

AKORN INC  
Form DEF 14A  
April 20, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Akorn, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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**PROXY MATERIALS**

**Akorn, Inc.**

**2500 Millbrook Drive**

**Buffalo Grove, Illinois 60089**

**NOTICE OF 2007 ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held May 24, 2007**

TO THE SHAREHOLDERS OF AKORN, INC.:

You are cordially invited to attend the 2007 annual meeting of shareholders of Akorn, Inc. ( we, our, us or Akorn to be held at 10:00 a.m., local time, on May 24, 2007 at our principal offices located at 2500 Millbrook Drive, Buffalo Grove, IL 60089 for the following purposes, as more fully described in the accompanying proxy statement:

1. To elect seven directors to the Board of Directors.
2. To ratify the selection by the Audit Committee of the Board of Directors of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007.
3. To transact such other business as may properly come before the meeting or any adjournments thereof.

The record date for the determination of the shareholders entitled to vote at the meeting or at any adjournment thereof is the close of business on April 12, 2007. A list of shareholders entitled to vote at the meeting will be open to the examination of any shareholder, for any purpose germane to the meeting, at the location of the meeting on May 24, 2007 and during ordinary business hours for ten days prior to the meeting at our principal offices located at 2500 Millbrook Drive, Buffalo Grove, Illinois 60089.

**Your Board of Directors recommends that you vote in favor of the two proposals outlined in the proxy statement.** Please refer to the proxy statement for detailed information on each of the proposals.

By Order of the Board of Directors

/s/ Arthur S. Przybyl

Arthur S. Przybyl

*President and Chief Executive Officer*

Buffalo Grove, Illinois

April 26, 2007

It is important that your shares be represented at the meeting regardless of the number of shares you hold. **Whether or not you expect to attend the meeting in person, please complete, date, sign and return the accompanying proxy in the enclosed envelope to ensure the presence of a quorum at the meeting.** Even if you have voted by proxy, and you attend the meeting, you may, if you prefer, revoke your proxy and vote your shares in person. **Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you will not be permitted to vote in person at the meeting unless you first obtain a legal proxy issued in your name from the record holder.**

This Proxy Statement is dated April 26, 2007 and was first mailed to shareholders of Akorn, Inc. on or about April 26, 2007.

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**AKORN, INC.  
2500 Millbrook Drive  
Buffalo Grove, Illinois 60089  
PROXY STATEMENT  
For the Annual Meeting of Shareholders  
To Be Held May 24, 2007**

**QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING**

**Why have I received these materials?**

This proxy statement and the enclosed proxy card were sent to you because our Board of Directors (the Board) is soliciting your proxy to vote at the annual meeting of shareholders to be held on May 24, 2007. You are cordially invited to attend the annual meeting and are requested to vote on the proposals described in this proxy statement. We intend to mail this proxy statement and accompanying proxy card on or about April 26, 2007 to all shareholders entitled to vote at the annual meeting.

**Who is entitled to vote at the Annual Meeting?**

Shareholders of record as of the close of business on April 12, 2007 will be entitled to vote at the annual meeting. On April 12, 2007, there were 86,818,016 shares of common stock outstanding and entitled to vote.

*Shareholder of Record: Shares Registered in Your Name.* If on April 12, 2007, you were a record shareholder of common stock (that is, if you held common stock in your own name in our stock records maintained by our transfer agent, Computershare Investor Services, LLC (Computershare)), you may vote in person at the annual meeting or by proxy. Whether or not you intend to attend the annual meeting, we encourage you to complete and sign the accompanying proxy card and mail it to Akorn to ensure your vote is counted.

*Beneficial owner: Shares Registered in the Name of a Broker or Bank.* If on April 12, 2007, you were the beneficial owner of shares of common stock held in street name (that is, a shareholder who held common stock through a broker or other nominee) then these materials are being forwarded to you by the broker or other nominee. You may direct your broker or other nominee how to vote your shares of common stock. However, you will have to obtain a proxy form from the institution that holds your shares and follow the voting instructions on the form. If you wish to attend the annual meeting and vote in person, you may not do so unless you first obtain a legal proxy issued in your name from your broker or other nominee.

**What am I voting on?**

There are two matters scheduled for a vote:  
Election of seven directors; and

Ratification of the selection by the Audit Committee of the Board of Directors of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007.

**How do I vote?**

You may either vote FOR all the nominees to the Board of Directors or you may abstain from voting for any nominee you specify. For each of the other matters to be voted on, you may vote FOR or AGAINST or abstain from voting.

*Shareholder of Record: Shares Registered in Your Name.* If you are a shareholder of record, you may vote in person at the annual meeting, or you may vote by proxy using the enclosed proxy card. Whether or not you plan to attend the annual meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the annual meeting and vote in person if you have already voted by proxy.

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To vote in person, come to the annual meeting and we will give you a ballot when you arrive.

To vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the annual meeting, we will vote your shares as you direct.

*Beneficial Owner: Shares Registered in the Name of Broker or Bank.* If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from Akorn. In order to vote, complete and mail the proxy card to ensure that your vote is counted. Alternatively, you may vote by telephone or over the Internet as instructed by your broker or bank. To vote in person at the annual meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

**How many votes do I have?**

Each share of common stock is entitled to one vote with respect to each matter to be voted on at the annual meeting.

**What constitutes a quorum for purposes of the annual meeting?**

A quorum of shareholders is necessary to hold a valid meeting. The presence at the annual meeting in person or by proxy of the holders of a majority of the voting power of all outstanding shares of common stock entitled to vote shall constitute a quorum for the transaction of business. Proxies marked as abstaining (including proxies containing broker non-votes) on any matter to be acted upon by shareholders will be treated as present at the meeting for purposes of determining a quorum but will not be counted as votes cast on such matters. If there is no quorum, a majority of the votes present at the meeting may adjourn the meeting to another date.

**How does the Board recommend that I vote my shares?**

Unless you give other instructions on your proxy card, the persons named as proxy on the proxy card will vote in accordance with the recommendations of the Board. The Board's recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board recommends a vote:

FOR the proposal to elect the nominated directors as set forth on page 4; and

FOR the ratification of the selection by the Audit Committee of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007, as set forth on page 6.

With respect to any other matter that properly comes before the annual meeting, the proxies will vote as recommended by the Board or, if no recommendation is given, in their own discretion. At the date this proxy statement went to press, the Board had no knowledge of any business other than that described herein that would be presented for consideration at the annual meeting.

**What if I return a proxy card but do not make specific choices?**

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted FOR the election of all seven nominees for director and FOR the ratification of the selection of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007. If any other matter is properly presented at the annual meeting, your proxy (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

**How many votes are needed to approve each proposal?**

The election of directors requires the affirmative vote of a plurality of the votes cast at the annual meeting by shares represented in person or by proxy and entitled to vote for the election of directors. A plurality means the

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highest number of FOR votes. Therefore, the seven nominees receiving the most proper FOR votes will be elected. Abstention and broker non-votes will have no effect on the outcome.

The ratification of the selection by the Audit Committee of the Board of Directors of BDO Seidman, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007 requires a FOR vote from a majority of the votes cast. Abstentions and broker non-votes will have no effect on the outcome.

**Can I change my vote after I return my proxy card?**

Yes. After you have submitted a proxy card, you may change your vote at any time before the proxy card is exercised in one of three ways:

You may submit a written notice of revocation to Akorn's Secretary at 2500 Millbrook Drive, Buffalo Grove, Illinois 60089.

You may submit a proxy bearing a later date.

You may attend the annual meeting and vote in person. Attendance at the meeting will not, by itself, revoke a proxy.

**Who will bear the expense of soliciting proxies in connection with this proxy statement?**

Akorn will bear the cost of soliciting proxies in the form enclosed. In addition to the solicitation by mail, proxies may be solicited personally or by telephone, facsimile or electronic transmission by our employees. Our employees will not receive any additional compensation for participating in proxy solicitation. We may reimburse brokers holding common stock in their names or in the names of their nominees for their expenses in sending proxy materials to the beneficial owners of such common stock.

**Is there any information that I should know about future annual meetings?**

*Shareholder Proposals*

Any shareholder who intends to present a proposal at the 2008 annual meeting of shareholders must deliver the proposal to Akorn's Corporate Secretary at 2500 Millbrook Drive, Buffalo Grove, Illinois 60089 not later than December 24, 2007, if the proposal is to be submitted for inclusion in our proxy materials for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Exchange Act). Any notice of a shareholder proposal submitted after March 9, 2008 will be considered untimely and outside the processes of Rule 14a-8 of the Exchange Act.

**What does it mean if I receive more than one proxy?**

It means you have multiple accounts with brokers and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is Computershare, located at 2 North LaSalle Street, Chicago, Illinois 60602, and may be reached at 312-588-4725.

**Table of Contents****I. PROPOSALS****PROPOSAL 1. ELECTION OF DIRECTORS**

The Board has nominated seven candidates for election at the annual meeting and recommends that shareholders vote FOR the election of all seven nominees. All of the nominees listed below are currently directors, except for Subhash Kapre, Ph.D. and Randall J. Wall. If elected at the annual meeting, each of these nominees would serve until the 2008 annual meeting and until his or her successor is elected and has qualified, or until the director's death, resignation or removal. Directors are elected by a plurality of the votes properly cast in person or by proxy. The seven nominees receiving the highest number of affirmative votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the seven nominees named below. In the unanticipated event that one or more of such nominees is unavailable as a candidate for director, the persons named in the accompanying proxy will vote for another candidate nominated by the Board. Each person nominated for election has agreed to serve if elected. We have no reason to believe that any nominee will be unable to serve.

The following table and narrative description sets forth, as of March 31, 2007, the age, principal occupation and employment, position with us, directorships in other public corporations, and year first elected as one of our directors, of each individual nominated for election as director at the annual meeting. Unless otherwise indicated, each nominee has been engaged in the principal occupation or occupations described below for more than the past seven years.

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Present Position with Akorn</b>
John N. Kapoor, Ph.D.	63	1991	Chairman of the Board
Arthur S. Przybyl	50	2003	President, Chief Executive Officer, Director
Jerry N. Ellis*#§	69	2001	Director
Ronald M. Johnson*#§	61	2003	Director
Jerry I. Treppel*#§	52	2003	Director
Subhash Kapre, Ph.D.	59		Nominee
Randall J. Wall	60		Nominee

\* member of the Audit Committee.  
Mr. Ellis is Chair of the committee.

# member of the Compensation Committee.  
Mr. Johnson is Chair of the committee.

§ member of the Nominating and Corporate Governance Committee.  
Mr. Treppel is Chair of the

committee.

*John N. Kapoor, Ph.D.* Dr. Kapoor has served as the Chairman of our Board since May 1995. Dr. Kapoor previously served as the Chairman of our Board from December 1991 to January 1993 and as our acting Chairman of our Board from April 1993 to May 1995. Dr. Kapoor served as our Chief Executive Officer from March 2001 to December 2002 and from May 1996 to November 1998. Dr. Kapoor serves as chairman of the board of directors of Option Care, Inc. (an infusion services and supplies company) and was Chief Executive Officer of Option Care, Inc. from August 1993 to April 1996. Dr. Kapoor is the President of EJ Financial Enterprises, Inc. (a health care consulting and investment company). Dr. Kapoor is the chairman of the board of directors of each of NeoPharm, Inc. (a biopharmaceutical company) and Introgen Therapeutics, Inc. (a gene therapy company).

