joint Venture Company's income has been recorded under the caption "Equity in earnings of unconsolidated joint venture" in the Company's consolidated statements of operations. The Joint Venture Company sold all of its abbreviated new drug application ("ANDA") rights to Pfizer, Inc. in December 2010 and ceased operations during 2011.

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 for the Company relate to the allowances for doubtful accounts, chargebacks, rebates, product returns and coupons and promotions, and the reserve for slow-moving and obsolete inventories, the carrying value and lives of intangible assets, the useful lives of fixed assets, the carrying value of deferred income tax assets, the assumptions underlying share-based compensation and accrued but unreported employee benefit costs.

Revenue Recognition: Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue from product sales is recognized when title and risk of loss have passed to the customer.

Provision for estimated doubtful accounts, chargebacks, coupon redemption, rebates, discounts and product returns is made at the time of sale and is analyzed and adjusted, if necessary, at each balance sheet date.

Freight: The Company records amounts billed to customers for shipping and handling as revenue, and records shipping and handling expense related to product sales as cost of sales.

Cash and Cash Equivalents: The Company considers all unrestricted, highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents. At December 31, 2013 and 2012, approximately $2.7 million and $3.2 million of cash held by our India operations as of those respective dates was restricted, and was reported within other long term assets.

Accounts Receivable: Trade accounts receivable are stated at their net realizable value. The nature of the Company's business involves, in the ordinary course, significant judgments and estimates relating to chargebacks, coupon redemption, product returns, rebates, discounts given to customers and allowances for doubtful accounts. Depending on the products, the end-user customers, the specific terms of national supply contracts and the particular arrangements with the Company's wholesaler customers, certain rebates, chargebacks and other credits are recorded as deductions to the Company's trade accounts receivable.

Unless otherwise noted, the provisions and allowances for the following customer deductions are reflected in the accompanying consolidated financial statements as reductions of revenues and trade accounts receivable, respectively.

Chargebacks and Rebates: The Company enters into contractual agreements with 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 that buy the product from the Company and subsequently sell it to these third parties. When a wholesaler sells products to one of these third parties that are subject to a contractual price agreement, the difference between the price paid to the Company by the wholesaler and the price under the specific contract is charged back to the Company by the wholesaler. The Company tracks sales and submitted chargebacks by product number and contract for each wholesaler. Utilizing this information, the Company estimates a chargeback percentage for each product and records an allowance as a reduction of gross sales when the Company records its sale of the products. The Company reduces the chargeback allowance when a chargeback request from a wholesaler is processed. Actual chargebacks processed by the Company can vary materially from period to period based upon actual sales volume through the wholesalers. However, the Company's provision for chargebacks is fully reserved for at the time when sales revenues are recognized.

Management obtains certain wholesaler inventory reports to aid in analyzing the reasonableness of the chargeback allowance. The Company assesses 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. In accordance with its accounting policy, the Company estimates the percentage amount of wholesaler inventory that will ultimately be sold to third parties that are subject to contractual price agreements based on a six-quarter trend of such sales through wholesalers. The Company uses this percentage estimate until historical trends indicate that a revision should be made. On an ongoing basis, the Company evaluates its actual chargeback rate experience, and new trends are factored into its estimates each quarter as market conditions change.

Set forth below are the Company's historical estimates of the percentage of sales that are subject to chargebacks that were used during each quarterly period in the three years ended December 31, 2013:

Year	Q1	Q2	Q3	Q4
2013	90.0%	90.0%	90.0%	90.0%
2012	98.5%	98.5%	95.0%	90.0%
2011	98.5%	98.5%	98.5%	98.5%

Similarly, the Company maintains an allowance for rebates related to contract and other programs with certain customers. Rebate percentages vary by product and by volume purchased by each eligible customer. The Company tracks sales by product number for each eligible customer and then applies the applicable rebate percentage, using both historical trends and actual experience to estimate its rebate allowance. The Company reduces gross sales and increases the rebate allowance by the estimated rebate amount when the Company sells its products to its rebate-eligible customers. The Company reduces the rebate allowance when it processes a customer request for a rebate. At each balance sheet date, the Company analyzes the allowance for rebates against actual rebates processed and makes necessary adjustments as appropriate. Actual rebates processed can vary materially from period to period.

The recorded allowances reflect the Company's current estimate of the future chargeback and rebate liabilities to be paid or credited to its wholesaler and other customers under the applicable contracts and programs. For the years ended December 31, 2013, 2012 and 2011, the Company recorded chargeback and rebate expense of $183.4 million, $112.2 million, and $68.1 million, respectively. The allowance for chargebacks and rebates was $12.9 million and

$13.5 million as of December 31, 2013 and 2012, respectively.

Sales Returns: Certain of the Company's products are sold with the customer having the right to return the product within specified periods and guidelines for a variety of reasons, including but not limited to, pending expiration dates. Provisions are made at the time of sale based upon tracked historical experience, by customer in some cases. Historical factors such as one-time events as well as pending new developments that would impact the expected level of returns are taken into account to determine the appropriate reserve estimate at each balance sheet date. As part of the evaluation of the balance required, the Company considers actual returns to date that are in process, the expected impact of any product recalls and the wholesaler's inventory information to assess the magnitude of unconsumed product that may result in a sales returns to the Company in the future. The sales returns level can be impacted by factors such as overall market demand and market competition and availability for substitute products which can increase or decrease the end-user pull through for sales of the Company's products and ultimately impact the level of sales returns. Actual returns experience and trends are factored into the Company's estimates each quarter as market conditions change. Actual returns processed can vary materially from period to period.

For the years ended December 31, 2013, 2012 and 2011, the Company recorded a net expense for product returns of $5.0 million, $3.8 million and $2.7 million, respectively. The Company's allowance for potential product returns was $8.2 million and $8.4 million at December 31, 2013 and 2012, respectively.

Allowance for Coupons and Promotions: The Company issues coupons from time to time redeemable against our TheraTears® eye care products. Upon release of coupons into the market, the Company records an estimate of the dollar value of coupons expected to be redeemed. This estimate is based on historical experience and is adjusted as needed based on actual redemptions. In addition to couponing, from time to time the Company authorizes various retailers to run in-store promotional sales of our products. Upon confirmation that a promotion was run, the Company accrues an estimate of the dollar amount expected to be owed back to the retailer. This estimate is trued up upon receipt of invoice from the retailer.

For the years ended December, 31, 2013, 2012 and 2011, the Company recorded provisions for coupons and promotions totaling $4.5 million, $3.0 million and $1.9 million, respectively. As of December 31, 2013 and 2012, the balances in the Company's reserve for coupons and promotions were $0.7 million and $0.8 million, respectively.

Doubtful Accounts: Provisions for doubtful accounts, which reflect trade receivable balances owed to the Company that are believed to be uncollectible, are recorded as a component of SG&A expenses. In estimating the allowance for doubtful accounts, the Company considers its historical experience with collections and write-offs, the credit quality of its customers and any recent or anticipated changes thereto, and the outstanding balances and past due amounts from its customers. Accounts are considered past due when they remain uncollected beyond the due date specified in the applicable contract or on the applicable invoice, whichever is deemed to take precedence.

For the years ended December 31, 2013, 2012 and 2011, the Company recorded net provisions for doubtful accounts that were insignificant in amount, at less than $0.1 million in each year.

As of December 31, 2013, the Company had a total of $6.1 million of past due gross accounts receivable, of which $0.8 million was more than 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. 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. Accounts are written off once all reasonable collections efforts have been exhausted and/or when facts or circumstances regarding the customer (i.e. bankruptcy filing) indicate that the chance of collection is remote.

Advertising and Promotional Allowances to Customers: The Company routinely sells its non-prescription ophthalmic and other drug products to major retail drug chains. From time to time, the Company may arrange for these retailers to run in-store promotional sales of the Company's products. The Company reserves an estimate of the dollar amount owed back to the retailer, recording this amount as a reduction to revenue at the later of the date on which the revenue is recognized or the date the sales incentive is offered. When the actual invoice for the sales promotion is received from the retailer, the Company adjusts its estimate accordingly.

For the Company's treatment of advertising and promotional expenses paid to customers, costs are expensed as incurred in accordance with ASC 605-50, Customer Payments and Incentives.

Inventories: Inventories are stated at the lower of cost (average cost method) or market (see Note 4 — "Inventories"). The Company maintains an allowance for slow-moving and obsolete inventory as well as inventory with a carrying value in excess of its net realizable value ("NRV"). For finished goods inventory, the Company estimates the amount of inventory that may not be sold prior to its expiration or is slow moving based upon recent sales activity by unit and

wholesaler inventory information. The Company also analyzes its raw material and component inventory for slow moving items. For the years ended December 31, 2013, 2012 and 2011, the Company recorded a provision for inventory obsolescence/NRV of $2.1 million, $2.4 million, and $0.6 million, respectively. The allowances for inventory obsolescence were $2.9 million and $2.2 million as of December 31, 2013 and 2012, respectively.

The Company capitalizes inventory costs associated with its products prior to regulatory approval when, based on management judgment, future commercialization is considered probable and the future economic benefit is expected to be realized. The Company assesses the regulatory approval process and where the product stands in relation to that approval process including any known constraints or impediments to approval. The Company considers the shelf life of the product in relation to the product timeline for approval.

At December 31, 2013, the Company established a reserve of $1.0 million related to R&D raw materials that are not expected to be utilized prior to expiration. At December 31, 2012, the Company had approximately $0.8 million in inventory for generic drugs under development which have not yet received FDA approval, the entire balance of which had been reserved, as the Company deemed it unlikely that the products would receive FDA approval far enough in advance of expiration to be sellable.

Intangible Assets: Intangible assets consist primarily of goodwill, which is carried at its initial value, subject to evaluation for impairment, and product licensing costs, trademarks and other such costs, which are capitalized and amortized on a straight-line basis over their useful lives, ranging from four (4) years to thirty (30) years. Accumulated amortization was $39.1 million and $31.9 million at December 31, 2013 and 2012, respectively. Amortization expense was $7.4 million, $6.9 million and $1.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company regularly assesses its intangible assets for impairment based on several factors, including estimated fair value and anticipated cash flows. If the Company incurs additional costs to renew or extend the life of an intangible asset, such costs are added to the remaining unamortized cost of the asset, if any, and the sum is amortized over the extended remaining life of the asset.

Goodwill is tested for impairment annually or more frequently if changes in circumstances or the occurrence of events suggest that impairment may exist. The Company uses widely accepted valuation techniques to determine the fair value of its reporting units used in its annual goodwill impairment analysis. The Company's valuation is primarily based on qualitative and quantitative assessments regarding the fair value of goodwill relative to its carrying value. The Company modeled the fair value of the reporting unit based on actual projected earnings and cash flows of the reporting unit. The Company performed its annual impairment test on October 1, 2013 and determined that the fair value of its reporting unit exceeded its carrying value and, therefore, no impairment charge was necessary.

Changes in goodwill during the two years ended December 31, 2013 were as follows (in thousands):

	Goodwill
December 31, 2011	$ 11,863
Acquisitions	22,613
Impairments	
Foreign currency translation	(2,317)
December 31, 2012	$ 32,159
Acquisitions	
Impairments	
Foreign currency translation	(2,328)
December 31, 2013	$ 29,831

The following table sets forth the major categories of the Company's intangible assets and the weighted-average remaining amortization period as of December 31, 2013 for those assets that are not already fully amortized (dollar amounts in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Amortization Period
Product licensing rights	$ 151,504	$ (35,604)	$ 115,900	9.8 years
Trademarks	9,500	(844)	8,656	27.4 years

Customer relationships	6,166	(1,528)	4,638	9.8 years
Non-Compete	2,428	(1,117)	1,311	2.2 years
	$ 169,598	$ (39,093)	$ 130,505	

Changes in intangible assets during the two years ended December 31, 2013 were as follows (in thousands):

	Product licensing rights	Trademarks	Customer Relationships	Non-Compete Agreements
December 31, 2011	$ 67,822	$ 9,289	$ 3,727	$
Acquisitions	1,100		2,560	2,743
Amortization	(5,268)	(317)	(705)	(580)
Foreign currency translation			6	8
December 31, 2012	$ 63,654	$ 8,972	$ 5,588	$ 2,171
Acquisitions	57,969			
Amortization	(5,723)	(316)	(740)	(643)
Foreign currency translation			(210)	(217)
December 31, 2013	$ 115,900	$ 8,656	$ 4,638	$ 1,311

The amortization expense of acquired intangible assets for each of the following five years will be as follows (in thousands):

Year ending December 31,	Amortization Expense
2014	$ 15,996
2015	15,388
2016	14,862
2017	14,345
2018	14,262

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 useful lives or lease terms. Depreciation expense was $7.1 million, $4.6 million and $3.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. The amortization of assets under capital leases is included within depreciation expense. The following table sets forth the average estimated useful lives of the Company’s property, plant and equipment, by asset category:

Asset category	Depreciable Life
Buildings	30 years
Leasehold improvements	18 years
Furniture and equipment	10 years
Automobiles	5 years
Computer hardware and software	5 years

Net Income Per Common Share: Basic net income per common share is based upon weighted average common shares outstanding. Diluted net income per common share is based upon the weighted average number of common shares outstanding, including the dilutive effect, if any, of stock options, warrants and convertible securities using the treasury stock and if converted methods. Anti-dilutive shares excluded from the computation of diluted net income

per share for 2013, 2012 and 2011 include 975,000, 581,000 and 1,560,000 shares, respectively, related to options, warrants and convertible securities.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and net operating loss and other tax credit carry-forwards. These items are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduce the deferred income tax assets to the amount that is more likely than not to be realized.

Fair Value of Financial Instruments: The Company applies ASC Topic 820, which establishes a framework for measuring fair value and clarifies the definition of fair value within that framework. ASC Topic 820 defines fair value as an exit price, which is the price that would be received for an asset or paid to transfer a liability in the Company’s principal or most advantageous market in an orderly transaction between market participants on the measurement date. The fair value hierarchy established in ASC Topic 820 generally requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions that market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity’s own assumptions based on market data and the entity’s judgments about the assumptions that market participants would use in pricing the asset or liability, and are to be developed based on the best information available in the circumstances.

The valuation hierarchy is composed of three categories. The classification within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The categories within the valuation hierarchy are described below:

- Level 1—Assets and liabilities with unadjusted, quoted prices listed on active market exchanges. Inputs to the fair value measurement are observable inputs, such as quoted prices in active markets for identical assets or liabilities. The carrying value of the Company‘s cash and cash equivalents are considered Level 1 assets.

- Level 2—Inputs to the fair value measurement are determined using prices for recently traded assets and liabilities with similar underlying terms, as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals. The market value of the Company’s forward contracts to hedge against changes in currency translation rates between U.S. dollars and Indian rupees is a Level 2 asset.

- Level 3—Inputs to the fair value measurement are unobservable inputs, such as estimates, assumptions, and valuation techniques when little or no market data exists for the assets or liabilities. The purchase consideration payable related to the Company’s acquisition on December 22, 2011 of three branded, injectable drug products from the U.S. subsidiary of H. Lundbeck A/S (the “Lundbeck Acquisition”) is a Level 3 liability.

