

ALKERMES INC
Form 10-K/A
November 14, 2002

Table of Contents

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

FORM 10-K/A
AMENDMENT NO. 1

(Mark One)
ANNUAL
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF
1934 For the
fiscal year
ended
March 31,
2002 or
TRANSITION
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-14131

ALKERMES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of
23-2472830 incorporation or organization) (I.R.S.
Employer Identification No.) 64 Sidney Street,
Cambridge, MA 02139-4234 (Address of principal
executive offices) (Zip Code)

(617) 494-0171

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act: None

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Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value \$.01 per share (Common Stock)
3 ¾% Convertible Subordinated Notes due 2007
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Based upon the last sale price of the Registrant's Common Stock on June 14, 2002, the aggregate market value of the 62,034,915 outstanding shares of voting and non-voting common equity held by non-affiliates of the Registrant was \$998,762,132.

As of June 14, 2002, 64,287,054 shares of the Registrant's Common Stock were issued and outstanding, and 382,632 shares of the Registrant's Non-Voting Common Stock were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement to be filed within 120 days after March 31, 2002 for the Registrant's Annual Shareholders Meeting are incorporated into Part III of this Report on Form 10-K.

TABLE OF CONTENTS

PART II

Item 8. Financial Statements and Supplementary Data

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

SIGNATURES

CERTIFICATIONS

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

BALANCE SHEETS

STATEMENTS OF OPERATIONS

STATEMENTS OF CHANGES IN MEMBERS' (DEFICIT) CAPITAL

NOTES TO FINANCIAL STATEMENTS

Exhibit Index

Ex-23 Consent of Deloitte and Touche LLP

Ex-99.1 906 Certification by Chief Exec Officer

Ex-99.2 906 Certification by Chief Fin. Officer

Table of Contents

Explanatory Note

The Registrant is filing this Amendment No. 1 to its Annual Report on Form 10-K filed with the Securities and Exchange Commission on July 1, 2002 to include as a Financial Statement Schedule separate financial statements for a fifty percent or less owned person accounted for by the equity method by the Registrant as well as summarized financial information in the notes to its financial statements. Accordingly, in this Form 10-K/A, the Registrant is adding the required financial statements as a Financial Statement Schedule and is amending Item 14 to reflect such addition, and Note 8 to its Notes to Consolidated Financial Statements included in Item 8 to reflect such summarized financial information. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, or modify or update the disclosures therein in any way other than as required to reflect the amendments described above.

Table of Contents

PART II

Item 8. Financial Statements and Supplementary Data

ALKERMES, INC. AND SUBSIDIARIES

**Consolidated Financial Statements as of March 31, 2002 and 2001
and for each of the Three Years in the Period
Ended March 31, 2002 and Independent Auditors Report**

3

Table of Contents

INDEPENDENT AUDITORS REPORT

The Board of Directors
Alkermes, Inc.
Cambridge, Massachusetts

We have audited the accompanying consolidated balance sheets of Alkermes, Inc. and subsidiaries (the Company) as of March 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive loss, shareholders equity, and cash flows for each of the three years in the period ended March 31, 2002. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Alkermes, Inc. and subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

May 15, 2002

Table of Contents**ALKERMES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS
MARCH 31, 2002 AND 2001****ASSETS**

	2002	2001
CURRENT ASSETS:		
Cash and cash equivalents	\$16,023,074	\$5,923,282
Short-term investments	136,323,768	249,004,850
Receivables from collaborative arrangements	19,039,706	10,951,763
Prepaid expenses and other current assets	5,249,797	5,726,610
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Total current assets	176,636,345	271,606,505
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PROPERTY, PLANT AND EQUIPMENT:		
Land	235,000	235,000
Building	5,058,936	4,888,469
Furniture, fixtures and equipment	49,558,745	43,432,360
Leasehold improvements	15,016,553	14,401,828
Construction in progress	26,497,064	562,331
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	96,366,298	63,519,988
Less accumulated depreciation and amortization		

(34,530,467) (27,200,590)