*Arthur S. Przybyl.* Mr. Przybyl has served as our Chief Executive Officer since February 2003 and as a director since his appointment by our Board in November 2003. Mr. Przybyl has also served as our President and Chief Operating Officer since September 2002. Mr. Przybyl joined us in August 2002 as Senior Vice President, Sales and Marketing. Prior to joining us, Mr. Przybyl served as President and Chief Executive Officer for Hearing Innovations Inc., an innovative, start-up developer of medical devices for the profoundly deaf and tinnitus markets, and prior to that, he served as President and Chief Operating Officer for Bioject, Inc., a NASDAQ company specializing in needle-free technology. Mr. Przybyl has held several senior level sales and marketing positions throughout his 25 year career in healthcare including positions with specialty pharmaceutical companies such as LyphoMed and International Medication Systems Limited.

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*Jerry I. Treppel.* Mr. Treppel was appointed as a director by our Board in November 2003. Mr. Treppel is the managing member of Wheaten Capital Management LLC, a capital management company focusing on investment in the health care sector. Over the past 15 years, Mr. Treppel was an equity research analyst focusing on the specialty pharmaceuticals and generic drug sectors at several investment banking firms including Banc of America Securities, Warburg Dillon Read LLC (now UBS), and Kidder, Peabody & Co. He previously served as a healthcare services analyst at various firms, including Merrill Lynch & Co. He also held administrative positions in the healthcare services industry early in his career. Mr. Treppel is a current member of the board of directors of Cangene Corporation, a Canadian biotechnology company. Mr. Treppel holds a BA in Biology from Rutgers College in New Brunswick, N.J., an MHA in Health Administration from Washington University in St. Louis, Mo., and an MBA in Finance from New York University. Mr. Treppel has been a Chartered Financial Analyst (CFA) since 1988.

*Jerry N. Ellis.* Mr. Ellis has served as a director since 2001. Mr. Ellis was an adjunct professor in the Department of Accounting at The University of Iowa from 2001 to 2006. Mr. Ellis was a consultant to Arthur Andersen, LLP from 1994 to 2000 and a partner at Arthur Andersen in the Dallas, Madrid and Chicago offices from 1973 to 1994. Mr. Ellis is a director of Sciele Pharma, Inc. (a distributor of pharmaceuticals formerly known as First Horizon Pharmaceutical Corporation) and a member of the Board of Trustees of William Penn University in Oskaloosa, Iowa. Mr. Ellis holds a BBA in Economics and an MBA from the University of Iowa.

*Ronald M. Johnson.* Mr. Johnson was appointed a director by the Board in May 2003. Mr. Johnson is currently Executive Vice President of The Lewin Group, a subsidiary of Quintiles Transnational, Inc., which provides consulting services to pharmaceutical, medical device, biologic and biotechnology industries in their efforts to meet the United States Food and Drug Administration ( FDA ) regulatory requirements. Before joining the Lewin Group on July 31, 2006, Mr. Johnson had been Executive Vice President of Quintiles Consulting since 1997. Mr. Johnson also spent 30 years with the FDA, holding various senior level positions primarily in the compliance and enforcement areas.

*Randall J. Wall.* Mr. Wall is a nominee to the Board. Mr. Wall has served as the Chief Executive Officer and a director of Biomers Products, LLC, a company engaged in the development of novel polymer composite products for biomedical applications, since August 2006. From September 2004 to September 2005, Mr. Wall was the President and Chief Executive Officer of Genetics & IVF Institute, Inc., a fully integrated, specialized provider of infertility treatment and genetic services. Before joining Genetics & IVF Institute, Inc., Mr. Wall was the President of RS Enterprises, Inc., a company assisting startup businesses produce comprehensive business plans, and develop sales, market strategies and financial objectives. Mr. Wall has 30 years of experience with companies such as Bristol-Myers Squibb Company, International Medications Systems, Limited, Cima Labs, Inc. and Cell Separation Technologies, LLC.

*Subhash Kapre, Ph.D.* Dr. Kapre is a nominee to the Board. Dr. Kapre has been the Executive Director of the Serum Institute of India, Ltd. ( Serum ) since 1992. Serum is a producer of certain vaccines, including the Measles and DTP group of vaccines. Pursuant to the terms of that certain Securities Purchase Agreement dated September 13, 2006, between us and Serum, we agreed to submit the name of a designated representative of Serum to our Nominating and Corporate Governance Committee for consideration as a member of our Board. Dr. Kapre is Serum s designated representative. The Nominating and Corporate Governance Committee evaluated Dr. Kapre, along with the other potential nominees, for the requisite attributes and experience necessary to provide a broad range of personal characteristics and management skills to the Board and determined that it is advisable and in our best interests to recommend Dr. Kapre to our shareholders as a nominee for election to the Board.

Under agreements between us and the John N. Kapoor Trust dated 9/20/89 (the Kapoor Trust ), the beneficiary and sole trustee of which is Dr. John N. Kapoor, our Chairman of the Board, the Kapoor Trust is entitled to designate one individual to be nominated and recommended by our Board for election as a director. As of the date of this proxy statement, the Kapoor Trust has designated Dr. Kapoor for this purpose.

**The Board of Directors recommends a vote FOR each of the named nominees in Proposal 1.**

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**PROPOSAL 2. RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board is seeking shareholder ratification of its selection of BDO Seidman, LLP ( BDO ) to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2007. We expect representatives of BDO to attend the annual meeting, have an opportunity to make a statement if they so desire and be available to respond to appropriate questions from shareholders regarding our audit for the year ended December 31, 2006.

**Audit Fees**

Aggregate fees, including out-of-pocket expenses, for professional services rendered by BDO in connection with (i) the audit of our consolidated financial statements as of and for the year ended December 31, 2006, (ii) the audit of internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 as of December 31, 2006 and (iii) the reviews of our condensed consolidated interim financial statements as of September 30, 2006, June 30, 2006, and March 31, 2006, were \$511,500. Additionally, during 2006, BDO charged us \$15,000 for assistance with our Form S-3 filings.

Aggregate fees, including out-of-pocket expenses, for professional services rendered by BDO in connection with (i) the audit of our consolidated financial statements as of and for the year ended December 31, 2005, and (ii) the reviews of our condensed consolidated interim financial statements as of September 30, 2005, June 30, 2005, and March 31, 2005 were \$300,100. Additionally, during 2005, BDO charged us \$32,200 for assistance with our Form S-1 and Form S-3 filings.

**Audit-Related Fees**

Aggregate fees, including out-of-pocket expenses, for professional services rendered by BDO for audit-related services for the year ended December 31, 2006 were \$10,000. Audit related services in 2006 included an audit of our employee benefit plan.

Aggregate fees, including out-of-pocket expenses, for professional services rendered by BDO for audit-related services for the year ended December 31, 2005 were \$8,900. Audit related services in 2005 included an audit of our employee benefit plan.

**Tax Fees**

Aggregate fees, including out-of-pocket expenses, for professional services rendered by BDO in connection with tax compliance, tax advice and corporate tax planning for the year ended December 31, 2006 were \$44,700.

Aggregate fees, including out-of-pocket expenses, for professional services rendered by BDO in connection with tax compliance, tax advice and corporate tax planning for the year ended December 31, 2005 were \$56,600.

**All Other Fees**

There were no additional fees paid to BDO during the years ended December 31, 2006 and 2005.

**Audit Committee Pre-Approval Policies and Procedures**

The Audit Committee has considered whether the provision of services covered in the preceding paragraphs is compatible with maintaining BDO's independence. At their regularly scheduled and special meetings, the Audit Committee of the Board considers and pre-approves any audit and non-audit services to be performed for us by our independent registered public accounting firm. For 2006, those pre-approved audit, audit-related, tax and all other services represented 90%, 2%, 8% and 0%, respectively, of all services that year.

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**The Board of Directors unanimously recommends that you vote FOR the ratification of BDO Seidman, LLP as our independent registered public accounting firm for fiscal year 2007.**

**II. CORPORATE GOVERNANCE AND RELATED MATTERS**

**Board of Directors**

The age, principal occupation and employment, position with us, directorships in other public corporations, and year first elected as one of our directors, of each of our nominees and current directors, as applicable, as of March 31, 2007 are included in this proxy statement under the heading PROPOSAL 1. ELECTION OF DIRECTORS above and are incorporated herein by reference.

**Independence of the Board of Directors**

Our common stock is traded on The NASDAQ Stock Market LLC ( NASDAQ ). The Board has determined that a majority of the members of, and nominees to, the Board qualify as independent, as defined by the listing standards of NASDAQ. Consistent with these considerations, after review of all relevant transactions and relationships between each director and nominee, or any of his or her family members, and Akorn, its senior management and its independent auditors, the Board has determined further that all of our directors and nominees are independent under the listing standards of NASDAQ, except for Mr. Przybyl, Dr. Kapoor and Dr. Kapre. In making this determination, the Board considered that there were no new transactions or relationships between its current independent directors and Akorn, its senior management and its independent auditors since last making this determination except for aggregate payments of \$13,902 to Mr. Johnson's employer, Quintiles Consulting The Lewin Group, for consulting services. These payments were not determined to have changed Mr. Johnson's status as an independent director. In making this determination for Mr. Wall, the Board considered Mr. Wall's past business relationship with our Chief Executive Officer and contacts with other members of our Board, which relationship and contacts the Board did not deem to be significant enough to affect Mr. Wall's independence.

**Executive Sessions of Independent Directors**

Our independent directors meet regularly in executive sessions where only independent directors are present. Persons interested in communicating with the independent directors may address correspondence to a particular director, or to the independent directors generally, in care of Corporate Secretary, Akorn, Inc., 2500 Millbrook Drive, Buffalo Grove, Illinois 60089.

**Board Meetings**

During the year ended December 31, 2006, our Board held ten meetings. All of the directors attended at least 75% of the aggregate number of meetings of the Board and of the Board committees on which they serve. The Board asks that all members of the Board attend the annual meeting of shareholders. All members of the Board attended the 2006 annual meeting.

**Committees of the Board**

The Board has three committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee, with the members of each committee indicated below.

The Audit Committee consists of Mr. Ellis (Chair), Mr. Johnson and Mr. Treppel.

The Compensation Committee consists of Mr. Johnson (Chair), Mr. Ellis and Mr. Treppel.

The Nominating and Corporate Governance Committee consists of Mr. Treppel (Chair), Mr. Ellis and Mr. Johnson.

The composition of Board committees is reviewed and determined each year at the initial meeting of the Board after the annual meeting of shareholders.

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The Audit Committee of the Board oversees our corporate accounting and financial reporting process and audits of our financial statements. For this purpose, the Audit Committee performs several functions. The Audit Committee evaluates the performance of and assesses the qualifications of the independent auditors; determines and approves the engagement of the independent auditors; determines whether to retain or terminate the existing independent auditors or to appoint and engage new independent auditors; reviews and approves the retention of the independent auditors to perform any proposed permissible non-audit services; monitors the rotation of partners of the independent auditors on our audit engagement team as required by law; confers with management and the independent auditors regarding the effectiveness of internal controls over financial reporting; establishes procedures, as required under applicable law, for the receipt, retention and treatment of complaints received by Akorn regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters; reviews and approves all related party transactions; reviews the financial statements to be included in our Annual Report on Form 10-K and quarterly reports on Form 10-Q; and discusses with management and the independent auditors the results of the annual audit and the results of the reviews of our quarterly financial statements. The Audit Committee met seven times during the 2006 fiscal year. A current copy of the Audit Committee Charter, which has been adopted and approved by the Board, is available on our website at <http://www.akorn.com> (the contents of such website are not incorporated into this proxy statement).