The following table summarizes the basis used to measure the fair values of the company’s financial instruments (amounts in thousands):

		Fair Value Measurements at Reporting Date, Using:		
Description	December 31, 2013	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$34,178	$ 34,178	$ —	$ —
Foreign currency forward contracts	208	—	208	—
Total assets	$34,386	$ 34,178	$ 208	$ —
Purchase consideration payable	$14,728	$ —	$ —	$ 14,728
Total liabilities	$14,728	$ —	$ —	$ 14,728

Description	December 31, 2012	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 40,781	$ 40,781	$—	$ —
Total assets	$ 40,781	$ 40,781	$—	$ —
Purchase consideration payable	$ 14,208	$ —	$—	$ 14,208
Total liabilities	$ 14,208	$ —	$—	$ 14,208

The carrying amount of the purchase consideration payable was initially determined based on the terms of the underlying contracts and the Company’s subjective evaluation of the likelihood of the additional purchase

consideration becoming payable. The purchase consideration payable is related to the Company's obligation to pay additional consideration related to the acquisition of selected assets from H. Lundbeck A/S ("Lundbeck") on December 22, 2011. The underlying obligation was long-term in nature, and therefore was discounted to present value based on an assumed discount rate. The additional consideration of $15.0 million, contingently payable to Lundbeck on December 22, 2014, was initially discounted to $11.3 million based on a discount rate of 10.0%, and subsequently adjusted in final acquisition accounting to $11.6 million based on applying a 9.0% discount rate. At December 31, 2012, the Company performed an evaluation of the fair value of this liability based on utilizing significant unobservable inputs to derive a discount rate of 2.75%, and determined that the appropriate discounted value was $14.2 million. Accordingly, the Company recorded non-cash interest expense of $2.6 million during 2012 to accrue the carrying value of the contingent payment liability to $14.2 million as of December 31, 2012. At December 31, 2013, the Company once again evaluated the fair value based on utilizing significant unobservable inputs and derived a discount rate of 1.85%, determining that the appropriate discounted value was $14.7 million. The fair value of the liability is based upon the likelihood of achieving the underlying revenue targets and a derived cost of debt based on the remaining term.

The Company initially determined that there was a 100% likelihood of the purchase consideration ultimately becoming payable, and reaffirmed this determination as of December 31, 2012 and December 31, 2013. Should subjective and objective evidence lead the Company to change this assessment, an adjustment to the carrying value of the liability would be recorded as "other income" in the Company's condensed consolidated statements of comprehensive income.

The purchase consideration payable to Lundbeck was classified as a long-term liability on the Company's consolidated balance sheet as of December 31, 2012. This liability was reclassified as a current liability on the Company's a consolidated balance sheet as of December 31, 2013, since the $15.0 million payment will be due in less than a year from that date.

The Company entered into three non-deliverable forward contracts in October 2013 to hedge planned capital expenditures at AIPL against unfavorable trends with regard to currency translation rates between U.S. dollars ("USD") and Indian rupees ("INR"). The three forward contracts were based on future anticipated investments of USD $3.3 million on each of April 2, 2014, July 3, 2014 and September 30, 2014 in the Company's subsidiary in India, Akorn India Private Limited ("AIPL"). These forward contracts include projected currency translation rates between INR and USD. Any difference between the actual and projected foreign currency translations rates on the respective settlement dates will result in payment from the bank to the Company, or vice versa, as the case may be. As of December 31, 2013, the bank provided the Company with a report of the fair market value of the forward contracts. Due to strengthening of the Indian rupee against the U.S. dollar, the contracts had a positive fair value to the Company of $0.2 million as of December 31, 2013. The Company recorded this gain in fair value as "other income" in its consolidated statements of comprehensive income and has included the asset value within "prepaid expenses and other current assets" in its consolidated balance sheet.

As of December 31, 2013 and 2012, the Company was carrying long-term investments valued at $10.0 million and $10.3 million, respectively. The underlying assets are cost-basis investments for which fair value is not readily determinable.

Warrants: The Company issued various warrants during 2009 to entities controlled by John N. Kapoor, Ph.D., the Chairman of the Company's Board of Directors (the "Kapoor Warrants"). The Company had classified the fair value of these warrants as a current liability in accordance with ASC 815-40-15-3, Derivatives and Hedging, (formerly EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock). This classification was made as a result of the requirement that the shares to be issued upon exercise of the Kapoor Warrants be registered shares, which could not be absolutely assured. The Kapoor Warrants were adjusted to fair value at the end of each quarter through Black-Scholes calculations which considered changes in the market price of the Company's common stock, the remaining contractual life of the Kapoor Warrants, and other factors. Any change in the fair value of the Kapoor Warrants was recorded as income or expense on the Company's consolidated statements of operations for the applicable period.

On June 28, 2010, the Company and Dr. Kapoor entered into an Amended and Restated Registration Rights Agreement (the "Amended Agreement") which modified certain terms related to the Company's obligation to obtain and maintain registration of any shares issued pursuant to exercise of the Kapoor Warrants. The Amended Agreement still requires the Company to use "commercially reasonable efforts" to file a registration statement pursuant to Rule 415 of the Securities Act of 1933 ("Registration Statement") for any shares of common stock that may be issued under the applicable warrant agreements, and to maintain the continuous effectiveness of such Registration Statement until the earliest of: (i) the date no shares of the Company's common stock qualify as registrable securities, (ii) the date on which all of the registrable securities may be sold in a single transaction by the holder to the public pursuant to Rule 144 or a similar rule, or (iii) the date upon which the John N. Kapoor Trust Dated September 20, 1989 (the "Kapoor Trust") and EJ Funds, LP ("EJ Funds") have transferred all of the registrable securities. However, the Registration Rights

Agreement has been amended to explicitly state that in the event the Company, after using its good faith commercially reasonable efforts, is not able to obtain or maintain registration of the common stock, delivery of unregistered shares upon exercise of the Kapoor Warrants will be deemed acceptable and a net cash settlement will not be required. The Amended Agreement further provides that the term “commercially reasonable efforts” in such instance shall not mean an absolute obligation of the Company to obtain and maintain registration.

As a result of the changes effected through the Amended Agreement, on June 28, 2010 the Company changed its accounting treatment of the Kapoor Warrants, no longer classifying them as a current liability with periodic adjustments to fair value but instead classifying them as a component of shareholders’ equity in accordance with ASC 815-40. Accordingly, the fair value of the Kapoor Warrants, which was $17.9 million on June 28, 2010, was reclassified from a current liability to a component of shareholders’ equity on that date. Following this change in classification, no future fair value adjustments are required.

The liability at June 28, 2010 for the Kapoor Warrants was estimated using a Black-Scholes valuation model with the fair value per warrant ranging from $2.49 to $2.50. The expected volatility of the Kapoor Warrants was based on the historical volatility of the Company’s common stock. The expected life assumption was based on the remaining life of the Kapoor Warrants. The risk-free interest rate for the expected term of the Kapoor Warrants was based on the average market rate on U.S. treasury securities in effect during the applicable quarter. The dividend yield reflected historical experience as well as future expectations over the expected term of the Kapoor Warrants.

The assumptions used in estimating the fair value of the warrants at June 28, 2010 were as follows:

Expected Volatility	79.7%
Expected Life (in years)	3.8 – 4.1
Risk-free interest rate	1.8%
Dividend yield	—

The following table provides summarized information about the Kapoor Warrants as of December 31, 2013:

Granted To:	Grant Date	Warrants Granted	Exercise Price	Book Value ($000s)
EJ Funds	Apr.13, 2009	1,939,639	$ 1.11	$ 4,829
Kapoor Trust	Apr.13, 2009	1,501,933	$ 1.11	3,740
EJ Funds	Aug.17, 2009	1,650,806	$ 1.16	4,127
Kapoor Trust	Aug.17, 2009	2,099,935	$ 1.16	5,250
		7,192,313		$ 17,946

Stock-Based Compensation: Stock-based compensation cost is estimated at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the vesting period. The Company uses the Black-Scholes model for estimating the fair value of stock options. Determining the assumptions that enter into the model is highly subjective and requires judgment. The Company uses an expected volatility that is based on the historical volatility of its stock. The expected life assumption is based on historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the average market rate on U.S. treasury securities in effect during the quarter in which the options were granted. The dividend yield reflects historical experience as well as future expectations over the expected term of the option. The Company estimates forfeitures at the time of grant and revises in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

Warranty Liability: The product warranty liability relates to a ten year expiration guarantee on DTPA Products sold to the United States Department of Health and Human Services (“HHS”) in 2006. The Company had been performing yearly stability studies for the DTPA Products and, if the annual stability did not support the ten-year product life, it would replace the product at no charge. The Company’s supplier, Hameln Pharmaceuticals (“Hameln”), was to share one-half of this cost if the product did not meet the stability requirement. During 2013, the Company and Hameln agreed to settle the remaining obligations under this arrangement. Pursuant to the settlement, the Company was released from its remaining obligations with regard to product stability testing. Once this occurred, the Company reversed its product warranty reserve balance against cost of sales.

Note 3 — Allowance for Customer Deductions

The annual activity in the Company’s allowance for customer deductions accounts for the three years ended December 31, 2013 is as follows (in thousands):

	Returns	Chargebacks & Rebates	Discounts	Doubtful Accounts	Advert. & Promotions	TOTAL

Balance at December 31, 2010	$3,463	$ 2,522	$345	$3	$—	$6,333
Provision	2,687	68,067	3,431	25	1,135	75,345
Additions from business combinations	1,845	—	50	187	132	2,214
Charges processed	(1,149)	(64,640)	(3,083)	(116)	(881)	(69,869)
Balance at December 31, 2011	6,846	5,949	743	99	386	14,023
Provision	3,783	112,243	6,074	(82)	2,063	124,081
Charges processed	(2,220)	(104,740)	(5,455)	13	(1,864)	(114,266)
Balance at December 31, 2012	8,409	13,452	1,362	30	585	23,838
Provision	5,001	183,403	8,464	(5)	4,524	201,387
Charges processed	(5,246)	(183,973)	(8,182)	—	(4,657)	(202,058)
Balance at December 31, 2013	$8,164	$ 12,882	$1,644	$25	$452	$23,167

Note 4 — Inventories

The components of inventories, net of allowances, are as follows (in thousands):

	December 31,	
	2013	2012
Finished goods	$ 22,886	$ 24,657
Work in process	3,883	3,743
Raw materials and supplies	29,213	24,095
	$ 55,982	$ 52,495

The Company maintains an allowance for excess and obsolete inventory, as well as inventory with a carrying value in excess of its net realizable value. The activity in the allowance for excess and obsolete inventory account for the three years ended December 31, 2013 was as follows (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Balance at beginning of year	$ 2,244	$ 1,239	$ 1,612
Provision	2,089	2,385	598
Charges	(1,383)	(1,380)	(971)
Balance at end of year	$ 2,950	$ 2,244	$ 1,239

Note 5 – Property, Plant and Equipment

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

	December 31,	
	2013	2012
Land	$ 2,606	$ 2,715
Buildings and leasehold improvements	46,281	43,190
Furniture and equipment	76,536	70,874
	125,423	116,779
Accumulated depreciation	(54,470)	(47,635)
	70,953	69,144
Construction in progress	11,155	11,535
	$ 82,108	$ 80,679

At December 31, 2013 and 2012, property plant and equipment carrying a net book value of $21.1 million and $23.7 million, respectively, was located outside the United States.

Note 6 — Financing Arrangements

Convertible Notes

On June 1, 2011, the Company closed on its offering of $120.0 million aggregate principal amount of 3.50% Convertible Senior Notes due 2016 (the “Notes”) which includes $20.0 million in aggregate principal amount of the Notes issued in connection with the full exercise by the initial purchasers of their over-allotment option. The Notes are governed by the Company’s indenture with Wells Fargo Bank, National Association, as trustee (the “Indenture”). The Notes were offered and sold only to qualified institutional buyers. The net proceeds from the sale of the Notes were approximately $115.3 million, after deducting underwriting fees and other related expenses.

The Notes have a maturity date of June 1, 2016 and pay interest at an annual rate of 3.50% semiannually in arrears on June 1 and December 1 of each year, beginning on December 1, 2011. The Notes are convertible into the Company’s common stock, cash or a combination thereof at an initial conversion price of $8.76 per share, which is equivalent to an initial conversion rate of approximately 114.1553 shares per $1,000 principal amount of Notes. The conversion price is subject to adjustment for certain events described in the Indenture, including certain corporate transactions which will increase the conversion rate and decrease the conversion price for a holder that elects to convert its Notes in connection with such corporate transaction.

The Notes are not listed on any securities exchange or on any automated dealer quotation system, but are traded on a secondary market made by the initial purchasers. The initial purchasers of the Notes advised the Company of their intent to make a market in the Notes following the offering, though they are not obligated to do so and may discontinue any market making at any time.

As of December 31, 2013, the Notes were trading at approximately 284% of their face value, resulting in a total market value of $341.3 million compared to their face value of $120.0 million. The actual conversion value of the Notes is based on the product of the conversion rate and the market price of the Company's common stock at conversion, as defined in the Indenture. As of December 31, 2013, the Company's common stock closed at $24.62 per share, resulting in a pro forma conversion value for the Notes of approximately $337.3 million. Increases in the market value of the Company's common stock increase the Company's obligation accordingly. There is no upper limit placed on the possible conversion value of the Notes.

The Notes may be converted at any time prior to the close of business on the business day immediately preceding December 1, 2015 only under the following circumstances: (1) during any calendar quarter commencing after September 30, 2011, if the closing sale price of the Company's common stock, for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price in effect on each applicable trading day; (2) during the five consecutive trading-day period following any five consecutive trading-day period in which the trading price for the Notes per $1,000 principal amount of Notes for each such trading day was less than 98% of the closing sale price of the Company's common stock on such date multiplied by the then-current conversion rate; or (3) upon the occurrence of specified corporate events. On or after December 1, 2015 until the close of business on the business day immediately preceding the stated maturity date, holders may surrender all or any portion of their Notes for conversion at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, at the Company's option, cash, shares of the Company's common stock, or a combination thereof. If a fundamental change (as defined in the Indenture) occurs prior to the stated maturity date, holders may require the Company to purchase for cash all or a portion of their Notes.

The Notes became convertible for the quarter ending on June 30, 2012 as a result of the Company's stock trading at or above the required price of $11.39 per share for 20 of the last 30 trading days in the quarter ended March 31, 2012. The Notes have remained convertible for each successive quarter as a result of meeting the trading price requirement at the end of each prior quarter.

The Notes are accounted for in accordance with ASC 470-20, Debt with Conversion and Other Options. Under ASC 470-20, issuers of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, are required to separately account for the liability (debt) and equity (conversion option) components. The application of ASC 470-20 resulted in the recognition of $21.3 million as the value for the equity component. This amount was offset by $0.8 million of equity issuance costs, as described below. At the dates indicated, the net carrying amount of the liability component and the remaining unamortized debt discount were as follows (in thousands):

	December 31,	
	2013	2012
Carrying amount of equity component	$ 20,470	20,470
Carrying amount of the liability component	108,750	104,637
Unamortized discount of the liability component	11,250	15,363
Unamortized debt financing costs	2,034	2,778

The Company incurred debt issuance costs of $4.7 million related to its issuance of the Notes. In accordance with ASC 470-20, the Company allocated this debt issuance cost ratably between the liability and equity components of the Notes, resulting in $3.9 million of debt issuance costs allocated to the liability component and $0.8 million allocated

to the equity component. The portion allocated to the liability component was classified as deferred financing costs and is being amortized by the effective interest method through the earlier of the maturity date of the Notes or the date of conversion, while the portion allocated to the equity component was recorded as an offset to additional paid-in capital upon issuance of the Notes.