61,835,831 36,319,398

INVESTMENTS

9,126,093 73,416,252

INVESTMENT IN RELIANT
PHARMACEUTICALS, LLC

94,596,536

OTHER ASSETS

8,155,472 9,955,060

TOTAL ASSETS

\$ 350,350,277 \$ 391,297,215

LIABILITIES AND SHAREHOLDERS EQUITY

CURRENT LIABILITIES:

Accounts payable and accrued expenses

\$20,764,375 \$9,414,327

Accrued interest

1,013,521 2,158,087

2002

2001

Deferred revenue		
	7,083,516	8,523,326
Long-term obligations - current portion		
	14,025,000	10,966,626

Total current liabilities		
	42,886,412	31,062,366

LONG-TERM OBLIGATIONS

	7,800,000	11,825,000
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CONVERTIBLE SUBORDINATED NOTES

	200,000,000	200,000,000
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COMMITMENTS (Note 11)

SHAREHOLDERS EQUITY:

Capital stock, par value \$.01 per share:

authorized, 4,550,000 shares; none issued

Common stock, par value \$.01 per share:

authorized, 160,000,000 shares; issued, 64,225,395 and 63,124,248 shares at March 31, 2002 and 2001, respectively

	642,254	631,243
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Non-voting common stock, par value \$.01 per share:

authorized, 450,000 shares; issued, 382,632

shares at March 31, 2002 and 2001

	3,826	3,826
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Additional paid-in capital

	444,425,742	427,129,226
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Deferred compensation

	(3,162,448)	(1,024,303)
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Accumulated other comprehensive income

	1,619,541	4,179,938
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Accumulated deficit

	(343,865,050)	(282,510,081)
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Total shareholders equity

99,663,865 148,409,849

TOTAL LIABILITIES AND
SHAREHOLDERS EQUITY
\$350,350,277 \$391,297,215

See notes to consolidated financial statements.

Table of Contents

ALKERMES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
YEARS ENDED MARCH 31, 2002, 2001 AND 2000**

	2002	2001	2000
REVENUES:			
Research and development revenue under collaborative arrangements	\$54,101,513	\$56,029,865	\$22,920,357
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EXPENSES:			
Research and development	92,092,381	68,773,691	54,482,672
General and administrative	24,386,425	19,611,284	14,878,753
Noncash compensation (income) expense attributed to research and development	(2,447,663)	29,492,656	
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Total expenses	116,478,806	85,937,312	98,854,081
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NET OPERATING LOSS			
	(62,377,293)	(29,907,447)	(75,933,724)
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OTHER INCOME (EXPENSE):

Interest and other income
15,301,885 22,436,856 11,538,884
Interest expense
(8,876,097) (9,398,724) (3,652,498)

Total other income
6,425,788 13,038,132 7,886,386

EQUITY IN LOSSES OF RELIANT PHARMACEUTICALS,
LLC
(5,403,464)

NET LOSS
(61,354,969) (16,869,315) (68,047,338)
PREFERRED STOCK DIVIDENDS
7,267,331 9,388,803

NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS
\$(61,354,969) \$(24,136,646) \$(77,436,141)

BASIC AND DILUTED LOSS PER COMMON SHARE
\$(0.96) \$(0.43) \$(1.52)

WEIGHTED AVERAGE NUMBER OF COMMON SHARES
OUTSTANDING
63,668,596 55,746,462 51,014,956

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE
LOSS**

NET LOSS
\$(61,354,969) \$(16,869,315) \$(68,047,338)
Foreign currency translation adjustments
(27,952) (72,876) (17,813)
Unrealized (loss) gain on marketable securities
(2,532,445) (2,489,250) 6,806,750

COMPREHENSIVE LOSS
\$(63,915,366) \$(19,431,441) \$(61,258,401)

See notes to consolidated financial statements.