The Board has reviewed NASDAQ's definition of independence for Audit Committee members and has determined that all members of our Audit Committee are independent under the listing standards of NASDAQ. The Board has determined that Mr. Ellis qualifies as an audit committee financial expert, as defined in applicable Securities Exchange Commission (SEC) rules. The Board made a qualitative assessment of Mr. Ellis' level of knowledge and experience based on a number of factors, including his formal education, his experience as a Partner with Arthur Andersen LLP, and his experience as a director of Sciele Pharma, Inc. (a distributor of pharmaceuticals formerly known as First Horizon Pharmaceutical Corporation). The Board has determined that such simultaneous service does not impair Mr. Ellis' ability to effectively serve on the Audit Committee.

**Compensation Committee**

The Compensation Committee, which met ten times during 2006, reviews and approves the overall compensation strategy and policies for Akorn. The Compensation Committee reviews and approves corporate performance goals and objectives relevant to the compensation of our executive officers and other senior management; reviews and approves the compensation and other terms of employment of our Chief Executive Officer; reviews and approves the compensation and other terms of employment of the other executive officers; and administers equity awards and stock purchase plans. Each member of the Compensation Committee has been determined by the Board to be an independent member under the listing standards of NASDAQ. A current copy of the Compensation Committee Charter, which has been adopted and approved by the Board, is available on our website at <http://www.akorn.com> (the contents of such website are not incorporated into this proxy statement).

**Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee is responsible for developing and implementing policies and processes regarding corporate governance matters, assessing Board membership needs and making recommendations regarding potential director candidates to the Board. A current copy of the Nominating and Corporate Governance Committee Charter, which has been adopted and approved by the Board, is available on our website at <http://www.akorn.com> (the contents of such website are not incorporated into this proxy statement). Each member of the Nominating and Corporate Governance Committee has been determined by the Board to be an independent member under the listing standards of NASDAQ. The Nominating and Corporate Governance Committee met three times during the 2006 fiscal year.

The Board believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Board also considers such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of Akorn,



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demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of our shareholders. However, the Board retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of Akorn and the long-term interests of shareholders. In conducting this assessment, the Board considers skills, diversity, age, and such other factors as it deems appropriate given the current needs of the Board and Akorn, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Board and the Nominating and Corporate Governance Committee review such directors' overall service to Akorn during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors' independence. In the case of new director candidates, the Board also determines whether the nominee must be independent, which determination is based upon applicable SEC and NASDAQ rules.

Board members should possess such attributes and experience as are necessary to provide a broad range of personal characteristics, including diversity, management skills, and pharmaceutical industry, financial, technological, business and international experience. Directors selected should be able to commit the requisite time for preparation and attendance at regularly scheduled Board and committee meetings, as well as be able to participate in other matters necessary for good corporate governance.

In order to find a Board candidate, the Board uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Board conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Board meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote. To date, the Board has not paid a fee to any third party to assist in the process of identifying or evaluating director candidates, nor has the Board rejected a director nominee from a shareholder or shareholders.

Mr. Wall and Dr. Kapre were both recommended to be included as a nominee to the Board in this proxy statement by the Nominating and Corporate Governance. Dr. Kapre was recommended to the Nominating and Corporate Governance by Serum, one of our security holders, pursuant to the terms of that certain Securities Purchase Agreement dated September 13, 2006, between us and Serum, in which we agreed to submit the name of a designated representative of Serum to our Nominating and Corporate Governance Committee for consideration as a member of our Board. Mr. Wall was recommended to the Nominating and Corporate Governance by our Chief Executive Officer.

Although there is no formal procedure for shareholders to recommend nominees for the Board, the Nominating and Corporate Governance Committee will consider such recommendations if received one hundred twenty (120) days in advance of the annual meeting, addressed to the Nominating and Corporate Governance Committee, in care of Corporate Secretary, at Akorn, Inc., 2500 Millbrook Drive, Buffalo Grove, Illinois 60089. Such recommendations should be addressed to the Nominating and Corporate Governance Committee at our address and provide all information relating to such person that the shareholder desires to nominate that is required to be disclosed in solicitation of proxies pursuant to Regulation 14A under the Exchange Act. The Board does not believe that a formal procedure for shareholders to recommend nominees for the Board is necessary because every effort has been made to ensure that nominees recommended by shareholders are given appropriate consideration by the Nominating and Corporate Governance Committee.

**Communications with the Board**

Historically, we have not adopted a formal process for shareholder communications with the Board. Nevertheless, every effort has been made to ensure that the views of shareholders are heard by the Board or individual directors, as applicable, and that appropriate responses are provided to shareholders in a timely manner. We believe our responsiveness to shareholder communications to the Board has been excellent.

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**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee reviews Akorn's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls.

In this context, the Audit Committee has met and held discussions with management and the independent auditors. Management represented to the Audit Committee that Akorn's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors.

The Audit Committee discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees). In addition, the Audit Committee has discussed with the independent auditors the auditors' independence from Akorn and its management, including the matters in the written disclosures received by the Audit Committee from the independent auditors as required by the Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees).

The Audit Committee has also considered whether the independent auditors' provision of non-audit services to Akorn is compatible with the auditors' independence.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board, and the Board approved, the inclusion of the audited consolidated financial statements in Akorn's Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the SEC.

This report is submitted by the Audit Committee.

Jerry N. Ellis, Chair

Jerry I. Treppel

Ronald M. Johnson

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Either the Audit Committee or the Board approves all related party transactions. The procedure for the review, approval or ratification for related party transactions involves discussing the transaction with management, discussing the transaction with the external auditors, reviewing financial statements and related disclosures and reviewing the details of major deals and transactions to ensure that they do not involve related transactions. Members of management have been informed and understand that they are to bring related party transactions to the Audit Committee or the Board for approval. These policies and procedures are evidenced in the Audit Committee Charter and the Code of Ethics.

Mr. John N. Kapoor, Ph.D., our current Chairman of the Board and Chief Executive Officer from March 2001 to December 2002, and a principal shareholder, is affiliated with EJ Financial Enterprises, Inc., a health care consulting investment company (EJ Financial). EJ Financial is involved in the management of health care companies in various fields and Dr. Kapoor is involved in various capacities with the management and operation of these companies. The John N. Kapoor Trust dated September 20, 1989 (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.

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On July 12, 2001, we entered into a \$5,000,000 subordinated debt transaction with the Kapoor Trust. The transaction was evidenced by a Convertible Bridge Loan and Warrant Agreement (the *Loan Agreement*) in which the Kapoor Trust agreed to provide two separate tranches of funding in the amounts of \$3,000,000 (*Tranche A*) and \$2,000,000 (*Tranche B*). As part of the consideration provided to the Kapoor Trust for the subordinated debt, we issued the Kapoor Trust two warrants, exercisable until December 20, 2006, which allowed the Kapoor Trust to purchase 1,000,000 shares of common stock at a price of \$2.85 per share and another 667,000 shares of common stock at a price of \$2.25 per share. Under the terms of the *Loan Agreement*, the subordinated debt bore interest at prime plus 3%. The convertible feature of the *Loan Agreement*, as amended, allowed for conversion of the subordinated debt plus interest into shares of our common stock at a price of \$2.28 per share of common stock for *Tranche A* and \$1.80 per share of common stock for *Tranche B*. On March 31, 2006, all of the principal and accrued interest owed under the promissory notes designating the *Tranche A* and *Tranche B* debt, in an aggregate of approximately \$7,297,654, was converted into 3,540,281 shares of our common stock and the *Loan Agreement* was terminated. We did not have the right to prepay the promissory notes prior to their maturity on December 20, 2006. For this reason, and after negotiations with the Kapoor Trust, we paid \$390,519 to the Kapoor Trust as an incentive for it to consent to convert the promissory notes prior to their maturity dates. The conversion of the promissory notes prior to their maturity saved us approximately \$200,000 in interest payments after accounting for the \$390,519 payment to the Kapoor Trust.

As part of an exchange transaction completed in October 2003, we issued certain subordinated promissory notes (the *2003 Subordinated Notes*) to the Kapoor Trust, Arjun C. Waney, one of our principal shareholders, and Argent Fund Management, Ltd., for which Mr. Waney serves as Chairman and Managing Director and 52% of which is owned by Mr. Waney. The *2003 Subordinated Notes* were to mature on April 7, 2006 and bore interest at prime plus 1.75%, but interest payments were prohibited under the terms of our subordination agreement. With the consent of our principal lender, we retired the *2003 Subordinated Notes* with cash payments totaling approximately \$3,288,000 on March 20, 2006.

Dr. Kapre, a nominee for director, is an Executive Director with Serum. In September 2006, we issued 1,000,000 shares of our common stock in a private placement to Serum at a price of \$3.56 per share pursuant to a Securities Purchase Agreement (the *Securities Purchase Agreement*) with Serum. The offering aggregate price was \$3,560,000. The shares of our common stock issued under the *Securities Purchase Agreement* (collectively, the *Registrable Securities*) are subject to certain registration rights as set forth in the *Securities Purchase Agreement*. Under the *Securities Purchase Agreement*, we agreed to file a registration statement (the *Registration Statement*) with the SEC by the sixtieth day after the closing date of the transactions contemplated by the *Securities Purchase Agreement* (the *Filing Date*), for purposes of registering the *Registrable Securities*. We agreed to maintain the effectiveness of the *Registration Statement* until the earlier of the date that all *Registrable Securities* covered by such *Registration Statement* have been sold or can be sold publicly under Rule 144(k) under the Securities Act of 1933, as amended (the *Act*) (the *Effectiveness Period*). The *Registration Statement* was filed on Form S-3 on November 14, 2006 and declared effective on December 7, 2006.

Pursuant to the *Securities Purchase Agreement*, should certain events occur, then on every monthly anniversary thereof until the applicable event is cured and on the date of such cure, we shall pay to Serum an amount in cash, as liquidated damages, equal to \$0.0267 per share for each share of our common stock purchased under the *Securities Purchase Agreement* and then owned by Serum (the *Event Payments*). Subject to limitations set forth in the *Securities Purchase Agreement*, the following constitute applicable events (i) the *Registration Statement* is not filed on or prior to the *Filing Date* or is not declared effective within the earlier of (a) the 120th day following the *Filing Date* or (b) the 5th trading day after we are notified that the *Registration Statement* will not be reviewed, or is no longer subject to further review, by the SEC; (ii) the common stock is not listed or quoted, or is suspended from trading, on an eligible market for a period of five trading days during the *Effectiveness Period*; or (iii) the *Registration Statement* ceases to be effective for 20 trading days in a 365 day period. The *Event Payments* relate solely to the shares of our common stock issued to Serum under the *Securities Purchase Agreement*. The *Event Payments* shall not exceed \$267,000.