During the years ended December 31, 2013, 2012 and 2011, the Company recorded the following expenses in relation to the Notes (in thousands):

	2013	2012	2011
Interest expense at 3.50% coupon rate	$ 4,200	$ 4,200	$ 2,450
Debt discount amortization	4,113	3,828	2,109
Deferred financing cost amortization	744	692	382
	$ 9,057	$ 8,720	$ 4,941

Upon issuing the Notes, the Company established a deferred tax liability of $8.6 million related to the debt discount of $21.3 million, with an offsetting debit of $8.6 million to Common stock. The deferred tax liability was established because the amortization of the debt discount generates non-cash interest expense that is not deductible for income tax purposes. Since the Company's net deferred tax assets were fully reserved by valuation allowance at the time the Notes were issued, the Company reduced its valuation allowance by $8.6 million upon recording the deferred tax liability related to the debt discount with an offsetting credit of $8.6 million to Common stock. As a result, the net impact of these entries was a debit of $8.6 million to the valuation reserve against the Company's deferred tax assets and a credit of $8.6 million to deferred tax liability. The deferred tax liability is being amortized monthly as the Company records non-cash interest from its amortization of the debt discount on the Notes.

Bank of America Credit Facility

On October 7, 2011, the Company and its domestic subsidiaries (the "Borrowers") entered into a Loan and Security Agreement (the "BoA Credit Agreement") with Bank of America, N.A. (the "Agent") and other financial institutions (collectively with the Agent, the "BoA Lenders") through which it obtained a $20.0 million revolving line of credit (the "BoA Facility"), which includes a $2.0 million letter of credit facility. On October 4, 2013, the Company and the BoA Lenders entered into an amendment which increased the total credit commitment from $20.0 million to $60.0 million. The BoA Facility matures in March 2016. The Company may early terminate the BoA Lenders' commitments under the Facility upon 90 days' notice to the Agent at any time after the first year.

Under the terms of the BoA Credit Agreement, amounts outstanding will bear interest at the Company's election at (a) LIBOR or (b) the bank's Base Rate (which is the greatest of: (i) the prime rate, (ii) the federal funds rate plus 0.50%, or (iii) LIBOR plus 1.0%), plus an applicable margin, which margin is based on the consolidated fixed charge coverage ratio of the Company and its subsidiaries from time to time. Additionally, the Borrowers will pay an unused line fee of 0.250% per annum on the unused portion of the BoA Facility. Interest and unused line fees will be accrued and paid monthly. In addition, with respect to any letters of credit that may be issued, the Borrowers will pay: (i) a fee equal to the applicable margin times the average amount of outstanding letters of credit, (ii) a fronting fee equal to 0.125% per annum on the stated amount of each letter of credit, and (iii) any additional fees incurred by the applicable issuer in connection with issuing the letter of credit. During an event of default, any interest or fees payable will be increased by 2% per annum.

Availability under the revolving credit line is equal to the lesser of (a) $60.0 million reduced by outstanding letter of credit obligations or (b) the amount of a Borrowing Base (as defined in accordance with the terms of the BoA Credit Agreement) determined by reference to the value of the Borrowers' eligible accounts receivable, eligible inventory and fixed assets as of the closing date and the end of each calendar month thereafter.

Obligations under the BoA Credit Agreement are secured by substantially all of the assets of each of the Borrowers and a pledge by the Borrowers of their respective equity interest in each domestic subsidiary of the Company and 65% of their respective equity interests in any foreign subsidiary of the Company. The BoA Credit Agreement contains representations and warranties, and affirmative and negative covenants customary for financings of this type, including, but not limited to, limitations on: distributions while we have any outstanding commitments or obligations under the BoA Credit Agreement; additional borrowings and liens; additional investments and asset sales; and fundamental changes to corporate structure or organization documents. The financial covenants require the Borrowers to maintain a fixed charge coverage ratio of at least 1.1 to 1.0 during any period commencing on the date that an event of default occurs or availability under the BoA Credit Agreement is less than 15% of the aggregate BoA Lenders' commitments under the BoA Credit Agreement. During the term of the agreement, the Company must provide the Agent with monthly, quarterly and annual financial statements, monthly compliance certificates, annual budget projections and copies of press releases and SEC filings.

As of December 31, 2013, the Company had availability on our line of credit of $59.1 million, there was one outstanding letter of credit in the amount of $0.5 million and there were no outstanding borrowings.

EJ Funds Credit Facility

On January 7, 2009, the Company entered into a Credit Agreement (the "GE/EJ Credit Agreement") with General Electric Capital Corporation ("GE Capital") as agent for several financial institutions (the "Lenders"). Effective March 31, 2009, the GE/EJ Credit Agreement was assigned to EJ Funds, a company controlled by Dr. Kapoor, the Chairman of the Company's board of directors. Pursuant to the GE/EJ Credit Agreement, the Lenders agreed to extend loans to the Company under a revolving credit facility up to an aggregate principal amount of $25.0 million (the "Credit Facility"). The maximum loan commitment was decreased to $5.7 million upon assignment of the GE/EJ Credit Agreement to EJ Funds, and was subsequently increased on August 17, 2009 to $10.0 million. The Credit Facility was scheduled to terminate, and all amounts outstanding thereunder were to become due and payable, on January 7, 2013, or on an earlier date as specified in the GE/EJ Credit Agreement. The Company elected to early terminate the GE/EJ Credit Agreement on June 17, 2011. It had not borrowed against the Credit Facility since the first quarter of 2010. A more detailed timeline of certain events regarding the GE/EJ Credit Agreement follows.

On February 19, 2009, GE Capital informed the Company that it was applying a reserve against availability which effectively restricted the Company's borrowings under the GE/EJ Credit Agreement to the balance outstanding as of February 19, 2009, which was $5.5 million. GE Capital advised that it had applied this reserve due to concerns about financial performance, including the Company's prospective compliance with certain covenants in the GE/EJ Credit Agreement for the quarter ended March 31, 2009.

On March 31, 2009, the Company consented to an Assignment Agreement ("Assignment") between GE Capital and EJ Funds which transferred to EJ Funds all of GE Capital's rights and obligations under the GE/EJ Credit Agreement. Pursuant to the Assignment, EJ Funds became the agent and lender under the GE/EJ Credit Agreement. Dr. Kapoor is the President of EJ Financial Enterprises, Inc., a healthcare consulting investment company ("EJ Financial") and EJ Financial is the general partner of EJ Funds. In connection with the Assignment, on April 13, 2009, the Company entered into a Modification, Warrant and Investor Rights Agreement (the "Modification Agreement") with EJ Funds that, among other things, (i) reduced the revolving loan commitment under the GE/EJ Credit Agreement to $5.7 million, and (ii) set the interest rate for all amounts outstanding under the GE/EJ Credit Agreement at an annual rate of 10% with interest payable monthly. The Modification Agreement also granted EJ Funds the right to require the Company to nominate two directors to serve on its Board of Directors. The Kapoor Trust is entitled to require the Company to nominate a third director under its Stock Purchase Agreement dated November 15, 1990 with the Kapoor Trust.

Pursuant to the Modification Agreement, on April 13, 2009, the Company granted EJ Funds a warrant (the "Modification Warrant") to purchase 1,939,639 shares of its common stock at an exercise price of $1.11 per share, subject to certain adjustments. The Modification Warrant expires five years after its issuance and is exercisable upon payment of the exercise price in cash or by means of a cashless exercise yielding a net share figure.

On August 17, 2009, the Company completed negotiations with EJ Funds for additional capacity on its Credit Facility, increasing the loan commitment from $5.7 million to $10.0 million. In consideration of this amendment, EJ Funds was granted a warrant to acquire 1,650,806 shares of the Company's common stock at $1.16 per share, the closing market price on August 14, 2009 (the "Restatement Warrants"). The estimated fair value of the Restatement Warrants, using a Black-Scholes valuation model, was $1.2 million on date of grant. This amount plus $7,000 in other associated costs was capitalized as financing costs and was being amortized. Upon termination of the Credit Facility on June 17, 2011, the remaining unamortized cost was written off.

On June 17, 2011, the Company elected to early terminate its $10.0 million revolving GE/EJ Credit Agreement with EJ Funds. The Company had not borrowed against the GE/EJ Credit Agreement since repaying its outstanding balance in the first quarter of 2010. Upon terminating the GE/EJ Credit Agreement, the Company expensed $1.2 million in remaining unamortized deferred financing costs related to the GE/EJ Credit Agreement. The Company incurred no fees or penalties related to its early termination of the GE/EJ Credit Agreement.

Note 7 — Earnings per Common Share

Basic net income per common share is based upon the weighted average common shares outstanding during the period. Diluted net income per common share is based upon the weighted average number of common shares outstanding, including the dilutive effect, if any, of stock options, warrants and the conversion feature of convertible notes using the treasury stock method.

The Company's potentially dilutive shares consist of: (i) vested and unvested stock options that are in-the-money, (ii) unvested RSAs, (iii) warrants that are in-the-money, and (iv) shares potentially issuable upon conversion of the Notes. The Company calculates and includes in dilutive securities incremental shares issuable related to the Notes to the extent that the conversion value of each note exceeds $1,000.

A reconciliation of the earnings per share data from a basic to a fully diluted basis is detailed below (amounts in thousands, except per share data):

	2013	2012	2011
Net income	$52,362	$35,378	$43,013
Net income per share:			
Basic	$0.54	$0.37	$0.45
Diluted	$0.46	$0.32	$0.41
Shares used in computing net income per share:			
Weighted average basic shares outstanding	96,181	95,189	94,549
Dilutive securities:			
Stock options and unvested RSAs	4,516	4,289	3,281
Stock warrants	6,702	6,564	6,082
Shares issuable on conversion of the Notes	6,499	4,468	—
Total dilutive securities	17,717	15,321	9,363
Weighted average diluted shares outstanding	113,898	110,510	103,912

Note 8 — Leasing Arrangements

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. Rental expense under these leases was $2.9 million, $2.3 million and $2.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Landlord incentives are recorded as deferred rent and amortized on a straight-line basis over the lease term. Rent escalations are recorded on a straight-line basis over the lease term. The Company's main operating leases for its Lake Forest and Gurnee facilities have original terms of ten years. The Lake Forest facility lease allows for a five-year renewal at the option of the Company.

The following is a schedule, by year, of future minimum rental payments required under non-cancelable operating and capital leases in place as of December 31, 2013 (in thousands):

Year ending December 31,		
2014	$	1,973
2015		1,970
2016		2,000
2017		1,791
2018		529
2019 and thereafter		340
Total	$	8,603

On December 1, 2012, the Company entered into a lease for a new R&D center in Vernon Hills, Illinois. This lease extends through April 30, 2020, and obligates the Company to pay total base rent of $1,324,000, plus proportionate real estate taxes and common area maintenance, over the life of the agreement. Prior to moving its R&D activities to Vernon Hills, Illinois, the Company had leased space for its R&D activities within the Illinois Science & Technology Park in Skokie, Illinois. This lease commenced on February 1, 2010, and extended through its early termination date of February 1, 2014. Upon vacating the Skokie space shortly after moving R&D operations to Vernon Hills, Illinois, the Company accrued to expense its remaining obligations under the Skokie lease.

On July 27, 2010, the Company, through its wholly-owned subsidiary, Akorn (New Jersey), Inc., an Illinois corporation, entered into a seven-year building lease agreement (the "Somerset Lease") with Veronica Development Associates, a New Jersey general partnership, extending the Company's occupancy of its 50,000 square foot manufacturing facility located at 72-6 Veronica Avenue, Somerset, New Jersey. This lease commenced on August 1, 2010 and continues through July 31, 2017. Under terms of the new lease, base rent was initially set at $38,801 per month, subject to periodic cost of living adjustments. In addition to base rent, the Company is obligated to pay its proportionate share of estimated property taxes, assessments and maintenance costs. The lease agreement contains a renewal provision allowing the Company the option to renew for up to four additional five-year periods upon providing written notice of its intention to renew at least six months prior to termination of the original lease or any renewal period.

On March 3, 2010, the Company entered into an eight-year sub-lease agreement with a related party, EJ Financial, for their sub-lease of a portion of the Company's corporate offices in Lake Forest, Illinois. John N. Kapoor, Ph.D., Chairman of the Company's Board of Directors, is the President of EJ Financial. This sub-lease commenced on April 1, 2010. Per the terms of the sub-lease agreement, EJ Financial will pay monthly base rent plus a proportionate share of common area maintenance costs. The Company and EJ Financial agreed to early terminate this agreement, and the sub-lease was terminated in July 2012 at which time the space was retrofitted for corporate purposes. EJ Financial paid the Company approximately $240,000 in rent and common area maintenance fees during the shortened term of this sub-lease.

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Note 9 — Stock Options, Employee Stock Purchase Plan and Restricted Stock

Stock Option Plan

The Company maintains stock options plans that allow the Company's Board of Directors to grant stock options to eligible employees, officers and directors. The Akorn, Inc. 2003 Stock Option Plan ("2003 Stock Option Plan") was approved by the Company's Board of Directors on November 6, 2003 and approved by its stockholders on July 8, 2004. Under the 2003 Stock Option Plan, 2,519,000 options were granted, none of which remained outstanding as of December 31, 2011. On March 29, 2005, the Company's Board of Directors approved the Amended and Restated Akorn, Inc. 2003 Stock Option Plan (the "Amended 2003 Plan"), effective as of April 1, 2005, and this was subsequently approved by its stockholders on May 27, 2005. The Amended 2003 Plan is an amendment and restatement of the 2003 Stock Option Plan and provides the Company with the ability to grant other types of equity awards to eligible participants besides stock options. Starting on May 27, 2005, all new awards have been granted under the Amended 2003 Plan. The aggregate number of shares of the Company's common stock initially approved for issuance pursuant to awards granted under the Amended 2003 Plan was 5,000,000. On August 7, 2009, the Company's stockholders voted to increase this figure to 11,000,000 at the recommendation of the Company's Board of Directors, and on December 31, 2011 voted to increase the available shares by another 8,000,000, to a final total of 19,000,000 shares. Under the Amended 2003 Plan, 15,828,000 options have been granted to employees and directors, 2,304,000 options have been exercised, 4,296,000 options have been canceled, and 9,228,000 remain outstanding as of December 31, 2013. Options granted under the 2003 Stock Option Plan and the Amended 2003 Plan have exercise prices equivalent to the market value of the Company's common stock on the date of grant and expire five years from date of issuance. All options granted during 2013 vest one quarter per year on each of the first four anniversaries of their grant dates. Options granted in earlier years generally had a three-year vesting schedule.

The Amended 2003 Plan reached its scheduled expiration date on November 6, 2013. Accordingly, no additional awards may be issued under the Amended 2003 Plan beyond that date. However, any awards outstanding as of November 6, 2013 issued under the Amended 2003 Plan will remain outstanding in accordance with their terms. During the first quarter of 2014, the Company's Board of Directors approved the new Akorn, Inc. 2014 Stock Option Plan. Adoption of this plan is contingent on receipt of shareholder approval at the Company's 2014 Annual Meeting on May 2, 2014.