Table of Contents

ALKERMES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
YEARS ENDED MARCH 31, 2002, 2001 AND 2000**

	\$3.25 Convertible Exchangeable Preferred Stock		1999 Convertible Exchangeable Preferred Stock		Common Stock Shares
	Shares	Amount	Shares	Amount	
BALANCE, MARCH 31, 1999	2,300,000	\$ 23,000		\$	49,964,918
Issuance of common stock upon exercise of options or vesting of restricted stock awards	1,692,850				
Issuance of common stock with warrants exercised	1,755,002				
Issuance of 1999 convertible exchangeable preferred stock	3,500	35			
Conversion and redemption of \$3.25 convertible exchangeable preferred stock	(1,000)	(10)	3,374		
Conversion of 1999 convertible exchangeable preferred stock	(3,500)	(35)	322,376		
Conversion of note payable to corporate partner		215,476			
Options and restricted awards canceled					
Noncash compensation					
Amortization of noncash compensation					
Cumulative foreign currency translation adjustments					
Unrealized gain on marketable securities					
Net loss for year					
Preferred stock dividends					
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BALANCE, MARCH 31, 2000	2,299,000	22,990	53,953,996		

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Common Stock Amount	Non-Voting Common Stock		Additional Paid-in Capital
	<u> </u>	<u>Shares</u>	<u>Amount</u>	<u> </u>
BALANCE, MARCH 31, 1999	\$ 499,649		\$	\$ 346,599,608
Issuance of common stock upon exercise of options or vesting of restricted stock awards				
16,928 6,249,901				
Issuance of common stock with warrants exercised				
17,550 6,217,628				
Issuance of 1999 convertible exchangeable preferred stock				
34,999,965				
Conversion and redemption of \$3.25 convertible exchangeable preferred stock				
34 (24)				
Conversion of 1999 convertible exchangeable preferred stock				
3,224 382,632 3,826 157,445				
Conversion of note payable to corporate partner				
2,155 5,247,030				
Options and restricted awards canceled				
(754,849)				
Noncash compensation				
28,861,232				
Amortization of noncash compensation				
Cumulative foreign currency translation adjustments				
Unrealized gain on marketable securities				
Net loss for year				
Preferred stock dividends				
_____ _____ _____ _____ _____ _____				
BALANCE, MARCH 31, 2000	539,540	382,632	3,826	427,577,936
_____ _____				

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Other Comprehensive Income (Loss)	Foreign Unrealized Gain (Loss)	Currency Translation Adjustments	Marketable Securities	Accumulated Deficit	Total
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BALANCE, MARCH 31, 1999	\$ (9,932,199)	\$ (46,873)	\$	\$ (180,937,294)	\$ 156,205,891	
Issuance of common stock upon exercise of options or vesting of restricted stock awards	6,266,829					
Issuance of common stock with warrants exercised	6,235,178					
Issuance of 1999 convertible exchangeable preferred stock	35,000,000					
Conversion and redemption of \$3.25 convertible exchangeable preferred stock						
Conversion of 1999 convertible exchangeable preferred stock	164,460					
Conversion of note payable to corporate partner	5,249,185					
Options and restricted awards canceled	754,849					
Noncash compensation	(28,861,232)					
Amortization of noncash compensation	29,492,656	29,492,656				
Cumulative foreign currency translation adjustments	(17,813)	(17,813)				
Unrealized gain on marketable securities	6,806,750	6,806,750				
Net loss for year	(68,047,338)	(68,047,338)				
Preferred stock dividends	(9,388,803)	(9,388,803)				
_____ _____ _____ _____ _____ _____						
BALANCE, MARCH 31, 2000	(8,545,926)	(64,686)	6,806,750	(258,373,435)	167,966,995	
_____ _____						

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Table of Contents

ALKERMES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
YEARS ENDED MARCH 31, 2002, 2001 AND 2000**

	\$3.25 Convertible Exchangeable Preferred Stock		1999 Convertible Exchangeable Preferred Stock		Common Stock		Non-Voting Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
BALANCE, MARCH 31, 2000	2,299,000	22,990			53,953,996	539,540	382,632	3,826
Issuance of common stock upon exercise of options or vesting of restricted stock awards	1,251,334	12,513						
Issuance of common stock to collaborative partner	160,030	1,600						
Conversion and redemption of \$3.25 convertible exchangeable preferred stock	(2,299,000)	(22,990)	7,758,888	77,590				
Noncash compensation								
Amortization of noncash compensation								
Cumulative foreign currency translation adjustments								
Unrealized gain on marketable securities								
Net loss for year								
Preferred stock dividends								
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BALANCE, MARCH 31, 2001	63,124,248	631,243	382,632	3,826				
Issuance of common stock upon exercise of options or vesting of restricted stock awards	772,502	7,725						
Conversion of note payable to corporate partner	328,645	3,286						