On November 8, 2006, we also entered into both a Development and Exclusive Distribution Agreement (the *Development and Exclusive Distribution Agreement*) and a Development Funding Agreement (*Development Funding Agreement*) and together with the *Development and Exclusive Distribution Agreement*, the *Development Agreements*)

with Serum. Under the Development Agreements, Serum has agreed to appoint us as the exclusive

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distributor for Rabies monoclonal antibody (the Product). In exchange for us receiving exclusive marketing and distribution rights for the Product to North, Central, and South America, we have agreed to help fund development of the Product through milestone payments. These milestone payments include the successful completion of Phase I, Phase II, and Phase III clinical trials and receipt of approval for a biologics license application from the U.S. Food and Drug Administration's Center for Biologics Evaluation and Research. As the exclusive marketing and distribution partner of Serum for the Product in America, we will receive 40% of the revenues from Product sales in North America and 50% of the revenues from Product sales in Central and South America. Also as part of the Development and Exclusive Distribution Agreement, Serum grants us the first option right to obtain exclusive marketing rights in North, Central, and South America for a second monoclonal antibody product, Anti-D human monoclonal antibody (Anti-D). The exclusive marketing rights for Anti-D would be consistent with the terms and conditions in the Development Agreements for the Product. Additionally, Serum has granted us the first option right to expand the territory in which it has exclusive rights to include Europe in exchange for minimum annual product sales requirements in Europe.

In October 2004, we also entered into an exclusive drug development and distribution agreement for oncology drug products for the United States and Canada with Serum. We will own the ANDAs and buy products developed under the agreement from Serum under a negotiated transfer price arrangement. Once the products are approved, we will market and sell them in the United States and Canada under our label.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

During 2006, (i) Arthur S. Przybyl, Jeffrey A. Whitnell, John R. Sabat and Abu S. Alam, each an officer of Akorn, and Jerry N. Ellis and Ronald M. Johnson, both directors of Akorn, each failed to file timely one Form 4 report with the SEC to report one transaction and change in beneficial ownership, (ii) Jerry I. Treppel, a director of Akorn, failed to timely file two Form 4 reports with the SEC to report two transactions and changes in beneficial ownership, and (iii) Jay W. Stern, who was a named executive officer of Akorn last year, failed to timely file one Form 4 report with the SEC to report one transaction and change in beneficial ownership. All such transactions have since been reported on Form 4 reports.

**CODE OF ETHICS**

Our Board has adopted a Code of Ethics that is applicable to our principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions. We will satisfy any disclosure requirements under Item 10 of Form 8-K regarding an amendment to, or waiver from, any provision of the Code of Ethics with respect to our principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions by disclosing the nature of such amendment or waiver on our website or in a report on Form 8-K. A copy of the Code of Ethics can be obtained at our website. Our website address is <http://www.akorn.com> (the contents of such website are not incorporated into this proxy statement). In addition, our Board has adopted a general code of ethics that is applicable to all of our employees and directors.

Our Audit Committee has adopted a whistleblower policy in compliance with Section 806 of the Sarbanes-Oxley Act. The whistleblower policy allows employees to confidentially submit a good faith complaint regarding accounting or audit matters to the Audit Committee and management without fear of dismissal or retaliation. This policy was distributed to all our employees for signature and signed copies are on file in our Human Resources Department.

**Table of Contents****III. SECURITY OWNERSHIP OF CERTAIN  
BENEFICIAL OWNERS AND MANAGEMENT**

As of March 31, 2007, the following persons were directors, nominees, executive officers whose total annual salary and bonus for 2007 exceed \$100,000 (each a Named Executive Officer ), or others with beneficial ownership of five percent or more of our common stock. The information set forth below has been determined in accordance with Rule 13d-3 under the Exchange Act based upon information furnished to us or to the SEC by the persons listed. Unless otherwise noted the address of each of the following persons is 2500 Millbrook Drive, Buffalo Grove, Illinois 60089.

<b>Beneficial Owner</b>	<b>Shares Beneficially Owned (1)</b>	<b>Percent of Class</b>
<b>Directors and Nominees</b>		
John N. Kapoor, Ph.D.	28,654,152(2)	33.09%
Jerry I. Treppel	492,642(3)	0.57%
Jerry N. Ellis	100,333(4)	0.12%
Ronald M. Johnson	73,333(5)	0.08%
Subhash Kapre, Ph.D.	0(6)	0%
Randall J. Wall	0	0%
<b>Named Executive Officers</b>		
Arthur S. Przybyl	1,660,335(7)	1.89%
Jeffrey A. Whitnell	318,408(8)	0.37%
Abu S. Alam, Ph.D.	188,234(9)	0.22%
John R. Sabat	244,175(10)	0.28%
Mark Silverberg	78,958(11)	0.09%
Directors and officers as a group (9 persons)	31,810,570	35.83%
<b>Other Beneficial Owners</b>		
Arjun C. Waney Flat No. 1646 Lowndes Square London SW1X 9JV England	5,160,859(12)	5.96%
Pequot Capital Management Inc. 500 Nyala Farm Rd. Westport, CT 06880	20,054,891(13)	23.01%

(1) Includes all shares beneficially owned, whether directly and indirectly, individually or together with associates, jointly or as community property with a spouse, as well

as any shares as to which beneficial ownership may be acquired within 60 days of March 31, 2007 by the exercise of options, warrants or other convertible securities. Unless otherwise specified in the footnotes that follow, the indicated person has sole voting power and sole investment power with respect to the shares.

- (2) Includes
- (i) 24,983,896 shares of common stock owned by the Kapoor Trust of which Dr. Kapoor is the sole trustee and beneficiary,
  - (ii) 491,173 shares of common stock are owned directly by Dr. Kapoor,
  - (iii) 3,045,644 shares are owned by EJ Financial / Akorn Management L.P. of which Dr. Kapoor is

the managing general partner, and (iv) 133,439 shares of common stock are owned by several trusts, the trustee of which is an employee of EJ Financial Enterprises Inc., of which Dr. Kapoor is the President, and the beneficiaries of which are Dr. Kapoor's children.

- (3) Includes 53,333 shares of common stock issuable pursuant to stock options.
- (4) Includes 78,333 shares of common stock issuable upon exercise of stock options.
- (5) Such shares are issuable upon exercise of stock options.

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- (6) Dr. Kapre is an Executive Director with the Serum Institute of India, Ltd. ( Serum ). In September 2006, we issued 1,000,000 shares of our common stock in a private placement to Serum at a price of \$3.56 per share pursuant to a Securities Purchase Agreement with Serum. Dr. Kapre has disclaimed any beneficial ownership of such shares.
- (7) Includes 1,175,000 shares of common stock issuable upon exercise of stock options and (ii) 250,000 shares of restricted common stock of which 125,000 shares will vest on April 20, 2007, 62,500 shares will vest on April 20, 2008, and 62,500 will vest on April 20, 2009.
- (8) Includes 203,000 shares of common stock issuable upon exercise of stock

options and  
(ii) 100,000  
shares of  
restricted  
common stock of  
which 50,000  
shares will vest  
on April 20,  
2007, 25,000  
shares will vest  
on April 20,  
2008, and 25,000  
shares will vest  
on April 20,  
2009.

(9) Includes 72,500  
shares of  
common stock  
issuable upon  
exercise of stock  
options.

(10) Includes 47,500  
shares of  
common stock  
issuable upon  
exercise of stock  
options.

(11) Includes 73,750  
shares of  
common stock  
issuable upon  
exercise of stock  
options.

(12) Includes  
(i) 960,331  
shares of  
common stock  
held by Argent  
Fund  
Management,  
Ltd. ( Argent ), for  
which  
Mr. Waney  
serves as  
Chairman and  
Managing  
Director and 52%

of which is owned by Mr. Waney, (ii) 628,400 shares of common stock held by First Winchester Investments Ltd. ( First Winchester ), which operates as an equity fund for investors unrelated to Mr. Waney and whose investments are directed by Argent, (iii) 516,000 shares of common stock held by Mr. Waney through individual retirement accounts maintained in the United States, (iv) 3,056,128 shares held jointly by Mr. Waney and Mrs. Judith D. Waney, including 10,000 shares of common stock issuable pursuant to stock options. Under the rules of the SEC, Mr. Waney may be deemed to be the beneficial owner of the shares held by First Winchester.

(13) Includes  
(i) 9,357,075

shares of  
common stock  
and 228,367  
shares of  
common stock  
issuable upon  
exercise of  
warrants held by  
Pequot  
Healthcare Fund,  
L.P., (ii)  
6,623,461 shares  
of common stock  
and 270,392  
shares of  
common stock  
issuable upon  
exercise of  
warrants held by  
Pequot  
Healthcare  
Offshore Fund,  
Inc., (iii) 534,345  
shares of  
common stock  
and 21,230  
shares of  
common stock  
issuable upon  
exercise of  
warrants held by  
Pequot  
Healthcare  
Institutional  
Fund LP,  
(iv) 722,485  
shares of  
common stock  
held by Pequot  
Scout Fund, LP,  
(v) 882,485  
shares of  
common stock  
held by Pequot  
Mariner Master  
Fund, LP,  
(vi) 1,243,452  
shares of  
common stock  
held by Pequot  
Healthcare

Holdings, LLC,  
and (vii) 136,032  
shares of  
common stock  
and 35,567  
shares of  
common stock  
issuable upon  
exercise of  
warrants held by  
Premium  
Series PCC  
Limited Cell  
C32.

### **EQUITY COMPENSATION PLANS**

#### **Equity Compensation Plans Approved by Shareholders**

Our shareholders have approved both the Akorn, Inc. 1988 Incentive Compensation Plan ( 1988 Plan ) and the Akorn, Inc. 1991 Stock Option (the 1991 Directors Plan ). Under the 1988 Plan, any of our officers or key employees were eligible to receive stock options as designated by the Board. Under the 1991 Directors Plan, options were issuable to our directors. The 1988 Plan expired on November 2, 2003 and the 1991 Directors Plan expired December 7, 2001. The 2003 Stock Option Plan, under which we could issue up to an aggregate total of 5,000,000 incentive or non-qualified options, was approved by the Board on November 6, 2003 and approved by our shareholders on July 8, 2004. On March 29, 2005, the Board approved the Amended 2003 Plan, effective as of April 1, 2005, which was approved by our shareholders on May 27, 2005. The Amended 2003 Plan is an amendment and restatement of the 2003 Stock Option Plan and provides us with the ability to grant other types of equity awards to eligible participants besides stock options. The aggregate number of shares of our common stock

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that may be issued pursuant to awards granted under the Amended 2003 Plan is 5,000,000. As of December 31, 2006, there were 3,155,000 options and 350,000 restricted stock awards outstanding under the Amended 2003 Plan.

The Akorn, Inc. Employee Stock Purchase Plan ( Employee Stock Purchase Plan ) permits eligible employees to acquire shares of our common stock through payroll deductions not exceeding 15% of base wages, at a 15% discount from market price of our common. A maximum of 1,000,000 shares of our common stock may be acquired under the terms of the Employee Stock Purchase Plan. Shares issued under the Employee Stock Purchase Plan cannot be sold until one year after the purchase date.

**Equity Compensation Plans Not Approved by Shareholders**

None.

*Summary Table.* The following table sets forth certain information as of December 31, 2006, with respect to compensation plans under which shares of Akorn common stock were issuable as of that date.

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</b>
Equity Compensation plans approved by security holders:	3,505,375	\$ 3.40	1,437,479
Equity Compensation plans not approved by security holders:			
<b>Total</b>	<b>3,505,375</b>	<b>\$ 3.40</b>	<b>1,437,479(1)</b>

(1) Includes 1,177,236 shares of common stock available under the Amended 2003 Plan and 260,243 shares of common stock available under our Employee Stock Purchase Plan.