The Company accounts for stock-based compensation in accordance with ASC Topic 718, Compensation – Stock Compensation (formerly SFAS No. 123 (revised 2004), Share Based Payment (SFAS 123(R))). Accordingly, stock-based compensation cost is estimated at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the vesting period. The Company uses the Black-Scholes model for estimating the grant date fair value of stock options. Determining the assumptions that enter into the model is highly subjective and requires judgment. The Company uses an expected volatility that is based on the historical volatility of its stock. The expected life assumption is based on historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the average market rate on U.S. treasury securities in effect during the quarter in which the options were granted. The dividend yield reflects historical experience as well as future expectations over the expected term of the option. The Company estimates forfeitures at the time of grant and revises in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The Company recorded stock option compensation expense of approximately $6.2 million, $6.4 million and $4.9 million during the years ended December 31, 2013, 2012 and 2011, respectively. The Company uses the single-award method for allocating the compensation cost to each period.

The Company uses the Black-Scholes model to determine the grant-date value of stock options. Expected volatility is based on the historical volatility of the Company's common stock. The expected life assumption is based on historical

employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the average market rate on U.S. treasury securities in effect during the quarter in which the options were granted. The dividend yield reflects historical experience as well as future expectations over the expected term of the option. The Company estimates forfeitures at the time of grant and revises those estimates subsequently based on actual forfeitures.

The assumptions used in estimating the fair value of the stock options granted during the period, along with the weighted-average grant date fair values, were as follows:

	2013	2012	2011
Expected Volatility	49%-68%	77% -85%	75% - 76%
Expected Life (in years)	4.0	4.0	3.8
Risk-free interest rate	0.7% - 1.4%	0.7% - 0.8%	1.3% - 2.0%
Dividend yield	—	—	—
Fair value per stock option	$6.95	$7.76	$3.71

A summary of stock option activity within the Company's stock-based compensation plans for the years ended December 31, 2013, 2012 and 2011 is as follows:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	7,960	$1.87		
Granted	2,030	6.63		
Exercised	(454)	1.93		
Forfeited	(137)	2.30		
Outstanding at December 31, 2011	9,399	2.89		
Granted	1,221	12.96		
Exercised	(806)	1.87		
Forfeited	(87)	4.42		
Outstanding at December 31, 2012	9,727	4.22		
Granted	321	15.76		
Exercised	(630)	4.18		
Forfeited	(190)	13.10		
Outstanding at December 31, 2013	9,228	$4.45	1.61	$186,169,000
Exercisable at December 31, 2013	7,594	$3.02	1.27	$164,018,000

The aggregate intrinsic value for stock options outstanding and exercisable is defined as the difference between the market value of the Company's common stock at the end of the period and the exercise price of the in-the-money stock options. The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 was approximately $8.9 million, $9.1 million and $3.1 million, respectively. As a result of the stock options exercised, the Company received cash and recorded additional paid-in-capital of approximately $2.6 million, $1.5 million and $0.9 million during the years ended December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, the total amount of unrecognized compensation cost related to non-vested stock options was $8,251,000 which is expected to be recognized as expense over a weighted-average period of 2.4 years.

Under the Amended 2003 Plan, the Company may grant restricted stock awards to certain employees and members of its Board of Directors. Restricted stock awards are valued at the closing market value of the Company's common stock on the day of grant and the total value of the award is recognized as expense ratably over the vesting period of the grants. On May 3, 2013, the Company granted a total of 32,000 shares of restricted stock valued at approximately $0.5 million to members of its Board of Directors, of which half vested immediately and half will vest on the one year anniversary of grant. During 2012, the Company granted 35,000 shares of restricted stock valued at approximately $0.5 million to members of its Board of Directors, of which half vested immediately and half vested on the one year anniversary of grant. No restricted stock awards were granted in 2011. The Company recognized compensation expense of approximately $0.6 million, $0.4 million and less than $0.1 million during the years ended December 31, 2013, 2012 and 2011, respectively, related to restricted stock awards.

The following is a summary of non-vested restricted stock activity:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2010	28	$ 1.89

Granted	—		—
Vested	(15	)	2.34
Canceled	—		—
Nonvested at December 31, 2011	13	$	1.34
Granted	35		14.63
Vested	(30	)	9.09
Canceled	—		—
Nonvested at December 31, 2012	18	$	14.63
Granted	32		15.36
Vested	(34	)	14.98
Canceled	—		—
Nonvested at December 31, 2013	16	$	15.36

Employee Stock Purchase Plan

The Akorn, Inc. Employee Stock Purchase Plan (the “ESPP”) permits eligible employees to acquire shares of the Company’s common stock through payroll deductions. The ESPP has been structured to qualify under Section 423 of the Internal Revenue Code (“IRC”). Employees who elect to participate in the ESPP may withhold from 1% to 15% of base wages toward the purchase of stock. Shares are purchased at a 15% discount off the lesser of the market price at the beginning or the ending of the applicable offering period. The ESPP has two offering periods each year, one running from January 1st to December 31st and the other running from July 1st to December 31st. In a given year, employees may enroll in either plan, but not both. Per IRC rules, annual purchases per employee are limited to $25,000 worth of stock, valued as of the beginning of the offering period. Accordingly, with the 15% discount, employees may withhold no more than $21,250 per year toward the purchase of stock under the ESPP.

A maximum of 2,000,000 shares of the Company's common stock may be issued under the ESPP. Including shares issues in early 2014 related to employee participation in the ESPP during 2013, a total of 1,353,407 shares have been issued thus far under the ESPP, leaving 646,593 shares available for future issuance. The Company issued approximately 73,000, 61,000 and 71,000 shares of its common stock related to employee participation in the ESPP during 2013, 2012 and 2011, respectively. For the years ended December 31, 2013, 2012 and 2011, the Company recorded compensation expense of approximately $0.2 million in each period related to the ESPP.

Note 10 — Income Taxes

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

	Current	Deferred	Total
Year ended December 31, 2013			
Federal	$ 27,985	$ (3,050)	$ 24,935
State	4,145	2,051	6,196
Foreign	—	(598)	(598)
	$ 32,130	$ (1,597)	$ 30,533
Year ended December 31, 2012			
Federal	$ 20,843	$ (504)	$ 20,339
State	4,232	(911)	3,321
Foreign	—	(1,538)	(1,538)
	$ 25,075	$ (2,953)	$ 22,122
Year ended December 31, 2011			
Federal	$ —	$ (460)	$ (460)
State	2,704	(3,951)	(1,247)
	$ 2,704	$ (4,411)	$ (1,707)

Income tax expense differs from the "expected" tax expense (benefit) computed by applying the U.S. Federal corporate income tax rates of 35% to income before income taxes, as follows (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Computed "expected" tax expense	$ 29,013	$ 20,125	$ 14,457
Change in income taxes resulting from:			
State income taxes, net of federal income tax	4,027	2,159	2,217
Foreign income tax expense (benefit)	622	1,468	—
Deduction for domestic production activities	(1,361)	(1,277)	—
R&D tax credits	(1,652)	(508)	
Other, net	(116)	155	(876)
Valuation allowance change	—	—	(17,505)
Income tax expense (benefit)	$ 30,533	$ 22,122	$ (1,707)

The geographical allocation of the Company's income before income taxes between U.S. and foreign operations was as follows (in thousands):

	2013	2012	2011
Pre-tax income from U.S. operations	$ 86,382	$ 66,087	$ 41,306
Pre-tax loss from foreign operations	(3,487)	(8,587)	—
Total pre-tax income	$ 82,895	$ 57,500	$ 41,306

Net deferred income taxes at December 31, 2013 and 2012 include (in thousands):

	December 31, 2013		December 31, 2012	
	Current	Noncurrent	Current	Noncurrent
Deferred tax assets:				
Net operating loss carry-forward	$439	$14,061	$—	$4,328
Stock-based compensation	—	6,630	—	4,912
Reserve for product returns	3,189	—	2,787	—
Inventory valuation reserve	2,193	—	3,980	—
Other	3,325	1,751	2,974	1,349
Total deferred tax assets	9,146	22,442	9,741	10,589
Deferred tax liabilities:				
Prepaid expenses	(1,120)	—	(551)	—
Unamortized discount – convertible notes	—	(4,223)	—	(5,815)
Depreciation & amortization – tax over book	—	(16,576)	—	(5,835)
Other	(81)	—	—	—
Total deferred tax liabilities	(1,201)	(20,799)	(551)	(11,650)
Net deferred income tax asset (liability)	$7,945	$1,643	$9,190	$(1,061)

The Company records a valuation allowance to reduce net deferred income 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 income tax asset was necessary, the Company evaluated the data and determined that as of December 31, 2013 and 2012 its deferred income tax assets were more likely than not to be realized. Accordingly, no valuation allowance was in place as of either December 31, 2013 or December 31, 2012. The deferred tax balances have been reflected gross on the balance sheet, and are permitted to be netted only if within the same jurisdiction.

As a result of operating losses in past years, the Company was carrying a 100% valuation allowance against its deferred tax assets until the quarter ended September 30, 2011. At that time, the Company determined that based on earnings in recent periods, and expectations for future taxable income, it would be expected to realize the full net value of its deferred tax assets. Accordingly, the Company reversed its valuation allowances in that quarter. This reversal accounts for the Company's net income tax benefit recorded for the year 2011.

The Company's net operating loss ("NOL") carry-forwards as of December 31, 2013 consist of three component pieces: (i) U.S. Federal NOL carry-forwards valued at $7.9 million, (ii) Illinois NOL carry-forwards valued at $2.2 million, and (iii) foreign (Indian) NOLs of $4.4 million. The U.S. Federal NOL carry-forwards belong to Inspire Pharmaceuticals, Inc. and were obtained through the Merck Acquisition completed in the fourth quarter of 2013. The Illinois NOL carry-forwards relate to the Company's tax losses in the decade of the 2000s and have not yet been fully utilized due to the State of Illinois's suspension of the use of NOLs for the years 2011, 2012 and 2013. These NOLs would be due to expire from 2021 to 2025, and are expected to be utilized well before their expiration dates. The foreign NOL carry-forwards relate to operating losses by the Company's subsidiary in India, which was acquired in 2012. The foreign NOLs can be carried forward indefinitely, and the Company has concluded that they are more likely than not to be utilized and therefore has not established a valuation allowance against them. The Company previously had valued NOL carry-forwards in the State of New Jersey. However, due to a change in the tax law, the Company determined that these NOLs could no longer be utilized and wrote them off during 2013.

In 2013, the Company amended its Federal income tax returns to claim research and experimentation tax credits for the years 2003 through 2010 that were not originally claimed due to operating losses incurred in those years. The net

benefit of these claims totaled $0.8 million, and was recorded as a reduction to income tax expense for the year ended December 31, 2013.

On January 2, 2013 President Obama signed the American Taxpayer Relief Act of 2012. The Act included an extension of the research and experimentation tax credit for periods ending in 2012 and 2013. Since this extension was not signed into law until 2013, the Company did not include the benefit of R&D tax credits for the tax year 2012 into its effective rate for 2012. The benefit of 2012 R&D tax credit, which totaled approximately $0.6 million, was reflected in the Company's tax provision in 2013.

The Company's U.S. Federal income tax returns filed for years 2010 through 2012 are open for examination by the Internal Revenue Service. The majority of the Company's state and local income tax returns filed for years 2010 through 2012 remain open for examination as well. In the quarter ended December 31, 2013, the Company received notice from the Illinois Department of Revenue that its Illinois income tax returns for the years ended December 31, 2010 and 2011 would be examined. No other examinations of the Company's income tax returns have been initiated.

In accordance with ASC 740-10-25, Income Taxes – Recognition, the Company performs reviews of its tax positions to determine whether it is "more likely than not" that its tax positions will be sustained upon examination, and if any tax positions are deemed to fall short of that standard, the Company reserves based on the financial exposure and the likelihood of its tax positions not being sustained. Based on its reviews as of and for the years ended December 31, 2012 and December 31, 2013, the Company determined that it would not recognize tax benefits as follows (in thousands):

Balance at December 31, 2011	$
Additions relating to current year	1,265
Additions relating to prior years	220
Balance at December 31, 2012	$1,485
Additions relating to current year	589
Terminations of exposures relating to prior years	(1,229)
Balance at December 31, 2013	$845

If recognized, the entire $0.8 million of the above positions will impact the Company's effective rate. Due to the uncertainty of both timing and resolution of potential income tax examinations, the Company is unable to determine whether any amounts included in the December 31, 2013 balance of unrecognized tax benefits represent tax positions that could significantly change during the next twelve months. The Company accounts for interest and penalties as income tax expense. There were no uncertain tax positions prior to 2012.

Note 11 — Retirement Plan

All Akorn employees are eligible to participate in the Company's 401(k) Plan. During the years ended December 31, 2013, 2012 and 2011, plan-related expense totaled approximately $0.8 million, $0.8 million and $0.5 million, respectively. The Company provides a matching contribution based on a percentage of the amount contributed by each employee, which is funded on a current basis. The Company suspended its match on 401(k) contributions during 2009 and did not match 401(k) contributions through March 31, 2010. Effective April 1, 2010, the Company reinstituted a matching contribution at a rate of 25% of the first 6% contributed by employees. On January 1, 2011, the Company increased its matching contribution to 50% of the first 6% contributed, and has maintained this match rate through December 31, 2013. Company matching contributions vest 50% after two years of credited service and 100% after three years of credited service.

Note 12 — Segment Information

The Company reports its results of operations for the three-year period ended December 31, 2013 in three segments:

- Ophthalmic
- Hospital Drugs & Injectables
- Contract Services

The ophthalmic segment manufactures, markets and distributes diagnostic and therapeutic pharmaceuticals. The hospital drugs & injectables segment manufactures, markets and distributes drugs and injectable pharmaceuticals, primarily in niche markets, as well as certain vaccines. The majority of the drug products included in this segment are injectables, though also included are a number of drugs administered to patients by other methods. The contract services segment manufactures products for third party pharmaceutical and biotechnology customers based on their specifications.

The Company's reportable segments are based upon internal financial reports that aggregate certain operating information. The Company's chief operating decision maker, as defined in ASC Topic 280, Segment Reporting, is its chief executive officer, or CEO. The Company's CEO oversees operational assessments and resource allocations based upon the results of the Company's reportable segments, all of which have available discrete financial information.

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

	Years ended December 31,		
	2013	2012	2011
REVENUES			
Hospital drugs & injectables	$ 179,625	$ 129,723	$ 55,077
Ophthalmic	114,515	103,765	68,591
Contract services	23,571	22,670	13,252
Total revenues	$ 317,711	$ 256,158	$ 136,920
GROSS PROFIT			
Hospital drugs & injectables	$ 104,473	$ 83,413	$ 30,057
Ophthalmic	63,481	58,785	43,054
Contract services	3,950	6,494	6,578
Total gross profit	$ 171,904	$ 148,692	$ 79,689

The Company manages its business segments to the gross profit level and manages its operating and other costs on a company-wide basis. Inter-segment activity at the gross profit level is minimal. The Company does not have discrete assets by segment, as certain manufacturing and warehouse facilities support more than one segment, and therefore does not report assets by segment.

During 2013, 2012 and 2011, approximately $27.3 million, $29.4 million and $5.3 million of the Company's net revenue, respectively, was from customers located in foreign countries. Sales generated by Akorn India Private Limited ("AIPL"), the Company's wholly owned subsidiary in India, accounted for $15.8 million and $16.7 million of the foreign sales amounts for 2013 and 2012, respectively. In these years, AIPL sold product exclusively to contract customers in India and to export customers in unregulated world markets, outside the United States.