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	Other Comprehensive Income (Loss)				
	Additional Paid-in Capital	Deferred Compensation	Foreign Currency Translation Adjustments	Unrealized Gain on Marketable Securities	Accumulated Deficit
BALANCE, MARCH 31, 2000	427,577,936	(8,545,926)	(64,686)	6,806,750	(258,373,435)
Issuance of common stock upon exercise of options or vesting of restricted stock awards	4,601,681			4,614,194	
Issuance of common stock to collaborative partner	4,998,378			4,999,978	
Conversion and redemption of \$3.25 convertible exchangeable preferred stock	(79,483)			(24,883)	
Noncash compensation	(9,969,286)	9,969,286			
Amortization of noncash compensation	(2,447,663)			(2,447,663)	
Cumulative foreign currency translation adjustments			(72,876)	(72,876)	
Unrealized gain on marketable securities				(2,489,250)	(2,489,250)
Net loss for year			(16,869,315)	(16,869,315)	
Preferred stock dividends			(7,267,331)	(7,267,331)	
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BALANCE, MARCH 31, 2001	427,129,226	(1,024,303)	(137,562)	4,317,500	(282,510,081)
Issuance of common stock upon exercise of options or vesting of restricted stock awards	5,711,634			5,719,359	
Conversion of note payable to corporate partner	7,503,044			7,506,330	
Options and restricted awards canceled	(198,783)			198,783	
Noncash compensation	3,631,656	(3,631,656)			
Amortization of noncash compensation	648,965	1,294,728		1,943,693	
Cumulative foreign currency translation adjustments			(27,952)	(27,952)	
Unrealized gain on marketable securities				(2,532,445)	(2,532,445)
Net loss for year			(61,354,969)	(61,354,969)	

BALANCE, MARCH 31, 2002
\$444,425,742 \$(3,162,448) \$(165,514) \$1,785,055 \$(343,865,050) \$99,663,865

(Concluded)

See notes to consolidated financial statements.

Table of Contents

ALKERMES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2002, 2001 AND 2000**

	<u>2002</u>	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(61,354,969)	\$(16,869,315)	\$(68,047,338)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation, amortization and other noncash expenses	10,501,303	7,697,662	6,430,934
Equity in losses of Reliant Pharmaceuticals, LLC	5,403,464		
Noncash interest expense	328,626	509,229	776,347
Compensation relating to issuance of common stock and grant of stock options and awards made	(2,447,663)	29,492,656	
Adjustments to other assets	89,536	270,064	(304,917)
Changes in assets and liabilities:			
Receivables from collaborative arrangements	(8,087,943)	(7,804,381)	367,639
Prepaid expenses and other current assets	476,309	(1,331,415)	(2,162,290)
Accounts payable and accrued expenses	11,402,018	3,343,574	1,429,472
Deferred revenue	(1,439,810)	(131,736)	(932,871)
Other long-term liabilities	(1,224,258)	(79,591)	
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Net cash used by operating activities	(42,681,466)	(17,988,239)	(33,029,959)
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CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in Reliant Pharmaceuticals, LLC
 (100,000,000)
 Additions to property, plant and equipment
 (33,384,402) (10,019,024) (5,756,987)
 Proceeds from the sale of equipment
 371,385
 Purchases of available-for-sale short-term investments
 (180,541,438) (158,203,910)
 Sales of available-for-sale short-term investments
 306,549,599 103,348,135
 (Purchases) maturities of held-to-maturity short-term
 investments, net
 (14,901,024) 139,909,645 (176,963,500)
 Maturities (purchases) of held-to-maturity long-term
 investments, net
 64,290,159 (53,321,814) (11,658,371)
 Increase in other assets
 (310,000) (521,456) (131,823)