**Table of Contents****IV. EXECUTIVE COMPENSATION AND OTHER INFORMATION****Executive Officers**

The following table identifies our current executive officers, the positions they hold, and the year in which they became an officer, as of March 31, 2007. Our officers are elected by the Board to hold office until their successors are elected and qualified.

<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Year Became Officer</b>
Arthur S. Przybyl	President, Chief Executive Officer and Director	50	2002
Jeffrey A. Whitnell	Sr. Vice President, Chief Financial Officer, Secretary and Treasurer	51	2004
Abu S. Alam, Ph.D.	Senior Vice President, New Business and Product Development	61	2004
John R. Sabat	Senior Vice President, National Accounts	57	2004
Mark Silverberg	Senior Vice President, Global Quality Assurance	53	2006

Information on the business background of Arthur S. Przybyl included in this proxy statement under the heading PROPOSAL 1: ELECTION OF DIRECTORS above and is incorporated herein by reference.

*Jeffrey A. Whitnell.* Mr. Whitnell has served as our Vice President, Finance and Chief Financial Officer since June 2004. He was further appointed Secretary and Treasurer in August 2004 and was promoted to Senior Vice President in November 2004. Before joining us, Mr. Whitnell served as Vice President of Finance and Treasurer with Ovation Pharmaceuticals, a specialty pharmaceutical company. Prior to joining Ovation Pharmaceuticals in June 2002, Mr. Whitnell worked for MediChem Life Sciences, which he joined in April 1997, and where he held various senior financial management positions.

*Abu S. Alam, Ph.D.* Dr. Alam has served as our Senior Vice President, New Business and Product Development since November 2004. Dr. Alam joined us in 1996 as Vice President, Technical Services and was promoted to Vice President, Research and Development in 1997.

*John R. Sabat.* Mr. Sabat has served as our Senior Vice President, National Accounts since October 2004. He joined us in June 2003 as Vice President, National Accounts. Prior to joining us, he served as Vice President, Sales and Marketing with Major Pharmaceuticals, a division of Apotex Inc., and a manufacturer and worldwide distributor of proprietary, multi-source prescription and over-the-counter pharmaceuticals.

*Mark Silverberg.* Mr. Silverberg has served as our Senior Vice President, Global Quality Assurance since May 2006. He joined us in April 2005 as Vice President, Global Compliance. Prior to joining us, he served as Director of Division Quality for the Diagnostics Division of Abbott Laboratories.

**Compensation Discussion and Analysis**

**Development of Compensation Philosophy.** Akorn is an entrepreneurial and opportunistic company operating in an extremely competitive environment that requires its business and compensation philosophy to be flexible and adaptive. With respect to its named executive officers ( NEOs ) this philosophy has rapidly evolved over the last four years as Akorn's operations, business and finances have developed and changed. In October of 2003, the Company restructured its finances by paying off significant debt with equity infused by investors including Dr. Kapoor, our then and current largest shareholder. This capital, as well as the capital raised by us in August 2004 and again in 2005, provided us with funds we used to increase our cash flow and expand our business.

Our operations during the earlier part of this period focused on reducing expenses, stabilizing the situation at our Decatur, Illinois plant, and beginning to invest in new product development. The CEO we engaged in 2003 and the CFO we engaged in 2004 were hired with little promise of any particular compensation other than base salary, which was set based primarily on board expectations and the cash flow needs of the company. We provided them

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with no specific annual incentive compensation of any kind, but did award them stock options in numbers we felt were significant enough to entice them to join our management team.

In 2005, as our financial situation stabilized, in large part due to the efforts of the CEO and CFO, the Compensation Committee (the Committee) of the board began to take a more structured approach to NEO compensation. This approach focuses on identifying the appropriate mix and alignment of compensation of NEOs in order to further the company's strategic objectives and ultimately the interests of the shareholders. Because our company is in a high growth mode and maintaining appropriate cash reserves and building positive cash flow have been overall goals, until 2006 we generally opted to provide equity compensation, in part because annual cash awards would have been more difficult for us. In addition, these awards were appropriate because we perceived that base salaries and annual bonuses were below median for our peers, and awards of equity compensation did not adversely affect our financial reporting because FAS 123R had not gone into effect.

In 2005 and early 2006 we took affirmative steps to improve our NEO compensation planning. In 2005 we retained a consultant to assist us in setting overall compensation arrangements for our CEO and CFO. In late 2005 through early 2006 we retained a consultant to assist in structuring our CEO's employment arrangements and help us set his long-term compensation. Our board and shareholders approved expanded equity instrument alternatives under our Amended and Restated Akorn, Inc. 2003 Stock Option Plan. We made our first grants of restricted stock under that plan. Finally, we instituted formal management by objectives annual performance awards for all of our NEOs, while retaining the flexibility to reward achievements going beyond specific pre-identified objectives based on unforeseen circumstances.

***Compensation Philosophy and Objectives.*** We seek to attract and retain results-oriented, hard-working, overachieving executives who can help us drive the growth of our company. Our overall compensation packages to our NEOs reward them for attaining our corporate financial and growth objectives and incent them to maintain and expand our prospects for future growth and product diversification. At the same time, we provide benefits that provide security for the NEOs and their families.

The Compensation Committee believes executive compensation policies should assure that executives are provided incentives and compensated in a way that advances both the short and long term interests of shareholders while also assuring that we are able to attract and retain executive management talent. Specifically, the Committee's objective is the establishment of executive compensation strategies that:

Assure executive compensation is based upon performance in the achievement of pre-determined financial and business objectives;

Provide equity-based compensation incentives to meld the financial interests of executive officers with those of shareholders; and

Provide incentives that promote executive retention.

Our Compensation Committee is composed exclusively of independent directors and meets regularly both with and without management. From time to time the Committee retains outside advisors chosen by the Committee, and works with management and such advisors and receives and reviews their recommendations regarding executive compensation as it deems appropriate. However, the committee often seeks the input of other board members, including Dr. Kapoor, who has deep experience in ownership and management of pharmaceutical companies. With respect to NEOs other than the CEO and CFO, the Committee believes that the recommendations of the CEO are critical to structuring appropriate compensation and the Committee relies heavily upon the CEO's recommendations in this regard.

The Committee annually sets NEO base salaries, fixes annual incentive compensation pay for performance objectives, based on both individual and company goals, makes actual awards of annual incentive compensation based on attainment of these goals and other factors the Committee deems appropriate, and considers awards of long-term equity compensation. In the case of the CEO, in his employment agreement the Committee and the Board have added specific long-term incentive compensation commitments and protections in the event of termination



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without cause and termination related to a change of control. We believe these commitments to the CEO are necessary in part to reward him for the time during which he worked hard with no guaranty of reward to engineer the resurgence of the company, to incentivize him to obtain objectives that are in the best interests of the shareholders in the long-term, and to assure we continue to have the benefit of his services during this important growth phase of the company. See Employment Agreements, below.

With respect to CEO and CFO compensation, we evaluate the compensation mix provided by our peers, as well as the other factors set forth in the Committee's charter. Because of Akorn's unique specialty pharmaceutical business plan and the lack of a single direct competitor across all market segments, it is difficult to formulate an appropriate peer group. Many companies included in any peer group will include companies both significantly larger and somewhat smaller than Akorn. Nonetheless, in structuring the CEO's current compensation and employment agreement, the Committee relied upon information regarding practices at the following companies: Abgenix, Adolor, Alpharma, American Pharmaceutical Partners, Bausch & Lomb, Conceptus, CV Therapeutics, Gene Logic, Hospira, I-Flow, ISTA Pharmaceuticals, KV Pharmaceutical Company, Meridian Bioscience, Neogen, Neurogen, Noven Pharmaceuticals, OraSure Technologies, Orchid Cellmark and Theragenics.

***Components of Compensation.*** The following are the key components of NEO compensation at our company. Overall, these components are designed to provide the types of incentives to employees required for an entrepreneurial growth company like Akorn:

Base salary;

Performance-based annual bonus, which may be paid in cash, stock units, shares of stock or a combination of these;

Periodic grants of long-term stock-based compensation, such as stock options, restricted stock units, performance shares and/or restricted stock, which may be subject to performance-based and/or time-based vesting requirements; and

Benefits.

**Base Salary.** In setting the CEO and CFO's base salaries, we attempt to be competitive based on analysis of peer group and other information. The consultant retained by us in 2005 reported to us that although our base salaries were competitive with other companies at our then size, that as our company grows the base salaries would become less competitive. In 2005 we granted 5% increases in base salary to both the CEO and CFO, in 2006 we granted additional increases after review with an independent consultant, and in 2007 granted further increases which we believed were competitive and appropriate. Mr. Przybyl's employment agreement required an increase from \$400,000 per year to \$440,000 if the company became profitable in 2006. Although the company did not become profitable, based on the improvement in the company's business and various performance parameters, we granted that increase. Mr. Whitnell's salary for 2007 was increased to \$275,000 per year from \$250,000 per year in 2006.

In setting the base salaries of NEOs other than the CEO and CFO, we look primarily to research by our Vice President of Human Resources. Part of that individual's job, on a company-wide basis, is to evaluate compensation levels and composition and fashion competitive pay packages. He also works closely with the CEO in planning for acquisition and retention of employees. Based on his research and the recommendations of the CEO we fix these salaries at rates that we believe are generally competitive, but are not at the high-end of our competition.

**Annual Incentive Compensation.** The consultant who provided a report to us on executive compensation in 2005 noted that although our base salaries were then competitive, our annual incentive compensation, which was essentially unformulated and non-existent, was far below the competitive norm. Based on this information, we for the first time structured specific annual incentive compensation pay for performance objectives for the CEO and CFO. We have fixed the potential for incentive compensation, based on those objectives, to be a relatively high percentage of overall annual compensation.

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Furthering this approach, in 2006 and 2007, after the board reviewed the strategic plan and budget for the year, the Compensation Committee set annual incentive compensation targets designed to incentivize achievement of that plan and budget. We set objectives for the CEO and CFO that could have resulted in the CEO and CFO receiving bonuses of 75% and 45% of their respective base compensation if all objectives were or are fully achieved, with additional 25% and 15% opportunities for stretch bonuses, respectively. The CEO's employment agreement specifically provides that he be provided with annual bonus opportunities equal to at least 75% of his base salary, with stretch bonus opportunities for an additional 25%. Also, in 2006 and 2007, we approved specific objectives and target percentages of compensation for the NEOs other than the CEO and CFO, based on the CEO's recommendation and our review of the appropriate objectives for these individuals.

Under Mr. Przybyl's 2006 Executive Bonus Agreement, Mr. Przybyl was eligible to receive a one-time cash bonus equal to the sum of up to \$300,000, which equals 75% of his annual base compensation, if he achieved all of the performance measurements, and (b) up to \$100,000 (stretch bonus), which equals 25% of his annual base compensation, based on overachievement of the EBITDA (earnings before interest, taxes, depreciation and amortization) measure for 2006. Mr. Przybyl's performance measurements included achieving (i) earnings per share of at least \$0.01, (ii) a net revenue goal, (iii) an EBITDA goal, (iv) a successful capital raise, (v) the filing of at least twenty new ANDAs (abbreviated new drug applications) with the FDA and introducing ten new ANDA products to the market, and (vi) both ensuring the Company's lyophilization facility is (x) ready for inspection by the FDA and, should the FDA inspect the facility, (y) approved by the FDA; provided that each of (x) and (y) occurred no later than December 31, 2006.