The ophthalmic segment carries goodwill from the Company's acquisition of Advanced Vision Research, Inc. in May 2011, and the contract services segment carries goodwill related to the Company's acquisition of selected assets of Kilitch Drugs (India) Limited in February 2012. The carrying amounts of goodwill by segment were as follows (in thousands):

	December 31,	
Goodwill:	2013	2012
Ophthalmic segment	$ 11,863	$ 11,863
Contract services segment	17,968	20,296
Total	$ 29,831	$ 32,159

The decline in contract segment goodwill from December 31, 2012 to December 31, 2013 was due to changes in the foreign currency exchange rate between Indian rupees and U.S. dollars. The Company performed impairment tests of its goodwill during the fourth quarter of 2013 and identified no impairment.

Note 13 — Commitments and Contingencies

On December 22, 2011, the Company acquired the rights to three NDA products from H. Lundbeck A/S ("Lundbeck"). The Company paid $45.0 million in initial consideration at closing and has a commitment to pay additional consideration of $15.0 million to Lundbeck on December 22, 2014, the third anniversary of the acquisition date. Both the initial $45.0 million paid at closing and the additional $15.0 million are subject to claw-back provisions if sales of the three underlying products fail to achieve certain minimum amounts specified in the Lundbeck Agreement. The discounted value of the additional consideration has been recorded by the Company as a current liability on its December 31, 2013 balance sheet. The liability was discounted at 9.0%, the Company's approximate cost of long-term capital, to an initial value of $11.6 million. The accrual of non-cash interest expense during 2013 increased the carrying amount of this current liability to $14.7 million as of December 31, 2013.

As part of the Lundbeck Agreement, the Company assumed Lundbeck's obligations under a supply agreement with the third party manufacturer of two of the three products acquired. The supply agreement committed the Company to purchase $13.3 million of product in total over the years 2012 through 2015. The Company determined that its committed purchase quantities exceeded the amount that it anticipated being able to sell. Accordingly, as part of the initial accounting for the Lundbeck Agreement, the Company recorded a long-term liability of $2.5 million, which equaled the estimated present value of the unfavorable contract terms. A portion of this liability was amortized during 2012 and 2013. In the fourth quarter of 2013, the Company determined that no future liability existed related to excess inventory purchase commitments, and accordingly, the Company wrote off the remaining liability balance of $1.3 million.

Also included within the Lundbeck Agreement is a commitment to pay royalties to Lundbeck based on the Company's sales of a generic form of one of the acquired products. This commitment is more fully described in Note 16 – Business Combinations and Other Strategic Investments. The dollar amount of this commitment is not estimable since it is subject to future sales volumes, prices and margins for the applicable product.

The Company has entered into strategic business agreements for the development and marketing of finished dosage form pharmaceutical products with various pharmaceutical development companies.

Each strategic business agreement includes a future payment schedule for contingent milestone payments and in certain strategic business agreements, minimum royalty payments. The Company will be responsible for contingent milestone payments and minimum royalty payments to these strategic business partners based upon the occurrence of future events. Each strategic business agreement defines the triggering event of its future payment schedule, such as meeting product development progress timelines, successful product testing and validation, successful clinical studies, various FDA and other regulatory approvals and other factors as negotiated in each agreement. None of the contingent milestone payments or minimum royalty payments is individually material to the Company. These costs, when realized, will be reported as part of research and development expense or as a component of cost of sales in the Company's Consolidated Statement of Income.

The table below summarizes contingent potential milestone payments due to strategic partners in the years 2014 and beyond, assuming all such contingencies occur (in thousands):

Year ending December 31,		Milestone Payments
2014	$	4,524
2015		598
2016		200
Total	$	5,322

On October 17, 2012, the Company entered into an exclusive distribution agreement with MBL for the Company's marketing of MBL-manufactured tetanus-diphtheria vaccine ("Td vaccine") over an initial contract term of two years. The exclusive distribution agreement commits the Company to acquire $9.2 million in Td vaccine during calendar year 2014. The agreement contains a provision for automatic annual renewals if neither party delivers notice of non-renewal at least six months prior to the end of the initial two-year term or any subsequent annual term.

The Company had an outstanding product warranty reserve which related to a ten year expiration guarantee on DTPA sold to HHS in 2006. The Company was performing yearly stability studies for this product and, if the annual stability did not support the ten-year product life, it would replace the product at no charge. The Company's supplier, Hameln Pharmaceuticals, was to share one-half of this cost if the product did not meet the stability requirement.

During the quarter ended June 30, 2013, Hameln and the Company terminated and settled their contractual relationship related to the Company's marketing of DTPA products supplied by Hameln. As part of the settlement arrangement, the Company was released from its remaining product warranty obligations. Accordingly, during the quarter ended June 30, 2013, the Company reversed its $1.3 million product warranty reserve and recognized a corresponding reduction to cost of sales.

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 believes that the ultimate disposition of such proceedings and exposures will not have a material adverse impact on the financial condition, results of operations, or cash flows of the Company.

Note 14 — Supplemental Cash Flow Information (in thousands)

Year ended December 31,		
2013	2012	2011

Leasehold improvements funded by lessor	$ —	$ —	$ 22
Interest and taxes paid:			
Interest paid	4,320	4,200	2,125
Income taxes paid	27,450	21,455	2,778

Note 15 — Recent Accounting Pronouncements

In July 2012, the FASB issued ASU No. 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this update aim to simplify the impairment test for indefinite-lived intangible assets by permitting an entity the option to first assess qualitative factors to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired as a basis for determining whether the quantitative impairment test included in Accounting Standards Codification Subtopic 350-30, Intangibles – Goodwill and Other – General Intangibles Other than Goodwill must be performed. The amendment is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Adoption of this amendment did not, and is not expected to, have a material effect on the Company’s financial position or operating results.

On February 5, 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This amendment requires an entity to present either parenthetically on the face of the financial statements or in the notes significant amounts reclassified from each component of accumulated other comprehensive income and the line item(s) affected by the reclassification. An entity would not need to show the income statement line item affected for certain components that are not required to be reclassified in their entirety to net income, such as amounts amortized into net periodic pension cost. For public companies, this amendment became effective for annual periods beginning after December 15, 2012, and for interim periods within those annual periods. Adoption of ASU No. 2013-02 did not impact the Company's financial position or results of operations, and did not have a significant effect on the Company's financial reporting.

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 was issued to eliminate the diversity in practice in presentation of unrecognized tax benefits, and amends Accounting Standards Codification ("ASC") 740, "Income Taxes," to provide clarification of the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. According to the new guidance, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carryforward that would be utilized, rather than only being netted against carryforwards that are created by the unrecognized tax benefits. The revised guidance is effective for interim and annual periods beginning after December 15, 2013, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its financial statements.

Note 16 – Business Combinations and Other Strategic Investments

Hi-Tech Pharmacal Co., Inc.

On August 26, 2013, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") to acquire Hi-Tech Pharmacal Co., Inc., a Delaware corporation ("Hi-Tech") for a total purchase price of approximately $640 million, less the cash assumed through the acquisition, which Hi-Tech reported to be approximately $86 million as of January 31, 2014. As agreed to by the parties and subsequently approved by the shareholders of Hi-Tech, the Company will pay $43.50 per share for the outstanding common stock of Hi-Tech. The Merger Agreement will involve the merger of Hi-Tech with and into Akorn Enterprises, Inc., a wholly-owned subsidiary of the Company (the "Purchaser"), with Hi-Tech continuing as the surviving entity. The acquisition is expected to close early in the second quarter of 2014, following the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the " HSR Act ").

Hi-Tech is a specialty pharmaceutical company developing, manufacturing and marketing generic and branded prescription and over-the-counter (OTC) products. Hi-Tech specializes in difficult to manufacture liquid and semi-solid dosage forms and produces and markets a range of oral solutions and suspensions, as well as topical ointments and creams, nasal sprays, otics, sterile ophthalmics and sterile ointment and gels products. Hi-Tech's Health Care Products division is a leading developer and marketer of OTC products. Hi-Tech's ECR Pharmaceuticals subsidiary markets branded prescription products.

The Hi-Tech acquisition is expected to complement and expand the Company's product portfolio by diversifying its offering to its retail customers beyond ophthalmics to other niche dosage forms such as oral liquids, topical creams and ointments, nasal sprays and otics. The acquisition is also expected to enhance the Company's new product pipeline. Further, the acquisition of Hi-Tech will add branded OTC products in the categories of cough & cold, nasals, and topicals to the Company's existing TheraTears® brand of eye care products, and will provide additional domestic manufacturing capacity for the Company.

The Merger Agreement provides for the terms and conditions of the Merger. Subject to the terms and conditions of the Merger Agreement, upon completion of the Merger, each share of Hi-Tech's common stock (the "Hi-Tech Stock "), par value $0.01 (each a " Hi-Tech Share "), issued and outstanding immediately prior to such time, other than treasury shares of Hi-Tech and shares of Common Stock owned by Hi-Tech, Akorn, Purchaser or any other wholly-owned subsidiary of Akorn or Hi-Tech (each of which will be cancelled), and other than shares of Hi-Tech Stock as to which dissenters' rights have been properly exercised, will be cancelled and converted into the right to receive $43.50 in cash (the "Merger Consideration"), without interest, less any applicable withholding taxes, upon surrender of the outstanding Hi-Tech Shares.

In addition, Hi-Tech is required to take all actions necessary to cause each outstanding option, restricted stock grant, restricted stock subject to vesting or similar rights to purchase or acquire Shares ("Stock Rights"), whether or not vested, to be canceled in exchange for the right to receive a cash payment equal to the Merger Consideration, less the applicable exercise price of such Stock Right and any applicable withholding taxes, if any.

Pursuant to the Merger Agreement, the parties have made certain customary representations, warranties and covenants to each other, including using reasonable best efforts to take, or cause to be taken, all actions and do all things necessary, proper or advisable to consummate and make effective the Merger and the other transactions contemplated thereby, including the satisfaction of each of the parties' respective closing conditions set forth in the Merger Agreement. Hi-Tech has also agreed to various covenants, including, among other things and subject to certain exceptions, (i) to conduct its business in the ordinary course of business consistent with past practices during the period between the execution of the Merger Agreement and the effective date of the Merger and not to engage in certain transactions during such period, and (ii) not to solicit competing acquisition proposals or, subject to certain exceptions, enter into discussions concerning, or provide confidential information in connection with, any alternative acquisition proposal.

The completion of the Merger is subject to certain conditions, including, among others, (i) the expiration or termination of the applicable waiting periods under the HSR Act, as amended, (ii) subject to certain materiality exceptions, the accuracy of the representations and warranties made by Hi-Tech, the Company and Purchaser, respectively, (iii) compliance in all material respects by Hi-Tech, the Company and Purchaser with their respective obligations under the Merger Agreement, (iv) the absence of any change or effect that, individually or in the aggregate, has had a Material Adverse Effect or Purchaser Material Adverse Effect (as such terms are defined in the Merger Agreement) and (v) the absence of any order, injunction or decree or any statute, rule or regulation that prohibits or makes illegal the consummation of the Merger.

The Merger Agreement contains termination rights for Hi-Tech, Purchaser and the Company. The Merger Agreement provides that the Company will be required to pay Hi-Tech a termination fee of approximately $41.6 million if, on or prior to April 26, 2014, (i) the Merger Agreement is terminated by Hi-Tech as a result of a Financing Failure (as defined in the Merger Agreement) or (ii) the Merger Agreement is terminated as a result of a failure to obtain regulatory approval or clearance with respect to the HSR Act or other applicable antitrust laws. In certain circumstances, Akorn has the right to extend the date on which the Merger Agreement automatically terminates to May 26, 2014. In the event that Akorn exercises such right and the Merger Agreement is terminated after April 26, 2014 for either of the reasons set forth in the first sentence of this paragraph, Akorn will be required to pay Hi-Tech a termination fee of approximately $48.0 million.

The Merger Agreement also provides that Hi-Tech would be required to pay Akorn a termination fee of approximately $20.8 million under certain circumstances, including if (i) Hi-Tech terminated the Merger Agreement due to the receipt of an unsolicited superior proposal or Akorn or Purchaser terminates the Merger Agreement due to a Change of Recommendation (as defined in the Merger Agreement); provided however, if Akorn or Purchaser terminates the Merger Agreement, or Hi-Tech stockholders fail to approve the Merger, as a result of a Change of Recommendation related to an Intervening Event (as defined in the Merger Agreement), Hi-Tech will be required to pay a termination fee of $32.0 million, or (ii) (a) the Merger Agreement is terminated because Hi-Tech's stockholders fail to approve the Merger or because of certain Company breaches of the Merger Agreement, (b) a third party publicly discloses or makes known to the Board of Directors a bona fide alternative acquisition proposal prior to such termination and (c) Hi-Tech enters into or consummates an alternative acquisition agreement within 12 months of the termination of the Merger Agreement.

The Company expects to fund the Hi-Tech acquisition through a $600.0 million term loan and the cash reserves on the balance sheet of Hi-Tech. The Company obtained a loan commitment from JP Morgan Chase Bank, N.A. ("JP Morgan") for a $600 million term loan to finance the acquisition (the "JPM Term Loan"). As negotiated, the JPM Term Loan will mature in seven (7) years and accrue interest at a variable margin over either prime or LIBOR. Full or partial prepayments of principal will be allowed. JP Morgan completed syndication of the loan in the quarter ended December 31, 2013. The Company expects that the JPM Term Loan agreement will be signed after the Company receives FTC clearance for the Hi-Tech Acquisition and once a closing date has been agreed upon by the parties. The loan itself will take place upon closing the Hi-Tech Acquisition.

During 2013, the Company capitalized $3.4 million in deferred financing fees related to the JPM Term Loan. These deferred financing fees will be amortized using the effective interest method over the term of the JPM Term Loan. In addition, the Company recorded $1.6 million of acquisition-related expenses relation to the Hi-Tech acquisition, principally consisting of various legal fees.

Merck Products Acquisition – AzaSite, Cosopt and Cosopt PF

On November 15, 2013, the Company acquired from Merck the U.S. rights to three branded ophthalmic products for $52.8 million in cash (the "Merck Acquisition"). The acquired assets met the definition of a business, and accordingly,

have been accounted for as a business combination in accordance with ASC 805 – Business Combinations. Through the Merck Acquisition, the Company purchased Inspire Pharmaceuticals, Inc., a wholly-owned subsidiary of Merck. This legal entity owns the U.S. rights to AzaSite, a prescription eye drop used to treat bacterial conjunctivitis. The U.S. rights to the other two products involved in the acquisition, Cosopt and Cosopt PF (preservative free), were purchased directly from Merck. The Cosopt products are prescription sterile eye drop solutions used to lower the pressure in the eye in people with open-angle glaucoma or ocular hypertension. The acquisition of these products expands the Company's ophthalmic product portfolio to include branded, prescription eye drops, and is complementary to the Company's existing portfolio of products. The Company believes that this acquisition leverages its existing sales force and ophthalmic and optometric physician relationships.