Net cash provided by (used in) investing activities
 42,074,279 21,191,576 (194,510,681)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of common stock, net
 5,719,359 4,614,194 12,502,007
 Proceeds from loans
 35,000,000
 Repayment of loan
 (25,000,000)
 Payment of long-term obligations
 (4,983,334) (5,625,000) (7,200,000)
 Proceeds from issuance of common stock to collaborative
 partner
 4,999,978
 Payment of preferred stock dividends
 (7,267,331) (9,224,343)
 Payment for redemption of \$3.25 convertible
 exchangeable preferred stock
 (24,883)
 Proceeds from issuance of 1999 convertible exchangeable
 preferred stock
 35,000,000
 Proceeds from issuance of convertible subordinated notes

200,000,000
Payment of financing costs in connection with convertible
subordinated notes
(6,532,740)

Net cash provided by (used in) financing activities
10,736,025 (3,303,042) 224,544,924

EFFECT OF EXCHANGE RATE CHANGES ON CASH
(29,046) (77,655) (19,073)

NET INCREASE (DECREASE) IN CASH AND CASH
EQUIVALENTS
10,099,792 (177,360) (3,014,789)
CASH AND CASH EQUIVALENTS, BEGINNING OF
YEAR
5,923,282 6,100,644 9,115,432

CASH AND CASH EQUIVALENTS, END OF YEAR
\$16,023,074 \$5,923,284 \$6,100,643

SUPPLEMENTARY INFORMATION:

Cash paid for interest
\$7,792,031 \$8,396,088 \$2,029,011

Noncash activities:

Note payable and accrued interest converted to common
stock
\$7,506,330 \$ 5,249,185

Conversion of \$3.25 convertible exchangeable preferred
stock to common stock
\$ 110,459,074 \$50,000

1999 preferred stock dividends exchanged for common
stock
\$ \$ 164,460

See notes to consolidated financial statements.

Table of Contents

ALKERMES, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2002, 2001 AND 2000**

1. THE COMPANY

Alkermes, Inc. (the Company) is an emerging pharmaceutical company developing products based on its sophisticated drug delivery technologies. The Company has several areas of focus, including controlled, extended-release of injectable drugs utilizing its ProLease® and Medisorb® delivery systems and the development of inhaled pharmaceutical products based on its proprietary Advanced Inhalation Research, Inc. (AIR) pulmonary delivery system. The Company's business strategy is twofold. The Company partners its technology systems and drug delivery expertise with many of the world's finest pharmaceutical companies and also develops novel, proprietary drug candidates for its own account.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the accounts of Alkermes, Inc. and its wholly owned subsidiaries, Alkermes Controlled Therapeutics, Inc. (ACTI), Alkermes Controlled Therapeutics Inc. II (ACT II), Alkermes Investments, Inc., Alkermes Development Corporation II (ADC II), Alkermes Europe, Ltd. and AIR. ADC II serves as the one percent general partner of Alkermes Clinical Partners, L.P. (Clinical Partners), a limited partnership engaged in a research and development project with the Company (see Note 9). ADC II's investment in Clinical Partners is accounted for under the equity method of accounting, for which the carrying value was zero at March 31, 2002 and 2001 (see Note 9). All significant intercompany balances and transactions have been eliminated.

Use of Estimates The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments Statement of Financial Accounting Standards (SFAS) No. 107, Disclosures About Fair Value of Financial Instruments, requires disclosure of the fair value of certain financial instruments. The carrying amounts of cash, cash equivalents, accounts payable and accrued expenses approximate fair value because of their short-term nature. Marketable equity securities have been designated as available-for-sale and are recorded as other assets in the consolidated financial statements at fair value with any unrealized gains or losses included as a component of accumulated other comprehensive income, included in shareholders equity. The carrying amounts of the Company's debt instruments with its bank and corporate partner approximate fair value. The carrying amount of the Company's 3 3/4% Convertible Subordinated Notes due 2007 (the 3 3/4% Notes) was \$200,000,000. The fair value of the 3 3/4% Notes was \$211,107,000 at March 31, 2002. The fair value of the 3 3/4% Notes was determined from a quoted market source.