Under Mr. Whitnell's 2006 Executive Bonus Agreement, he was eligible to receive a one-time cash bonus equal to the sum of up to \$112,500, which equals 45% of his annual base compensation, if he achieved all of the performance measurements, and up to \$37,500 based on overachievement of the EBITDA measure for 2006. Mr. Whitnell's performance measurements included (i) earnings per share of at least \$0.01, (ii) a net revenue goal, (iii) an EBITDA goal, (iv) a successful capital raise, (v) compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (as applicable based upon the criteria of the Securities Exchange Commission), and (vi) a combined budgeted manufacturing facility variance of zero among the Company's two manufacturing facilities.

However, with respect to awards of annual incentive compensation for both 2005 and 2006, we determined that the awards for partial achievement of the indicated performance measurements were not sufficient to recognize unanticipated achievements that provided tangible benefits to the company during the year in question. As to both years, we decided that achievements not contemplated by the incentive compensation formulas we approved, and which we could not have predicted at the beginning of the year, should be recognized, and granted discretionary compensation on this basis. Because Akorn is an entrepreneurial and opportunistic company we expect that such awards may be granted in the future as well. With respect to 2006, these discretionary bonuses were in the amounts of \$39,633.00 to Mr. Przybyl and of \$33,612.00 to Mr. Whitnell, in recognition of their contributions towards attainment of the following special achievements of the Company during 2006: (1) the significant number of strategic alliances formed by the Company, which far exceeded the number expected and proposed; (2) a substantial increase in the market capitalization of the Company; and (3) the conversion of the Company's Series A 6.0% Participating Convertible Preferred Stock (Series A Preferred Stock) and Series B 6.0% Participating Convertible Preferred Stock (Series B Preferred Stock) into common stock. We reached similar conclusions regarding the NEOs other than the CEO and CFO, based on the recommendations of the CEO.

**Long-Term Incentive Compensation.** As a company focused on growth we believe it is essential to provide our NEOs with significant long-term incentive compensation that aligns their interests with those of our shareholders. This is especially important because we do not provide any significant retirement benefits to our NEOs. Therefore, for their future financial well-being, they are expected to look to the long-term success of the company, and this is beneficial for our shareholders.

The consultant we engaged in 2005 recommended that we provide regular awards of long-term equity-based compensation. In light of this advice and what we perceived as a general need to provide flexibility and opportunity for various types of equity compensation awards, in 2005 we amended and restated the Akorn, Inc. 2003 Stock Option Plan. We also awarded restricted stock to a wide range of employees, including the NEOs. We typically award stock

options annually to NEOs and these options vest over three years and are exercisable through the end of five years.

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Also, in 2005 and 2006, we structured specific arrangements in the CEO's employment agreement calling for equity compensation designed to provide the CEO with opportunities for equity ownership of up to 2.5% of our outstanding stock, which is an objective in line with the equity ownership of CEOs in our peer group. Such a significant equity ownership potential gives the CEO an incentive to increase the value of our stock. We have provided similar, but lesser equity compensation awards to the CFO in recognition of his efforts on behalf of the company and to provide appropriate incentives to him as well. Other NEOs receive equity compensation based primarily on recommendations by the CEO.

**Benefits.**

*Post-Termination Payments.* The only NEO we have provided post-termination benefits to is our CEO. In order to retain our CEO we felt it important to provide him with post-termination benefits in line with our peer group. These include, in the event of termination without cause or termination by the CEO for good cause, accelerated vesting of equity compensation awards, and multiples of base salary and past bonus compensation. These are increased in the event such a termination occurs after a change in control.

*Company-Wide Benefits.* Executive officers receive other standard benefits, including medical, disability and life insurance and, in certain instances, a car allowance. All employees who have attained the age of 21 are eligible for participation in the Company's 401(k) Plan. The company's matching contribution is a percentage of the amount contributed by each employee and is funded on a current basis.

*ESPP.* The Akorn, Inc. Employee Stock Purchase Plan permits eligible employees to acquire shares of the Company's common stock through payroll deductions not exceeding 15% of base wages, at a 15% discount from market price.

*Perquisites.* We provide limited perquisites to our NEOs in amounts we believe are appropriate. Our CEO is provided with certain of his perquisites under the terms of his employment agreement. See Summary Compensation Table, and Employment Agreements, below.

***Other Considerations.***

**Tax Considerations.** It has been and continues to be our intent that all non-equity incentive payments be deductible unless maintaining such deductibility would undermine the company's ability to meet its primary compensation objectives or is otherwise not in its best interest. At this time, essentially all compensation (except certain equity incentives) paid to the NEOs is deductible under Section 162(m) of the Internal Revenue Code. The company also regularly analyzes the tax effects of various forms of compensation and the potential for excise taxes to be imposed on the executive officers which might have the effect of frustrating the purpose(s) of such compensation. There are various provisions of the Internal Revenue Code which are considered.

**Accounting Treatment Considerations.** We are especially attuned to the impact of FAS 123R with respect to the grant and vesting of equity compensation awards. Prior to the granting of such awards, we analyze the short and longer-term effects of any particular award on the company's budget for the year of grant and anticipated financial impact in future years. This information is taken into account in determining the type and vesting parameters for equity-based compensation awards.

***Timing of Equity Grants and Equity Grant Practices.*** The Compensation Committee makes grants of equity compensation to all of the NEOs and any other executives that are required to file reports under Section 16 of the Securities Exchange Act. However, with regard to other equity compensation awards, it has delegated authority to the Vice President, Human Resources, with the understanding that he will consult and be directed by the CEO with respect to such grants. All awards are made based on the closing price of our stock on the date of the award.

The timing of certain awards to the CEO are specifically outlined in the employment agreement with the CEO. Otherwise, generally, awards are made in the first quarter of each year to NEOs as well as other employees based upon the recommendations of the CEO in consultation with the Vice President, Human Resources. In addition, awards are made to new employees at the time of their joining the company, and to employees who are promoted

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during the year. The timing of such awards depends on those specific circumstances and is not timed to any other particular company event, anticipated events or announcements.

**Compensation Committee Report**

*The information contained in this report shall not be deemed to be soliciting material or filed with the SEC or subject to the liabilities Section 18 of the Exchange Act, except to the extent that Akorn, Inc. specifically incorporates by reference into a document filed under the Securities Act or the Exchange Act.*

The Compensation Committee of Akorn, Inc. has reviewed and discussed with management the Compensation Discussion and Analysis for fiscal 2006. Based on the review and discussions, the Committee recommended to the board of directors, and the board of directors has approved, that the Compensation Discussion and Analysis be included in Akorn, Inc.'s Proxy Statement for its 2007 Annual Meeting of Stockholders.

This report is submitted by the Committee.

Ronald M. Johnson, Chair

Jerry I. Treppel

Jerry N. Ellis

**Executive Compensation Tables**

The following table includes information concerning compensation paid to or earned by the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers (the Named Executive Officers) for the year ended December 31, 2006.

SUMMARY COMPENSATION TABLE

Name and principal position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d) (1)	Stock Awards (\$) (e) (2)	Non-Executive Officer Compensation				Total (\$) (j)
					Option Awards (\$) (f) (3)	Non-qualified Incentive Plan (\$) (g)	Deferred Compensation (\$) (h)	All Other Compensation (\$) (i) (4)	
Arthur S. Przybyl, Chief Executive Officer and President	2006	400,000	255,000	458,958	421,306			61,140	1,596,404
Jeffrey A. Whitnell, Senior Vice President, Finance and Chief Financial Officer	2006	250,000	95,625	182,583	184,807			27,277	740,292
Abu S. Alam, Ph.D., Senior Vice President, New Business Development	2006	192,471	49,534	13,500	17,555			34,285	307,345
John R. Sabat, Senior Vice President, National Accounts	2006	192,471	81,939	13,500	18,734			19,967	326,611



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SUMMARY COMPENSATION TABLE

Name and principal position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d) (1)	Stock Awards (\$) (e) (2)	Non-Equity Incentive Compensation				Total (\$) (j)
					Option Awards (\$) (f) (3)	Non-qualified Plan Compensation (\$) (g)	Deferred Compensation Earnings (\$) (h)	All Other Compensation (\$) (i) (4)	
Mark Silverberg, Senior Vice President, Global Quality Assurance	2006	201,096	32,250	-0-	54,697			19,805	307,848

(1) The amounts shown in this column are the annual cash bonus incentive awards earned in 2006 and paid to the Named Executive Officers in 2007.

(2) This column shows the amount that we have expensed during 2006 under Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment (FAS 123R) for all outstanding restricted stock awards. These amounts were determined by multiplying the number of restricted shares granted by the closing price of our common

stock on the date of grant, allocated over the vesting period of the award.

Additional information regarding these awards is included in the notes to the Grants of Plan-Based Awards and Outstanding Equity Awards tables.

- (3) This column shows the amount that we have expensed during 2006, excluding an estimate of forfeitures related to service-based vesting conditions, under FAS 123R for all outstanding stock option awards and includes compensation cost recognized in the financial statements with respect to awards granted in previous fiscal years and in 2006. These amounts were determined as of the option's grant date using a Black-Scholes option valuation

model. The assumptions used were the same as those reflected in Note J to our consolidated financial statements for the year ended December 31, 2006, included in our 2006 Annual Report on Securities and Exchange Commission Form 10-K.

- (4) The amounts reported in this column represent the aggregate dollar amount for each Named Executive Officer for perquisites and other personal benefits, tax reimbursements, our matching contributions to the Akorn 401(k) savings plan, insurance premiums, and other benefits as follows:

Name	ALL OTHER COMPENSATION									Total (\$) (k)
	Car Allowance	Financial Planning Services	Spouse Travel	Disability Insurance Premium	Tax Gross-Up	401(k) Match	Group Term Life Insurance Premium	Health Insurance Premium	Other	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j) (1)	(k)
	10,000	6,750	22,599	1,760	19,392	7,500	540	2,149	450	61,140

Arthur S. Przybyl										
Jeffrey A. Whitnell	6,000	6,750	1,524	1,804	6,282	7,490	828	2,149	450	27,277
Abu S. Alam	6,000	6,750	5,146	1,990	7,968	7,439	2,376	2,149	467	34,285
John R. Sabat	6,000	-0-	3,362	1,992	3,430	5,032	1,548	2,149	2,454	19,967
Mark Silverberg	6,000	-0-	2,568	1,399	2,277	7,214	828	2,149	3,370	19,805

(1) This column represents annual health club dues for Messrs. Przybyl and Whitnell, and the discount from market value on shares purchased through the Employee Stock Purchase Plan for Messrs. Alam, Sabat and Silverberg.