The following table sets forth the consideration paid for the Merck Acquisition and the fair values of the assets acquired and the liabilities assumed (in thousands):

Product rights:		
AzaSite	$	13,800
Cosopt		21,600
Cosopt PF		20,300
Product rights total	$	55,700
Prepaid expenses		48
Deferred tax assets, net		759
Total fair value of acquired assets	$	56,507
Consideration paid	$	52,800
Gain from bargain purchase	$	3,707

Through its acquisition of Inspire Pharmaceuticals, Inc. the Company assumed that entity's net operating loss carry-forwards ("NOLs") and unamortized start-up costs. The deferred tax assets, net listed above represents the difference between the acquired deferred tax assets, the NOLs and unamortized start-up costs, and the acquired deferred tax liabilities, which represent the book versus tax basis differences in the product rights. The bargain purchase amount was largely derived from the difference between the fair value and the economic value, as calculated through discounted cash flow analysis, of the deferred tax assets, net. In particular, due to the long-term nature of the NOLs acquired, the book value of the resulting deferred tax asset significantly exceeded its discounted cash flow value.

The Company anticipates amortizing the acquired products on a straight-line basis from the Merck Acquisition date through December 31, 2019. The Merck Acquisition agreement specified the tax values assigned to each product. The tax value of AzaSite product rights will not be amortizable for tax purposes, as these rights were obtained through the stock acquisition of Inspire Pharmaceuticals, Inc. That Company anticipates that the assigned tax values of Cosopt and Cosopt PF will be amortizable for tax purposes over a 15-year period.

During the period from November 15, 2013 through December 31, 2013, the Company recorded revenue of $1.6 million and pre-tax income of $1.4 million related to sales of the products acquired through the Merck Acquisition. The Company has not provided pro forma revenue and earnings of the Company as if the Merck Acquisition was completed as of January 1, 2012 or 2013 because to do so would be impracticable. The products acquired from Merck were not managed as a discrete business by Merck. Accordingly, determining the pro forma revenue and earnings of the Company including the Merck Acquisition would require significant estimates of amounts, and it is impossible to distinguish objectively information about such estimates that (i) provides evidence of circumstances that existed on the dates at which those amounts would be recognized and measured, and (ii) would have been available when the financial statements for that prior period were issued.

Kilitch Acquisition

On February 28, 2012, Akorn India Private Limited ("AIPL"), a wholly owned subsidiary of the Company completed and closed on its acquisition of selected assets of Kilitch Drugs (India) Limited ("KDIL"). This acquisition (the "Kilitch Acquisition") was pursuant to the terms of the Business Transfer Agreement (the "BTA") entered into among the Company, KDIL and the members of the promoter group of KDIL on October 5, 2011. In accordance with terms contained in the BTA, the Company also closed on a related Product Transfer Agreement between the Company and NBZ Pharma Limited ("NBZ"), a company associated with KDIL. The primary asset transferred in the Kilitch

Acquisition was KDIL's manufacturing plant in Paonta Sahib, Himachal Pradesh, India, along with its existing book of business. KDIL was engaged in the manufacture and sale of pharmaceutical products for contract customers in India and for export to various unregulated world markets. While the Paonta Sahib manufacturing facility is not currently certified by the U.S. Food and Drug Administration (the "FDA") for the exporting of drugs to the U.S., the facility was designed with future FDA certification in mind. Accordingly, the Kilitch Acquisition provided the Company with the potential for future expansion of its manufacturing capacity for products to be sold in the U.S., as well as the opportunity to expand the Company's footprint into markets outside the U.S. The Company has determined that the assets acquired through the Kilitch Acquisition constitute a "business" as defined by Rule 11-01(d) of Regulation S-X and ASC 805, Business Combinations. Accordingly, the Company has accounted for the Kilitch Acquisition as a business combination.

AIPL paid the equivalent of approximately USD $60.1 million at closing. Total purchase consideration was approximately $55.2 million which consisted of approximately $51.2 million in base consideration and $4.0 million in reimbursement for capital expenditures made by KDIL from April 1, 2011 to the closing date. AIPL also paid $7.3 million related to compensation earned from the achievement of acquisition-related milestones, and $1.6 million in stamp duties paid to transfer title to the land and buildings at Paonta Sahib from Kilitch to AIPL. In addition, the Company expects to pay up to an additional $0.5 million for future services that would be expensed as the services are provided. The compensation for acquisition-related milestones and other acquisition costs have been recorded within "acquisition related costs" as part of operating expenses in the Company's condensed consolidated statement of comprehensive income. The BTA also contains a working capital guarantee that calls for KDIL or AIPL to reimburse the other party for any shortfall or excess, respectively, in the actual acquired working capital compared to the target working capital as established in the BTA.

The following table sets forth the consideration paid for the Kilitch Acquisition, the acquisition-related costs incurred, and the fair values of the assets acquired and the liabilities assumed (U.S. dollar amounts in thousands):

Consideration:	Initial Fair Valuation	Changes in Estimate	Adjusted Fair Valuation
Cash paid	$55,224		$55,224
Less working capital shortfall refunded by sellers	(890)	(138)	(1,028)
	$54,334	$(138)	$54,196
Acquisition-related costs:			
Stamp duties paid for transfer of land and buildings	$1,583		$1,583
Acquisition-related compensation expense	6,741	511	7,252
Due diligence, legal, travel and other acquisition-related costs	557	119	676
	$8,881	$630	$9,511
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Accounts receivable	$2,130		$2,130
Inventory	1,799		1,799
Land	3,714	(1,131)	2,583
Buildings, plant and equipment	8,474		8,474
Construction in progress	14,231		14,231
Goodwill, deductible	21,609	1,004	22,613
Other intangible assets, deductible	5,806	102	5,908
Other assets	38		38
Assumed liabilities	(2,099)	(779)	(2,878)
Deferred tax liabilities	(1,368)	666	(702)
	$54,334	$(138)	$54,196

The Adjusted Fair Valuation presented above is final. The changes in estimate recorded subsequent to the initial accounting estimate were primarily related to refining the calculated fair value of certain acquired assets, adjustments to the working capital settlement amount due from the sellers to the Company, and final determination regarding the tax-deductibility of the acquired intangible assets. The acquisition-related compensation expense during 2012 was primarily related to pre-negotiated compensation paid to members of the sellers' family based on achievement of various operational milestones.

Goodwill represents expected synergies and intangible assets that do not qualify for separate recognition. Based on an Indian Supreme Court ruling in 2012 upholding the deductibility of goodwill for India tax purposes, the Company anticipates being able to deduct the value of goodwill for income tax purposes in India. A later Indian Supreme Court ruling raised doubt as to the tax deductibility of the cost of the non-compete agreement entered into between AIPL and the sellers. Accordingly, the Company amended its acquisition accounting to establish a deferred tax liability related to this intangible asset. The Company had initially recorded a deferred tax liability valued at $1.4 million and subsequently adjusted to $0.7 million related to intangible assets and other accrued liabilities that it does not believe will be amortizable for Indian tax purposes. This remaining deferred tax liability of $0.7 million was reversed against goodwill during 2012.

For book purposes, the other intangible assets acquired are being amortized over lives of four to five years. Goodwill is not amortized for book purposes but is subject to impairment testing. The tangible assets acquired consist primarily of construction in progress fair valued at $14.2 million, buildings, plant and equipment fair valued at a combined $8.5 million, land fair valued at $2.6 million, accounts receivable fair valued at $2.1 million and inventory fair valued at $1.8 million.

Lundbeck Products

On December 22, 2011, the Company entered into an Asset Sale and Purchase Agreement (the "Lundbeck Agreement") to acquire the NDA rights to three branded, injectable drug products from the U.S. subsidiary of Lundbeck for an estimated purchase price of approximately $63.4 million (the "Lundbeck Acquisition"). Per terms of the Lundbeck Agreement, the Company made an upfront payment of $45.0 million. The Company also acquired inventory from Lundbeck for a price of $4.6 million, which was paid early in 2012. The Company will owe a subsequent milestone payment of $15.0 million in cash to Lundbeck on the third anniversary of closing of the Lundbeck Agreement, for which contingent consideration of $11.6 million was initially recorded. The initial purchase consideration and the subsequent milestone payment are subject to a reduction if certain sales targets are not met in the first three years and the subsequent three years post-closing. The acquired products include Nembutal®, a Schedule II controlled drug, Diuril® and Cogentin®. This acquisition adds to the Company's portfolio of injectable drug products, allowing the Company to leverage its existing sales infrastructure to promote sales of these products.

The Company determined that the acquired assets represented a "business" as defined per Rule 11-01(d) of Regulation S-X and ASC 805, Business Combinations. Accordingly, the Company accounted for the Lundbeck Acquisition as a business combination.

The following table sets forth the consideration paid related to the Lundbeck Acquisition, the total acquisition-related costs incurred by the Company, and the fair values of the assets acquired and the liabilities assumed (in thousands):

	Initial Fair Value	Change in Estimate	Adjusted Fair Value
Consideration:			
Cash paid	$ 49,559		$ 49,559
Present value of contingent consideration	11,300	300	11,600
Total consideration	$ 60,859	$ 300	$ 61,159
Acquisition-related costs:	$ 50		$ 50
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Product licensing rights	$ 59,525	$ 300	$ 59,825
Inventory	3,825		3,825
Fixed assets	50		50
Assumed liability – unfavorable contract	(2,541)		(2,541)
	$ 60,859	$ 300	$ 61,159

The Company identified Product licensing rights as the only intangible assets acquired in the Lundbeck Acquisition, and is amortizing this intangible asset straight-line over its anticipated useful life of 15 years for both book and tax purposes. The contingent consideration of $15.0 million was initially discounted to present value using a 9% discount rate, which took into account the Company's cost of long-term credit. The contingent consideration is being adjusted to fair value at each balance sheet date based on the remaining term and updated discount rate. The "Assumed liability – unfavorable contract" is in relation to a supply agreement assumed by the Company which obligates the Company to acquire more inventory of one of the three acquired products than the Company projects it would be able to sell based on historical sales volumes and future projections. This liability has been discounted in determining

its fair value.

The tangible assets acquired consist of inventory of approximately $3.8 million and fixed assets of approximately $50,000. The acquired inventory has been valued below its acquisition cost based on the Company's determination that not all of the acquired inventory can be sold at least six months prior to its expiration.

The Lundbeck Agreement commits the Company to paying royalties to Lundbeck based on the Company's future sales of an authorized generic of one of the acquired products. There are currently generics of this product on the market. The Lundbeck Agreement calls for payment of royalties equal to 55% of the gross profit margin on sales of this authorized generic for a period of six years following the Company's initial sale of this generic product. For purposes of the royalty calculation, brand sales in excess of a specified annual unit volume will be treated as generic sales and will therefore be subject to royalties.

AVR Acquisition

On May 3, 2011, the Company purchased all the outstanding shares of stock of Advanced Vision Research, Inc. ("AVR"), paying approximately $26.0 million in cash, net of cash held by AVR. The acquisition of AVR is being accounted for as a business combination. The purchase price was subject to adjustment based on a working capital guarantee contained in the purchase agreement. During the quarter ended September 30, 2011, the Company paid an additional $0.7 million to reimburse the sellers for the net cash balance in AVR's bank accounts as of the acquisition date, as required by terms of the AVR purchase agreement. Akorn has further agreed to reimburse AVR Business Trust, Advanced Vision Research, Inc., Advanced Vision Pharmaceuticals, LLC , and the shareholders of AVR Business Trust (collectively, the "Sellers") for any incremental income tax expense they should incur related to the parties making an Internal Revenue Code ("IRC") Section 338(h)(10) election. In relation to this agreement, the Company paid approximately $0.7 million to the Sellers at closing, which represents the Seller's initial estimate of their incremental income tax burden as a result of the IRC Section 338(h)(10) election.

The acquisition of AVR is a strategic extension of the Company's ophthalmic business, allowing the Company to expand its presence in the OTC eye care product space. The Company is leveraging its existing operating infrastructure that markets products to ophthalmologists, optometrists, and retailers nationwide and also expects to attain cost savings and synergies as the Company continues to integrate the AVR business into its existing operations.

AVR markets a line of OTC eye care products under the TheraTears® brand name. Akorn had been a contract manufacturer of certain TheraTears® products since 2008. During 2011, the Company generated revenues of approximately $0.6 million from the sale of contract manufactured TheraTears® products to AVR.

The following table summarizes the consideration paid for AVR, the total acquisition-related costs incurred by the Company during 2011 in connection with the acquisition, and the fair values of the assets acquired and liabilities assumed (amounts in thousands):

Consideration:		
Cash paid at closing	$	26,011
Additional consideration paid		723
Fair value of total consideration transferred	$	26,734
Acquisition-related costs:	$	246
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Accounts receivable, net	$	611
Inventories, net		3,407
Prepaid expenses and other current assets		730
Property and equipment		250
Goodwill, deductible		11,863
Trademarks and technology		9,500
Customer relationships		3,900
Estimated additional consideration due		(181)
Accounts payable & other assumed liabilities		(3,346)
	$	26,734

The adjustment to purchase consideration and the fair valuation of acquired assets and assumed liabilities was primarily related to paying to the Sellers an additional cash amount of $0.7 million, which represented the net cash

balance on AVR's balance sheet on the acquisition date, as well as finalizing the valuation of the acquired intangible assets.

The Company identified Trademarks and technology and Customer relationships as finite-lived intangible assets acquired as part of the AVR acquisition. Both of these assets were valued based on the projected net present value of future cash flows to be generated from these assets. Goodwill represents both expected synergies and intangible assets that do not qualify for separate recognition and equals the excess of purchase price over the fair value of the identifiable tangible and intangible assets acquired. The net tangible assets acquired consist primarily of inventory of approximately $3.4 million, accounts receivable of $0.6 million, prepaid expenses and other currents assets of $0.7 million and property and equipment of $0.3 million. The fair value of inventory was determined based on its net realizable value which was adjusted to include all net costs allocable to the manufacturing effort.

For income tax purposes, the Company is able to deduct the goodwill and other intangible assets resulting from the acquisition ratably over 15 years. Goodwill will not be amortized for book purposes but will be subject to impairment testing. Other intangible assets are being amortized straight-line over their estimated useful lives, which for Trademarks and technology is 30 years and for Customer relationships is 15 years.

Gross accounts receivable of approximately $2.7 million acquired as part of the AVR acquisition were recorded net of the following reserves: (i) product returns of approximately $1.8 million; (ii) doubtful accounts of $0.2 million, and (iii) cash discounts of approximately $0.1 million. The product returns reserve is an estimate of future returns of all products historically sold by AVR that are still potentially subject to return by the customer.

Other Strategic Investments

On August 1, 2011, the Company entered into a Series A-2 Preferred Stock Purchase Agreement (the "Aciex Agreement") to acquire a minority ownership interest in Aciex Therapeutics Inc. ("Aciex"), based in Westborough, MA, for $8.0 million in cash. Subsequently, on September 30, 2011, the Company entered into Amendment No. 1 to Series A-2 Preferred Stock Purchase Agreement (the "Aciex Amendment") to acquire additional shares of Series A-2 Preferred Stock in Aciex for approximately $2.0 million in cash. The Company's investment in Aciex is being carried at cost on the Company's Condensed Consolidated Balance Sheet. Aciex is an ophthalmic drug development company focused on developing novel therapeutics to treat ocular diseases. Aciex's pipeline consists of both clinical stage assets and pre-Investigational New Drug stage assets. The investments detailed above have provided the Company with an ownership interest in Aciex of below 20%. The Aciex Agreement and Aciex Amendment contain certain customary rights and preferences over the common stock of Aciex and further provide that the Company shall have the right to a seat on the Aciex board of directors. The Company performs an impairment test of its investment in Aciex annually, or more frequently if there is any indication of possible impairment. The most recent impairment review was completed in the fourth quarter of 2013 and no impairment was identified.