The annual cash bonus incentive awards earned in 2006 by Mr. Przybyl and Mr. Whitnell were based on the Executive Bonus Agreements dated April 27, 2006, between us and Mr. Przybyl and Mr. Whitnell, respectively. Mr. Przybyl received a bonus equal to \$221,614.00, pursuant to his executive bonus agreement. Mr. Whitnell received a bonus equal to \$64,355.00, pursuant to his executive bonus agreement. Mr. Przybyl and Mr. Whitnell were also awarded additional cash bonuses for reasons not reflected in their executive bonus agreements, resulting from developments not contemplated or foreseen at the time those agreements were entered into. These discretionary bonuses were in the amounts of \$33,386.00 to Mr. Przybyl and of \$31,270.00 to Mr. Whitnell, in recognition of their contributions towards attainment of the following special achievements of Akorn during 2006:

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(1) the significant number of strategic alliances formed by Akorn, which far exceeded the number expected and proposed; (2) a substantial increase in the market capitalization of Akorn; and (3) the conversion of Akorn's Series A and Series B Preferred Stock into Common Stock. The stock awards reported in column (e)(2) reflect the vesting in 2006 of restricted stock awards made in 2005. The option awards reported in (f)(3) reflect the value of options granted in 2006 and prior years to the extent those awards vested in 2006. Under FAS 123R such awards are expensed as they vest.

**2006 Grants of Plan-Based Awards**

The following table provides additional information about stock and option awards granted to our Named Executive Officers during the year ended December 31, 2006.

## GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	All Other Stock Awards:	All Other Option Awards:	Exercise or Base Price of Option Awards	Grant Date and Fair Value of Stock Awards(\$)
				Number of Shares of Stocks	Number of Securities Underlying Options		
(a)	(b)	Maximum	Maximum	(1)	(2)	(3)	(4)
		Threshold	Target	Threshold	Target	Maximum	
		(\$)	(\$)	(\$)	(\$)	(\$)	
		(C)	(d)	(e)	(f)	(g)	(h)
Arthur S. Przybyl	4/20/06			250,000			1,262,500
	4/20/06				500,000	5.05	991,300
Jeffrey A. Whitnell	4/20/06			100,000			505,000
	4/20/06				167,000	5.05	331,094
Abu S. Alam							
John Sabat							
Mark Silverberg	5/22/06				35,000	4.11	56,476

(1) As approved by the Compensation Committee of Akorn, Inc. on April 20, 2006,

Messrs. Przybyl and Whitnell were granted 250,000 and 100,000 Restricted Stock Awards, respectively. See Outstanding Equity Awards at Fiscal Year-End for more information on vesting schedules of outstanding Restricted Stock Awards.

- (2) As approved by the Compensation Committee of Akorn, Inc. on April 20, 2006, Messrs. Przybyl and Whitnell were granted options to acquire 500,000 and 167,000 shares, respectively, of our common stock. The FAS 123R valuation of these stock option grants is \$1.98 per share. Mr. Silverberg was granted an option to acquire 35,000 shares of our common stock in partial consideration of his promotion to Senior Vice President, Global Quality

Assurance on  
May 22, 2006.  
The FAS 123R  
valuation of this  
stock option  
grant is \$1.61  
per share. See  
Outstanding  
Equity Awards  
at Fiscal  
Year-End for  
more  
information on  
vesting  
schedules of  
outstanding  
Options.

- (3) The per-share  
exercise or base  
price of the  
Options granted  
in the fiscal year  
is based on the  
closing price of  
the Company's  
common stock  
on the grant date  
of each  
respective  
award.

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- (4) The grant date fair value of the restricted stock awards granted on April 20, 2006 is based on the closing price of our common stock on that date, or \$5.05 per share. The grant date fair value of the stock option awards was determined using a Black-Scholes option valuation model. The assumptions used were the same as those reflected in Note J to our consolidated financial statements for the year ended December 31, 2006, included in our 2006 Annual Report on Securities and Exchange Commission Form 10-K.

**Employment Agreements**

On April 24, 2006, we entered into an Executive Employment Agreement (the "Employment Agreement") with Mr. Przybyl, our President and Chief Executive Officer. The Employment Agreement has an initial term of three years and provides the terms and conditions of Mr. Przybyl's continued employment as our President and Chief Executive Officer. The Employment Agreement automatically renews for subsequent one-year terms unless either we or Mr. Przybyl provide prior written notice that the Employment Agreement shall not be renewed 120 days in advance of the end of the respective term. Pursuant to the Employment Agreement, Mr. Przybyl's base salary for 2006 was \$400,000. The annual base salary for subsequent years may be increased by the Board in its sole discretion and was increased to \$440,000 for 2007. Mr. Przybyl will also receive health, insurance and retirement benefits generally available to our executives and will be provided certain perquisites, including a vehicle allowance of \$10,000 per year.

The Board, in its sole discretion, may also award Mr. Przybyl bonuses based upon his and our performance as follows. The Board shall approve annual performance goals, the achievement of which will result in (i) bonus

compensation of up to 75% of Mr. Przybyl's annual base salary and, provided that such 75% bonus has been achieved in full, (ii) additional bonus compensation of up to 25% of Mr. Przybyl's annual base salary. The Board may also approve additional bonuses. In determining whether to award such additional bonuses and in determining the amount thereof, the Board will focus on our overall performance and individual contributions by Mr. Przybyl to the achievement of our established goals.

As partial consideration for the Employment Agreement, Mr. Przybyl (i) was granted 250,000 shares of restricted stock on April 20, 2006, (ii) was granted 500,000 options to purchase our common stock on April 20, 2006 and (iii) was granted 400,000 options to purchase our common stock on January 1, 2007. In addition, the Board may make additional equity award grants to Mr. Przybyl from time to time in its sole discretion. Fifty percent of the shares of restricted stock vest on the first anniversary of the date of grant, with an additional twenty-five percent to vest on each of the second and third anniversaries of the date of grant. Twenty-five percent of the stock options vest immediately upon grant, with an additional twenty-five percent to vest on each of the first, second and third anniversaries of the date of grant.

Pursuant to the Employment Agreement, Mr. Przybyl's employment may be terminated by us for "Good Cause" or "Without Cause", by Mr. Przybyl voluntarily or for "Good Reason", or by either party in the event the Employment Agreement is not renewed after expiration of the initial three-year term or any subsequent one-year term.

In the event of his termination for "Good Cause", Mr. Przybyl shall receive (i) his base salary pro rated through the date of termination, (ii) any benefits and expense reimbursements to which he is entitled, less all applicable withholdings and deductions (collectively, the "Standard Entitlements"), and (iii) accelerated vesting of any unvested portion of the restricted stock and stock options described above. In the event of termination by means of his voluntary resignation, Mr. Przybyl shall receive the Standard Entitlements.

In the event Mr. Przybyl's employment is terminated by us "Without Cause", by Mr. Przybyl for "Good Reason" or by the non-renewal of the Employment Agreement by either party, Mr. Przybyl shall receive the Standard Entitlements and a severance payment comprised of: (x) a cash amount equal to 18 months of his base salary for the applicable year, payable in the sole discretion of the Board either (a) in a lump sum, or (b) over time in accordance with our regular payroll cycle, (y) a cash bonus equal to (i) 1.5 times the last annual bonus received by Mr. Przybyl (if the termination occurs in 2006), or (ii) 1.5 times the average of the last two annual bonuses received by Mr. Przybyl (if the termination occurs in 2007 or thereafter), and (z) accelerated vesting of all unvested equity awards granted on or after April 24, 2006 that would otherwise vest during the 18-month period following termination (collectively, the "Severance Payment"). Delivery of the Severance Payment is conditioned upon Mr.

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Przybyl doing the following: (1) complying with all surviving provisions of the Employment Agreement; (2) executing a full general release, releasing all claims, known or unknown, that Mr. Przybyl may have against us arising out of or any way related to Mr. Przybyl's employment or termination of employment with us; and (3) agreeing to act as a consultant on a reasonable basis for us during regular business hours and with full reimbursement for all reasonable and necessary expenses for up to a maximum of 30 days, at his then-current base salary, if requested to do so by the Board in its sole discretion.

In the event Mr. Przybyl's employment is terminated by us Without Cause or by Mr. Przybyl for Good Reason upon or within twenty-four months of a Change in Control, Mr. Przybyl shall receive (i) continuation of all medical, dental and prescription drug benefits to which he is entitled under the Employment Agreement until the 30-month anniversary of the date of termination; (ii) a cash amount equal to 2.5 times his base salary, payable in the sole discretion of our Compensation Committee either (a) in a lump sum, or (b) over time in accordance with our regular payroll cycle; (iii) a cash bonus equal to (y) 2.5 times the most recent annual bonus received by Mr. Przybyl (if the termination occurs in 2006), or (z) 2.5 times the average of the two most recent annual bonuses received by Mr. Przybyl (if the termination occurs in 2007 or thereafter); (iv) accelerated vesting of all unvested equity awards granted on or after April 24, 2006 that would otherwise vest on any date following termination; and (v) reimbursement for up to \$20,000 for outplacement and job placement assistance chosen by Mr. Przybyl (the Change in Control Severance). In addition, we shall pay Mr. Przybyl a cash amount equal to the combined federal and state income tax payable by Mr. Przybyl with respect to the Change in Control Severance. Such payment shall be capped at \$2,500,000 in the event of a termination on or before December 31, 2007, and shall not be capped in the event of a termination thereafter.

The Employment Agreement also contains a standard confidentiality provision as well as non-competition and non-solicitation provisions. The parties have agreed to arbitrate any claims arising under the Employment Agreement in accordance with prescribed arbitration procedures outlined in the Employment Agreement.

On April 27, 2006, we entered into an Executive Bonus Agreement with Mr. Przybyl. Under Mr. Przybyl's Executive Bonus Agreement, Mr. Przybyl was eligible to receive a one-time cash bonus equal to the sum of (a) up to \$300,000 if he achieved all of the performance measurements set forth in his Executive Bonus Agreement in 2006, and (b) up to \$100,000, based upon exceeding the Company's goal for earnings before interest, taxes, depreciation, and amortization (EBITDA) for 2006. Mr. Przybyl's performance measurements included achieving (i) earnings per share of at least \$0.01, (ii) a net revenue goal for 2006, (iii) an EBITDA goal for 2006, (iv) a successful capital raise, (v) the filing of at least twenty new abbreviated new drug applications with the FDA and introducing ten new abbreviated new drug application products to the market, and (vi) both ensuring the Company's lyophilization facility is (x) ready for inspection by the FDA and, should the FDA inspect the facility, (y) approved by the FDA; provided that each (x) and (y) occur no later than December 31, 2006. Pursuant to his Executive Bonus Agreement, Mr. Przybyl was awarded a bonus equal to \$221,614.00 in February of 2007. Mr. Przybyl also received a discretionary cash bonus in the amount of \$33,386.00, in recognition of his contributions towards attainment of the following special achievements during 2006, which were not contemplated or foreseen at the time his Executive Bonus Agreement was entered into: (1) the significant number of strategic alliances formed by the Company, which far exceeded the number expected and proposed; (2) a substantial increase in the market capitalization of the Company; and (3) the conversion of the Company's Series A Preferred Stock and Series B Preferred Stock into common stock.

Also, in connection with his serving as our Chief Executive Officer, we have provided to Mr. Przybyl supplemental indemnity assurances with respect to any claims associated with his execution, filing and submission of Chief Executive Officer Certifications of SEC reports for periods preceding his direct supervision of financial and accounting matters.