During 2013, 2012 and 2011, the Company paid $2.7 million, $0.8 million and $5.7 million, respectively, for the acquisition of drug product licensing rights (NDA and ANDA rights). Along with the product rights acquired in 2011, the Company also acquired inventory valued at approximately $0.3 million. In the 2012 and 2013 acquisitions, there were no assets acquired other than the drug rights, and no liabilities assumed.

Note 17 — Unconsolidated Joint Venture

The Company has been a 50% partner in a joint venture agreement with an Indian drug development company since September 2004. This joint venture launched its first product in 2008 and generated revenue from 2008 until its business assets were sold and transferred in the second quarter of 2011. While the joint venture still exists legally, it ceased operations upon the completion of the sale and transfer of its operating assets to Pfizer, Inc. ("Pfizer") in the second quarter of 2011.

Akorn-Strides, LLC, a Delaware limited liability company (the "Joint Venture Company") was formed in 2004 upon the Company's entry into a joint venture agreement with Strides Arcolab Limited ("Strides") for the development, manufacturing and marketing of grandfathered products, patent-challenge products and ANDA products for sales to the U.S. hospital and retail markets. Strides was responsible for developing, manufacturing and supplying the products, while the Company was responsible for marketing and selling those products to customers in the U.S. in exchange for a fee equal to 7.5% of net sales. The Joint Venture Company launched its first commercialized product in 2008. In 2010 and 2011, the Company supplemented Strides' manufacturing capabilities by producing one of the Joint Venture Company's products at its plant in Decatur, Illinois. In 2011, the Company recorded revenue of $0.8 million related to sales of this product to the Joint Venture Company.

Strides and Akorn each own 50% of the Joint Venture Company with equal management representation. The Company accounts for the Joint Venture Company's earnings and losses on the equity method of accounting in accordance with its 50% ownership interest. The Company's share of the Joint Venture Company net income is reflected as "Equity in earnings of unconsolidated joint venture" on the Company's consolidated statements of operations and consolidated statements of cash flows.

On December 29, 2010, the Joint Venture Company entered into an Asset Purchase Agreement with Pfizer, Inc. ("Pfizer") to sell the rights to all of its ANDAs to Pfizer for $63.2 million in cash (the "Pfizer ANDA Sale"). In accordance with an amendment to the joint venture operating agreement, the Company and Strides agreed to an uneven split of the proceeds, with the Company receiving $35.0 million, or approximately 55.4% of the sale proceeds, and Strides receiving $28.2 million, or approximately 44.6%. Costs of $0.1 million related to the sale were allocated to each partner in the same proportion as the sales proceeds. Transfer of ownership of the ANDAs took place in two steps, with dormant and in-development products transferred to Pfizer on December 29, 2010 and actively-marketed products transferred on May 1, 2011. This arrangement allowed the Joint Venture Company time to liquidate existing inventory of the actively-marketed products and allowed Pfizer the opportunity to manufacture and label its own stock. No assets or liabilities of the Joint Venture Company other than its ANDA rights were transferred to Pfizer. The Joint Venture Company essentially ceased operations in the second quarter of 2011, though it continues to exist as a legal entity. The Company does not expect any future activity of the Joint Venture Company to have a material impact on its results of operations in future periods.

The Joint Venture Company recorded a total gain of approximately $63.1 million from the Pfizer ANDA Sale, of which $38.9 million, or 61.7%, was recognized in the fourth quarter of 2010 and the remaining $24.2 million, or 38.3%, was recognized in the second quarter of 2011. During the years ended December 31, 2011 and 2010, the Company recorded $14.6 million and $23.4 million, respectively, as its equity in earnings of the Joint Venture Company. The net income recorded in 2013 was primarily related to adjustments to the Joint Venture Company's reserves for product returns upon expiration of the period for which product returns could be made.

The following tables sets forth a condensed statements of income for the three years ended December 31, 2013 and condensed balance sheets as of December 31, 2013 and 2012 for Akorn-Strides, LLC, along with information regarding the amount of earnings allocated to each member-partner of the LLC (in thousands):

CONDENSED STATEMENTS OF INCOME

	(Unaudited) Year ended December 31,		
	2013	2012	2011
REVENUES	$ 163	$ —	$ 6,364
Cost of sales	(1)	—	3,562
GROSS PROFIT	164	—	2,802
Operating expenses	3	—	499
OPERATING INCOME	161	—	2,303
Gain from Pfizer ANDA Sale	—	—	24,160
INCOME BEFORE INCOME TAXES	161	—	26,463
Income tax (benefit) / provision	—	—	(38)
NET INCOME	$ 161	$ —	$ 26,501

CONDENSED BALANCE SHEETS

	(Unaudited) December 31, 2013	2012
ASSETS		
Cash	$ 25	$ 794
Other current assets	1	
TOTAL ASSETS	$ 26	$ 794
LIABILITIES & MEMBERS' EQUITY (DEFICIT)		
Trade accounts payable & other accrued liabilities	$	$ 431
TOTAL LIABILITIES		431
Members' equity	26	363
TOTAL LIABILITIES & MEMBERS' EQUITY (DEFICIT)	$ 26	$ 794

Trade accounts payable & other accrued liabilities as of December 31, 2012 primarily consists of accruals for potential product returns. As of December 31, 2013, no future product returns are expected.

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Note 18 — Customer, Supplier and Product Concentration

Customer Concentration

In 2013, 2012 and 2011, a significant portion of the Company's gross and net sales reported for its Ophthalmic and Hospital drugs & injectables segments were through three large wholesale drug distributors, and a significant portion of the Company's accounts receivable as of December 31, 2013, 2012 and 2011 were due from these wholesale drug distributors as well. AmerisourceBergen Health Corporation ("Amerisource"), Cardinal Health, Inc. ("Cardinal") and McKesson Drug Company ("McKesson") are all distributors of the Company's products, as well as suppliers of a broad range of health care products. Aside from these three wholesale drug distributors, no other customers accounted for more than 10% of gross sales, net revenues or gross trade receivables for the indicated dates and periods.

The following table sets forth the percentage of the Company's gross and net sales and gross accounts receivable attributable to these three distributors for the periods indicated:

	2013			2012			2011		
	Gross Sales	Net Revenue	Gross Accounts Receivable	Gross Sales	Net Revenue	Gross Accounts Receivable	Gross Sales	Net Revenue	Gross Accounts Receivable
Amerisource	19 %	14 %	25 %	19 %	14 %	29 %	23 %	23 %	29 %
Cardinal	23 %	16 %	26 %	23 %	17 %	30 %	27 %	25 %	34 %
McKesson	16 %	11 %	12 %	16 %	11 %	14 %	16 %	15 %	9 %
Total	58 %	41 %	63 %	58 %	42 %	73 %	66 %	63 %	72 %

If sales to Amerisource, Cardinal or McKesson 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.

Supplier Concentration

The Company requires a supply of quality raw materials and components to manufacture and package pharmaceutical products for its own use 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.

No individual supplier represented 10% or more of the Company's purchases in any of the years ended December 31, 2013, 2012 or 2011.

Product Concentration

During the years 2013 and 2012, one of the Company's injectable products represented 11.8% and 12.5% of the Company's total net revenue, respectively. For the year 2011, one of the Company's ophthalmic products represented

10.4% of the Company's total net revenue for that year. No other products represented 10% or more of the Company's net revenue in 2013, 2012 or 2011. The Company attempts to minimize the risk associated with product concentrations by continuing to acquire and develop new products to add to its portfolio.

Note 19 — Related Party Transactions

In the recent past, the Company engaged in various related party transactions with John N. Kapoor, Ph.D, Chairman of the Company's Board of Directors and a significant holder of the Company's common stock.

On March 3, 2010, the Company entered into an 8-year agreement with EJ Financial for their sub-lease of a portion of the Company's corporate offices in Lake Forest, Illinois. This sub-lease commenced on April 1, 2010. Subsequently, the Company and EJ Financial agreed to early terminate this agreement, and accordingly the sub-lease was terminated in July 2012. EJ Financial paid the Company a total of approximately $240,000 in rent and common area maintenance fees over the shortened term of this sub-lease.

From March 31, 2009 until June 17, 2011, the Company was party to a revolving credit facility for which the lender was EJ Funds, a company controlled by Dr. Kapoor. On March 31, 2009, the Company consented to an Assignment Agreement between GE Capital and EJ Funds which transferred all of GE Capital's rights and obligations under its existing $25.0 million GE Credit Agreement to EJ Funds. Dr. Kapoor is the president of EJ Financial Enterprises, Inc., a healthcare consulting and investment company, and EJ Financial is the general partner of EJ Funds. In connection with the Assignment Agreement, on April 13, 2009 the Company entered into a Modification, Warrant and Investor Rights agreement that reduced the loan commitment to $5.65 million. Subsequently, on August 17, 2009, the parties agreed to increase the loan commitment to $10.0 million. The Company repaid its outstanding balance under the facility in March 2010 and elected to early terminate the credit agreement on June 17, 2011.

In connection with the various modifications agreed to during 2009 to the EJ Funds credit facility and the Subordinated Note, the Company issued various stock warrants to Dr. Kapoor (the "Kapoor Warrants"). See Note 2, Summary of Significant Accounting Policies / Warrants, for information about the Kapoor Warrants.

Note 20 — Severance Charges

Upon acquiring AVR on May 3, 2011, the Company entered into severance agreements with six of AVR's employees. Each severance agreement promised a lump-sum payout in exchange for the employee remaining with the Company through a post-acquisition transition period, as defined in each agreement. Accordingly, severance expense was recorded ratably over the required transition period. Four out of the six employees received their severance payments in 2011 and the remaining two received their severance payments in 2012.

As of December 31, 2013 and 2012, the accrued severance balances on the Company's books were less than $25,000 at each date.

Note 21 – Selected Quarterly Financial Data (Unaudited)

(In thousands, except per share amounts)	Revenues	Gross Profit	Operating Income	Consolidated Net Income Amount	Per Basic Share	Per Diluted Share
Year Ended December 31, 2013:						
4th Quarter	$ 84,953	$ 46,970	$ 25,176	$ 16,678	$ 0.17	$ 0.14
3rd Quarter	81,892	43,697	22,188	12,205	0.13	0.11
2nd Quarter	77,012	42,092	22,251	12,637	0.13	0.11
1st Quarter	73,854	39,145	18,589	10,842	0.11	0.10
Year Ended December 31, 2012:						
4th Quarter	$ 71,520	$ 41,971	$ 19,715	$ 8,811	$ 0.09	$ 0.08
3rd Quarter	69,634	40,093	22,603	13,753	0.14	0.12
2nd Quarter	63,287	35,727	18,776	9,706	0.10	0.09
1st Quarter	51,717	30,901	7,662	3,108	0.03	0.03

Note 22 – Legal Proceedings.

On September 12, 2012, Fera Pharmaceuticals, LLC ("Fera") filed a civil complaint against the Company and certain individual defendants (together, the "Defendants") in the Supreme Court of New York (the "Fera lawsuit"). The complaint alleges, among other things, breach of manufacturing and confidentiality agreements and misappropriation of the

plaintiff's trade secrets. On October 15, 2012, the case was removed to the Federal District Court for the Southern District of New York. Fera filed an amended complaint on December 21, 2012. The Company intends to vigorously defend these allegations. However, no assurance may be given regarding the ultimate outcome of this lawsuit.

In April 2012, Allergan Sales ("Allergan") filed a lawsuit alleging patent infringement claims against the Company relating to the 0.4% ketorolac tromethamine formulation. Allergan sought unspecified monetary damages in this case. The Company had asserted invalidity and non-infringement. The Company and Allergan entered into a confidential settlement agreement, which did not have a material impact on the Company or its operations, and on September 28, 2013, the court entered an order dismissing the lawsuit.

In April 2011, Inspire received a Notice Letter from Sandoz, Inc. ("Sandoz") providing notice that Sandoz has filed an Abbreviated New Drug Application (ANDA) with the FDA seeking marketing approval for a 1% azithromycin ophthalmic solution prior to the expiration of the five U.S. patents licensed to us and listed in the Orange Books for AzaSite. On May 26, 2011, Merck, InSite Vision Incorporated ("InSite") and Pfizer filed a complaint against Sandoz and related entities in the district court of New Jersey alleging that their proposed product infringes the listed patents. On October 4, 2013, the court issued judgment in favor of us and the other plaintiffs finding all the asserted claims of the patents in the litigation valid and infringed by Sandoz and related entities. Sandoz has appealed this decision. The Company intends to vigorously contest any Sandoz assertions that these patents should have been found not infringed, invalid or unenforceable.

In May 2013, Inspire received a Notice Letter that Mylan Pharmaceuticals, Inc. (“Mylan”), had filed an ANDA with the FDA seeking marketing approval for a 1% azithromycin ophthalmic solution (the “Mylan Product”) prior to the expiration of the five U.S. patents licensed to us and listed in the Orange Books for AzaSite. On June 14, 2013, Insite, Merck, Inspire and Pfizer filed a complaint against Mylan and a related entity alleging that their proposed product infringes the listed patents. The Company intends to vigorously contest any Mylan assertions that these patents are invalid or unenforceable.

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. The term “disclosure controls and procedures,” as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on this evaluation, management concluded as of December 31, 2013 that our disclosure controls and procedures were not effective because of material weaknesses in our internal control over financial reporting, described below in Management’s Report on Internal Control Over Financial Reporting. Notwithstanding the identified material weaknesses, management believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

Management’s Report on Internal Control Over Financial Reporting

Company management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of Company management, including the CEO and the CFO, an evaluation was performed of the effectiveness of the Company’s internal control over financial reporting. The evaluation was based on the framework in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on our evaluation under the criteria set forth in Internal Control — Integrated Framework (1992), our management concluded that, as of December 31, 2013, our internal control over financial reporting was not effective because of the identification of material weaknesses described as follows:

We did not have controls designed to validate the completeness and accuracy of underlying data used in the determination of significant estimates and accounting transactions. As a result, errors were identified in the underlying data used to support significant estimates and accounting transactions, primarily relating to gross to net revenue adjustments, inventory reserves and the determination of useful lives of acquired intangible assets. Although the errors were not material, we believe we have a material weakness because there is a reasonable possibility that a material misstatement to the interim or annual financial statements would not be prevented or detected on a timely basis.

We did not have an adequate process in place to support the accurate and timely reporting of our financial results and disclosures in our Form 10-K. As a result, errors were identified primarily related to accounts payable and inventory balances at year end. Additionally, we did not have an adequate process in place to complete our testing and assessment of the design and effectiveness of internal controls over financial reporting in a timely manner. Although the errors to accounts payable and inventory balances were not material, we believe we have a material weakness because there is a reasonable possibility that a material misstatement to the interim or annual financial statements would not be prevented or detected on a timely basis.