In June 2004, Mr. Whitnell received and accepted an employment offer letter for the position of our Vice President, Finance and Chief Financial Officer. His offer letter provides for an annual salary of \$180,000, a discretionary bonus of up to 30% of his base salary, a grant of options to purchase 100,000 shares of our common stock, severance for six months of his base salary if he is terminated without cause, and other customary benefits for our employees. In November 2004, Mr. Whitnell received and accepted a letter amending the terms of his employment. Under the terms of the amended letter, Mr. Whitnell was promoted to Senior Vice President, Finance

and Chief Financial Officer, his annual salary was increased to \$190,000 and he was granted an additional grant of  
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	750,000(5)	-0-	2.00	1/2/2009		
	125,000(12)	375,000	5.05	4/20/2011		
					250,000(15)	1,562,500
Jeffrey A. Whitnell	75,000(7)	25,000	3.45	6/19/2009		
	11,250(10)	3,750	3.99	11/15/2009		
	41,750(12)	125,250	5.05	4/20/2011		
					100,000(15)	625,000
			26			

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## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

## OPTION AWARDS (1)

## STOCK AWARDS (14)

Name	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Securities Underlying Unexercised Options (#) (d)	Exercise Price (\$)	Option Expiration Date (f)	Equity Incentive Plan Awards: Market Value of Unearned			
						Number of Shares or Units of Stock That Have Not Vested (g)	or	Shares, Units or Other Rights That Have Not Vested (i)	Shares, Units or Other Rights That Have Not Vested (j)
Abu S. Alam	25,000(2)	-0-		3.54	2/19/2007				
	25,000(4)	-0-		0.90	2/19/2008				
	30,000(6)	10,000		3.45	4/19/2009				
	7,500(9)	2,500		3.80	10/18/2009				
John R. Sabat	30,000(6)	10,000		3.45	4/19/2009				
	7,500(8)	2,500		3.10	10/4/2009				
Mark Silverberg	37,500(11)	37,500		2.60	4/25/2010				
	8,750(13)	26,250		4.11	5/22/2011				

(1) Outstanding stock options at December 31, 2006 become exercisable in accordance with the vesting schedule below:

Grant Date  
(2) 2/19/02

Vesting  
1/4 per year beginning on the anniversary of the grant

(3) 1/20/03

1/4 per year beginning on the anniversary of the grant

- (4) 2/19/03 1/4 per year beginning on the anniversary of the grant
  - (5) 1/2/04 750,000 options fully vesting on 9/2/04
  - (6) 4/19/04 1/4 per year beginning on the anniversary of the grant
  - (7) 6/17/04 1/4 per year beginning on the anniversary of the grant
  - (8) 10/4/04 1/4 per year beginning on the anniversary of the grant
  - (9) 10/18/04 1/4 per year beginning on the anniversary of the grant
  - (10) 11/15/04 1/4 per year beginning on the anniversary of the grant
  - (11) 4/25/05 1/4 per year beginning on the anniversary of the grant
  - (12) 4/20/06 1/4 per year beginning on the anniversary of the grant
  - (13) 5/22/06 1/4 per year beginning on the anniversary of the grant
- See 2006 Grants of Plan-Based Awards for more information on outstanding stock options.
- (14) Outstanding Restricted stock awards become vested in accordance with the schedule below:

Grant Date	Vesting
(15) 4/20/2006	1/2 on the first anniversary of the grant
	1/4 on the second anniversary of the grant
	1/4 on the third anniversary of the grant

Market value of all Restricted stock awards not yet vested was computed by multiplying \$6.25, the closing market price of our common stock on the American Stock Exchange at December 29, 2006 (the last business day in 2006),

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by the number of shares issuable upon full vesting. See 2006 Grants of Plan-Based Awards for more information on outstanding Restricted Stock Awards.

**2006 Option Exercises and Stock Vested Table**

The following Option Exercises and Stock Vested table provides additional information about the value realized by our named executive officers on option award exercises and stock awards vesting during the year ended December 31, 2006.

Name	OPTION AWARDS		STOCK AWARDS		
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Number of Shares Withheld to Cover Tax Liability (e)	Value Realized on Vesting (\$)
(a)	(b)	(c) (1)	(d)	(e)	(f) (2)
Arthur S. Przybyl	300,000	1,492,700	58,429	17,207	283,965
Jeffrey A. Whitnell	-0-	-0-	21,839	6,431	106,138
Abu S. Alam	5,000	15,550	20,690	6,093	100,553
John R. Sabat	100,000	549,822	20,690	6,279	100,553
Mark Silverberg	-0-	-0-	-0-	-0-	-0-

(1) Represents the price at which shares acquired upon exercise of the stock options were sold net of the exercise price for acquiring shares.

(2) These values are based on the closing price of our common stock on the trading day immediately preceding the vesting date (March 31, 2006), or \$4.86 per share.

## DIRECTOR COMPENSATION

Name	Fees		Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation		Total
	Earned or Paid in Cash	Stock Awards			Other Compensation	Earnings	
(a)	(b) (1)	(c)	(d) (2)	(e)	(f)	(g)	(j)
Dr. John N. Kapoor	50,000	-0-	-0-				50,000
Ronald M. Johnson	27,000	-0-	15,390				42,390
Jerry I. Treppel	28,500	-0-	15,390				43,890
Jerry N. Ellis	29,000	-0-	15,390				44,390

(1) The aggregate dollar amount of all fees earned or paid in cash for services as a director, including annual retainer fees, committee and/or chairmanship fees, and meeting fees.

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(2) All stock options granted to our independent directors prior to January 1, 2007 have vested immediately upon grant. These amounts represent the FAS 123R valuation of the options to acquire 10,000 shares of our common stock which were granted to each of our independent directors in May 2006. These amounts were also fully expensed in 2006.

**Director Compensation**

Director compensation is developed by the Compensation Committee in coordination with management and submitted to the Board for approval.

Each director who is not one of our salaried officers receives a fee for his services as a director of \$1,500 per regular meeting of the Board attended in person, \$500 per telephone meeting attended and \$500 per committee meeting attended, plus reimbursement of expenses related to thereto. Each of our independent directors also receives an annual retainer in the amount of \$18,000. The chairs of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee also receive annual compensation of an additional \$5,000. The Chairman of the Board receives \$50,000 per year for his services.

Our independent directors were each granted an option to acquire 10,000 shares of our common stock in May 2006 under our Amended and Restated Akorn, Inc. 2003 Stock Option Plan ( Amended 2003 Plan ). These options were all fully vested at the date of grant. Our independent directors were also granted options to acquire 20,000 shares of our common stock on January 1, 2007, in recognition of their service in 2006, with 2/3 of such options vesting immediately and the remainder vesting on January 1, 2008. Also, on January 1, 2007, our independent directors were granted options to acquire 30,000 shares of our common stock with 1/3 of the options vesting at issuance and 1/3 of the options vesting annually for two years after issuance. Options granted under the Amended 2003 Plan expire five years from the date of grant.

In October of 2003, in connection with their serving as our directors, we provided to each of our independent directors supplemental indemnity assurances with respect to any claims associated with their serving as one of our directors, as a director of any of our subsidiaries, as a fiduciary of any of our employee benefit plans and in other positions held at our request.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Ronald M. Johnson, Chair, Jerry I. Treppel and Jerry N. Ellis who currently comprise the Compensation Committee, are each independent, non-employee directors of Akorn. No executive officer of Akorn served as a director or member of (i) the compensation committee of another entity in which one of the executive officers of such entity served on our Compensation Committee, (ii) the board of directors of another entity in which one of the executive officers of such entity served on our Compensation Committee, or (iii) the compensation committee of any other entity in which one of the executive officers of such entity served as a member of our Board, during the year ended December 31, 2006.

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**ANNUAL REPORT**

**WE WILL PROVIDE, WITHOUT CHARGE, A COPY OF OUR ANNUAL REPORT ON FORM 10-K, INCLUDING FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES, AS FILED WITH THE SEC, UPON REQUEST IN WRITING FROM ANY PERSON WHO WAS A HOLDER OF RECORD OR WHO REPRESENTS IN GOOD FAITH THAT SUCH PERSON WAS A BENEFICIAL OWNER OF COMMON STOCK AS OF APRIL 12, 2007. REQUESTS SHOULD BE MADE TO AKORN, INC., ATTENTION: INVESTOR RELATIONS, 2500 MILLBROOK DRIVE, BUFFALO GROVE, ILLINOIS 60089.**

**HOUSEHOLDING OF PROXY MATERIALS**

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as householding, potentially means extra convenience for shareholders and cost savings for companies.

This year, brokers with account holders who are Akorn shareholders may be householding our proxy materials. A single proxy statement will be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker and direct your written request to Akorn, Inc., Attention: Investor Relations, 2500 Millbrook Drive, Buffalo Grove, Illinois 60089 or call 847.279.6156. Shareholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker.

**OTHER MATTERS**

Management is unaware of any matter for action by shareholders at the meeting other than those described in the accompanying notice. The enclosed proxy, however, will confer discretionary authority with respect to any other matter that may properly come before the annual meeting, or any adjournment thereof. It is the intention of the persons named in the enclosed proxy to vote in accordance with their best judgment on any such matter.

By Order of the Board of Directors

/s/ Jeffrey A. Whitnell

Jeffrey A. Whitnell

Secretary

Buffalo Grove, Illinois

April 26, 2007

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(IF ANY) 000000000.000000 ext 000000000.000000 ext ADD 1 ADD 2 ADD 3 ADD 4 ADD 5  
NNNNNNNNNN ADD 6 Using a **black ink** pen, mark your votes with an **X** as shown in X this example.  
Please do not write outside the designated areas. **Annual Meeting Proxy Card 3 PLEASE FOLD  
ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE  
ENCLOSED ENVELOPE. 3 A Proposals The Board of Directors recommends a vote FOR all the  
nominees listed and FOR Proposal 2. 1. Election of Directors: For Withhold For Withhold For  
Withhold + 01 John N. Kapoor, Ph.D. 02 Arthur S. Przybyl 03 Jerry N. Ellis 04 Ronald M. Johnson 05  
Jerry I. Treppel 06 Subhash Kapre, Ph.D. 07 Randall J. Wall For Against Abstain 2. Proposal to ratify  
the selection of BDO Seidman, LLP to 3. In their discretion to vote upon such other business as may  
properly serve as Akorn s independent registered public accounting come before the Annual Meeting and  
any adjournments thereof. firm for the fiscal year ending December 31, 2007. (Please see reverse side) B  
Non-Voting Items Change of Address Please print new address below. C Authorized Signatures  
This section must be completed for your vote to be counted. Date and Sign Below Please sign  
exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor,  
administrator, corporate officer, trustee, guardian, or custodian, please give full title. Date (mm/dd/yyyy)  
Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep  
signature within the box.**

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**3 PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. 3 Proxy Akorn, Inc. This Proxy is Solicited on Behalf of the Board of Directors of AKORN, INC.** The undersigned hereby constitutes and appoints Arthur S. Przybyl and Jeffrey A. Whitnell, or either of them, proxy for the undersigned, with full power of substitution, to represent the undersigned and to vote, as designated on the reverse side hereof, all of the shares of common stock of Akorn, Inc. (the Company ) held of record by the undersigned on April 12, 2007 that the undersigned is entitled to vote at the annual meeting of shareholders of Akorn to be held on May 24, 2007 (the Meeting ), and at all adjournments thereof. This proxy when properly executed will be voted in the manner directed herein by the undersigned shareholder. **IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR EACH OF THE NOMINEES AND FOR THE PROPOSALS LISTED ON THE REVERSE SIDE. THE INDIVIDUALS DESIGNATED ABOVE WILL VOTE IN THEIR DISCRETION ON ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE MEETING.**