We did not have sufficient segregation of duties over information system access such that employees had the ability to inappropriately initiate and record transactions, and there were no compensating, preventative or detective controls. Although no inappropriate transactions were identified based on our review, we believe we have a material weakness because there is a reasonable possibility that a material misstatement to the interim or annual financial statements would not be prevented or detected on a timely basis

The Company's internal control over financial reporting as of December 31, 2013 was audited by KPMG LLP, an independent registered public accounting firm, as stated in its report included in Item 8 of this Form 10-K.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

With the oversight of senior management and our audit committee, we have begun taking steps and plan to take additional measures to remediate the underlying causes of the material weaknesses. With respect to completeness and accuracy concerns, management intends to add additional accounting and internal audit personnel and design, document, and test controls that are intended to validate the completeness and accuracy of the data used in our significant estimates and accounting transactions. With respect to timely and accurate filing of our financial results, management intends to add additional accounting personnel, and to design, document, and test controls that are intended to ensure timely filing. With respect to segregation of duties, management intends to implement information technology tools to identify and assess segregation of duties issues, and to design, document and test controls to either eliminate or mitigate potential segregation of duties concerns. While senior management and our audit committee are closely monitoring the implementation of these remediation plans, there is no assurance that the aforementioned plans will be sufficient and that additional steps may not be necessary.

Changes in Internal Control Over Financial Reporting

As previously disclosed under "Item 9A – Controls and Procedures" in the Annual Report on Form 10-K for the fiscal year ended December 31, 2012, Management had concluded that the internal control over financial reporting was not effective based on a material weakness identified. During the year, management undertook the following steps to improve internal control over financial reporting; however, a material weakness still exists as described above:

Implementation of formal controls and processes over account reconciliations, review of account reconciliations and to enhance the financial statement close process

Enhancement of our documentation and support around internal controls over financial reporting

Upgrade of our information technology systems to the most current versions and implementation of new systems and software applications related to the gross to net revenue process

Added additional accounting and finance staff in both our US and India operations, including the creation of a role specifically related to SEC reporting and technical accounting

Enhancement of the internal audit function

During the quarter ended December 31, 2013, the Company implemented additional controls and processes, and made enhancements to documentation and support around internal controls over financial reporting. There were no other material changes in the internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(f) and 15d-15(f) that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Incorporated by reference to the sections entitled “I. – Proposals – Proposal 1 – Elections of Directors”, “II. – Corporate Governance and Related Matters” and “IV. – Executive Compensation and Other Information – Executive Officers” in the definitive proxy statement for the 2014 annual meeting.

Item 11. Executive Compensation.

Incorporated by reference to the sections entitled “IV. – Executive Compensation and Other Information” in the definitive proxy statement for the 2014 annual meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to the section entitled “III. – Security Ownership of Certain Beneficial Owners and Management” in the definitive proxy statement for the 2014 annual meeting.

Item 13. Certain Relationships and Related Transactions and Director Independence.

Incorporated by reference to the section entitled “II. – Corporate Governance and Related Matters – Certain Relationships and Related Transactions” in the definitive proxy statement for the 2014 annual meeting.

Item 14. Principal Accounting Fees and Services.

Incorporated by reference to the section entitled “I. – Proposals – Proposal 2. Ratification of Selection of Independent Registered Public Accounting Firm” in the definitive proxy statement for the 2014 annual meeting.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report.

(1) Financial Statements. The consolidated financial statements listed on the index to Item 8 of this Annual Report on Form 10-K are filed as a part of this Annual Report.

(2) Financial Statement Schedules. All financial statement schedules have been omitted since the information is either not applicable or required or is included in the financial statements or notes thereof.

(3) Exhibits. Those exhibits marked with a (*) refer to exhibits filed herewith. The other exhibits are incorporated herein by reference, as indicated in the following list. Those exhibits marked with a (†) refer to management contracts or compensatory plans or arrangements. Portions of the exhibits marked with a ( ) are the subject of a Confidential Treatment Request under 17 C.F.R. §§ 200.80(b)(4), 200.83 and 240.24b-2. Omitted material for which confidential treatment has been requested has been filed separately with the SEC.

Exhibit No.	Description
2.1W	Asset Sale and Purchase Agreement dated December 22, 2011 between Oak Pharmaceuticals, Inc. and Lundbeck, Inc., incorporated by reference to Exhibit 10.1 to Akorn, Inc.'s report on Form 8-K filed on December 30, 2011.
2.2W	Share Purchase Agreement, dated May 3, 2011, by and among Akorn, Inc., AVR Business Trust, Advanced Vision Research, Inc., Advanced Vision Pharmaceuticals, LLC, and the Shareholders of AVR Business Trust, incorporated by reference to Exhibit 10.1 to Akorn, Inc.'s report on Form 8-K filed on May 9, 2011.
2.3	Business Transfer Agreement dated as October 6, 2011 among Akorn, Inc., Akorn India Private Limited, Kilitch Drugs (India) Limited, and members of the promoter group of the Kilitch Drugs (India) Limited, incorporated by reference to Exhibit 2.1 to Akorn Inc.'s report on Form 8-K filed on October 6, 2011.
2.4	Agreement and Plan of Merger, dated as of August 26, 2013, by and among Akorn, Inc., Akorn Enterprises, Inc., and Hi-Tech Pharmacal Co., Inc., incorporated by reference to Exhibit 2.1 to Akorn's report on Form 8-K filed on August, 28, 2013.
2.5WW	Stock and Asset Purchase and License Agreement dated as of November 15, 2013 by and among Oak Pharmaceuticals, Inc., a wholly-owned subsidiary of Akorn, Inc., Merck & Co., Inc., Merck Sharp & Dohme Corp., and Inspire Pharmaceuticals, Inc., incorporated by reference to Exhibit 2.1 to Akorn's report on Form 8-K filed on November 21, 2013.

3.1	Restated Articles of Incorporation of Akorn, Inc. dated September 16, 2004, incorporated by reference to Exhibit 3.1 to Akorn, Inc.'s Registration Statement on Form S-1 filed on September 21, 2004(Commission file No. 001-32360).
3.2	By-Laws of Akorn, Inc., as amended effective October 4, 2013, incorporated by reference to Exhibit 3.2 to Akorn's report on Form 8-K filed on October 10, 2013.
4.1	Form of Securities Purchase Agreement dated March 1, 2006, between Akorn, Inc. and certain investors incorporated by reference to Exhibit 4.1 to Akorn, Inc.'s report on Form 8-K filed on March 7, 2006 (Commission file No. 001-32360).
4.2	Securities Purchase Agreement dated March 10, 2010, between Akorn, Inc. and Serum Institute of India Ltd, incorporated by reference to Exhibit 10.1 to our report on Form 8-K filed on March 16, 2010.
4.3	Akorn, Inc. Common Stock Purchase Warrant, dated April 13, 2009, in favor of EJ Funds LP, incorporated by reference to Exhibit 4.1 of Akorn, Inc.'s report on Form 8-K filed on April 17, 2009.
4.4	Modification, Warrant and Investor Rights Agreement, dated April 13, 2009, among Akorn, Inc., Akorn (New Jersey), Inc., and EJ Funds LP, incorporated by reference to Exhibit 4.2 to Akorn, Inc.'s report on Form 8-K filed on April 17, 2009.
4.5	Akorn, Inc. Common Stock Purchase Warrant, dated April 15, 2009, in favor of John N. Kapoor Trust dated 9/20/89, incorporated by reference to Exhibit 4.1 to Akorn, Inc.'s report on Form 8-K filed on April 21, 2009.
4.6	Common Stock Purchase Warrant dated August 17, 2009, in favor of EJ Funds LP, incorporated by reference to Exhibit 10.2 to Akorn, Inc.'s report on Form 8-K filed on August 21, 2009.

4.7 Common Stock Purchase Warrant dated August 17, 2009, in favor of John N. Kapoor Trust Dated 9/20/89, incorporated by reference to Exhibit 10.4 to Akorn, Inc.'s report on Form 8-K filed on August 21, 2009.

4.8 Warrant, dated March 10, 2010, granted by Akorn, Inc. to Serum Institute of India Ltd, incorporated by reference to Exhibit 4.1 to Akorn, Inc.'s report on Form 8-K filed on March 16, 2010.

4.9 Amended and Restated Registration Rights Agreement dated June 28, 2010, between Akorn, Inc. and The John N. Kapoor Trust Dated September 20, 1989 and EJ Funds LP, incorporated by reference to Exhibit 10.1 to Akorn, Inc.'s report on Form 8-K filed on July 2, 2010.

4.10 Indenture dated as of June 1, 2011 by and between Akorn, Inc. and Wells Fargo Bank, National Association, as trustee, including the form of 3.50% Convertible Senior Note due 2016 (included as Exhibit A to the Indenture), incorporated by reference to Exhibit 4.1 to Akorn, Inc.'s report on Form 8-K filed on June 2, 2011.

10.1† Form of Akorn, Inc. Non-Qualified Stock Option Agreement, incorporated by reference to Exhibit 10.36 to Akorn, Inc.'s report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 30, 2004 (Commission file No. 001-32360).

10.2† Form of Akorn, Inc. Incentive Stock Option Agreement, incorporated by reference to Exhibit 10.37 to Akorn, Inc.'s report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 30, 2004 (Commission file No. 001-32360).

10.3† Amended and Restated Akorn, Inc. 2003 Stock Option Plan, as amended, incorporated by reference to Exhibit 10.1 to Akorn, Inc.'s report on Form 8-K filed on March 8, 2012.

10.4† Amended and Restated Employee Stock Purchase Plan incorporated by reference to Appendix B to the Akorn, Inc. definitive proxy statement on Schedule 14A filed on July 24, 2009.

10.5† Form of Amendment to Executive Consulting Agreement between Akorn, Inc. and Raj Rai, dated December 8, 2009, incorporated by reference to Exhibit 10.1 to Akorn, Inc's report on Form 8-K filed on December 22, 2009.

10.6† Form of Second Amendment to Executive Consulting Agreement between Akorn, Inc. and Raj Rai, its Chief Executive Officer, effective December 8, 2010, incorporated by reference to Exhibit 10.1 to Akorn, Inc.'s report on Form 8-K filed on December 28, 2010.

10.7† Form of Employment Agreement, dated December 22, 2010, between Akorn, Inc. and Timothy Dick, its Chief Financial Officer, incorporated by reference to Exhibit 10.2 to Akorn, Inc.'s report on Form 8-K filed on December 28, 2010.

10.8† Form of Employment Agreement, dated December 22, 2010, between Akorn, Inc. and Joe Bonaccorsi, its Secretary, incorporated by reference to Exhibit 10.3 to Akorn, Inc.'s report on Form 8-K filed on December 28, 2010.

10.9 Series A-2 Preferred Stock Purchase Agreement dated as of August 1, 2011 by and between Akorn, Inc. and Aciex Therapeutics, Inc., incorporated by reference to Exhibit 10.1 to Akorn Inc.'s report on Form 10-Q filed on November 9, 2011.

10.10 Amendment #1 to Series A-2 Preferred Stock Purchase Agreement dated as of September 30, 2011 by and between Akorn, Inc. and Aciex Therapeutics, Inc., incorporated by reference to Exhibit 10.1 to Akorn Inc.'s report on Form 10-Q filed on November 9, 2011.

10.11 Lease Agreement dated July 15, 2010, by and between Veronica Development Associates, a New Jersey general partnership, and Akorn (New Jersey), Inc., an Illinois corporation, for the Company's 50,000 square foot manufacturing facility at 72-6 Veronica Avenue, Somerset, New Jersey, incorporate by reference to Exhibit 10.1 to Akorn, Inc.'s report on Form 8-K filed on July 30, 2010.

10.12 Subordinated Promissory Note dated July 28, 2008, issued by Akorn, Inc. to The John N. Kapoor Trust Dated September 20, 1989, in the principal amount of $5,000,000, incorporated by reference to Exhibit 10.1 to Akorn, Inc.'s report on Form 8-K filed on August 1, 2008.

10.13 Subordination and Intercreditor Agreement dated July 28, 2008, by and among Akorn, Inc., The John N. Kapoor Trust Dated September 20, 1989, LaSalle Bank National Association, as administrative agent for all senior lenders party to the senior credit agreement, and Akorn (New Jersey), Inc., incorporated by reference to Exhibit 10.2 to Akorn, Inc.'s report on Form 8-K filed on August 1, 2008.

10.14 Reimbursement and Warrant Agreement, dated April 15, 2009, among Akorn, Inc. Akorn (New Jersey), Inc., John N. Kapoor Trust dated 09/20/89, and EJ Funds LP, incorporated by reference to Exhibit 10.1 to Akorn Inc.'s report on Form 8-K filed on April 21, 2009.

10.15 Amended and Restated Subordinated Note dated August 17, 2009, made by the Company and Akorn (New Jersey), Inc., in favor of John N. Kapoor Trust Dated 9/20/89, incorporated by reference to Exhibit 10.3 of a Form 8-K filed on August 21, 2009.

10.16 Loan and Security Agreement dated as of October 7, 2011 among Akorn, Inc., a Louisiana corporation, and its domestic subsidiaries, with certain financial institutions as lenders (Lenders), and Bank of America, N.A. as agent (Agent) for the Lenders, incorporated by reference to Exhibit 10.1 to Akorn Inc.'s report on Form 8-K filed on October 13, 2011.

10.17 Joinder and Fourth Amendment to Loan and Security Agreement and Second Amendment to Pledge Agreement dated as of October 4, 2013 among Akorn, Inc., its domestic subsidiaries, and Bank of America, N.A., incorporated by reference to Akorn's current report on Form 8-K filed on October 10, 2013.

10.18 Replacement Note dated as of October 4, 2013 in the principal amount of $60 million by Akorn, Inc. and its domestic subsidiaries in favor of Bank of America, N.A, incorporated by reference to Akorn's current report on Form 8-K filed on October 10, 2013.

10.19 First Amendment to Trademark Security Agreement dated as of October 4, 2013 among Akorn, Inc. and Advanced Vision Research, Inc. in favor of Bank of America, N.A., incorporated by reference to Akorn's current report on Form 8-K filed on October 10, 2013.

21.1 * Listing of the Subsidiaries of Akorn, Inc.

23.1 * Consent of KPMG, LLP, Independent Registered Public Accounting Firm

23.2 * Consent of Ernst & Young, LLP, Independent Registered Public Accounting Firm

31.1* Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).

31.2* Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).

32.1* Certification of the Chief Executive Officer pursuant to 18 USC Section 1350.

32.2* Certification of the Chief Financial Officer pursuant to 18 USC Section 1350.

101 The financial statements and footnotes from the Akorn, Inc. Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 14, 2014, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statement of Shareholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements.

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/ RAJAT RAI
Rajat Rai
Chief Executive Officer

Date: March 14, 2014

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/ RAJAT RAI Rajat Rai	Chief Executive Officer	March 14, 2014
/s/ TIMOTHY A. DICK Timothy A. Dick	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 14, 2014
/s/ JOHN N. KAPOOR, PH.D. John N. Kapoor, Ph.D.	Director, Chairman of the Board	March 14, 2014
/s/ KENNETH S. ABRAMOWITZ Kenneth S. Abramowitz	Director	March 14, 2014
/s/ ADRIENNE L. GRAVES Adrienne L. Graves	Director	March 14, 2014
/s/ RONALD M. JOHNSON Ronald M. Johnson	Director	March 14, 2014
/s/ STEVEN J. MEYER Steven J. Meyer	Director	March 14, 2014
/s/ BRIAN TAMBI Brian Tambi	Director	March 14, 2014
/s/ ALAN WEINSTEIN Alan Weinstein	Director	March 14, 2014