Table of Contents**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Net Loss Per Share Basic and diluted net loss per share are computed using the weighted average number of common shares outstanding during the period. Basic net loss per share excludes any dilutive effect from stock options, warrants, convertible exchangeable preferred stock and convertible subordinated notes. The Company continues to be in a net loss position and, therefore, diluted net loss per share is the same amount as basic net loss per share. Certain securities were not included in the computation of diluted net loss per share for the years ended March 31, 2002, 2001 and 2000 because they would have an antidilutive effect due to net losses for such periods. These securities include (i) options and awards with respect to 11,644,972, 9,674,703 and 7,706,790 shares of common stock in fiscal 2002, 2001 and 2000, respectively; (ii) warrants to purchase 1,800 shares of common stock in fiscal 2000; (iii) 7,760,504 shares of common stock issuable upon conversion of the \$3.25 convertible exchangeable preferred stock in fiscal 2000; and (iv) 2,952,030 shares of common stock issuable upon conversion of the 3 3/4% Notes in fiscal 2002, 2001 and 2000.

Revenue Recognition Research and development revenue consists of non-refundable research and development funding under collaborative arrangements with various corporate partners. Research and development funding generally compensates the Company for formulation, preclinical and clinical testing related to the collaborative research programs, and is recognized as revenue at the time the research and development activities are performed under the terms of the related agreements, when the corporate partner is obligated to pay and when no future performance obligations exist.

Fees for the licensing of product rights on initiation of collaborative arrangements are recorded as deferred revenue upon receipt and recognized as income on a systematic basis (based upon the timing and level of work performed or on a straight-line basis if not otherwise determinable) over the period that the related products or services are delivered or obligations as defined in the agreement are performed. Revenue from milestone or other upfront payments is recognized as earned in accordance with the terms of the related agreements. These agreements may require deferral of revenue recognition to future periods.

Research and Development Expenses The Company's research and development expenses include salaries and related benefits, laboratory supplies, temporary help costs, external research costs, consulting costs, occupancy costs, depreciation expense and other allocable costs directly related to its research and development activities. Research and development expenses are incurred in conjunction with the development of the Company's technologies, proprietary product candidates, collaborators' product candidates and in-licensing arrangements. External research costs relate to toxicology studies, pharmacokinetic studies and clinical trials that are performed under contract by external companies, hospitals or medical centers for the Company. All such costs are charged to research and development expenses as incurred.

Stock Options and Awards The Company has elected to continue to follow Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, for accounting for its employee stock options. Under APB No. 25, no compensation expense is recognized with respect to the grant of any stock options to employees if the exercise price of the Company's employee stock options equals the fair market price of the underlying stock on the date the option is granted.

Table of Contents**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Noncash Compensation (Income) Expense In fiscal 2002, noncash compensation expense was primarily related to restricted stock awards granted during fiscal 2002 and is included in research and development expenses and general and administrative expenses, as appropriate. Prior to fiscal 2002, noncash compensation (income) expense primarily related to equity transactions at the Company's subsidiary, AIR. Noncash compensation expense has been recorded in accordance with the intrinsic-value method prescribed by APB No. 25, Accounting for Stock Issued to Employees, for common stock issued and stock options and awards granted to employees. Stock or other equity-based compensation for non-employees must be accounted for under the fair value-based method as required by SFAS No. 123, Accounting for Stock-Based Compensation, and Emerging Issues Task Force (EITF) No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. Under this method, the equity-based instrument is measured at the fair value of the equity instrument on the date of vesting. The measurement date is generally the issuance date for employees and directors and the vesting date for consultants. The resulting noncash (income) expense has been recorded in the statements of operations upon issuance or over the vesting period of the common stock, stock option or award.

Income Taxes The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes. Deferred income taxes are recognized at rates expected to be in effect when temporary differences between the financial reporting and income tax basis of assets and liabilities reverse. Deferred taxes are not provided on the undistributed earnings of subsidiaries operating outside the U.S. that have been, or are intended to be, permanently reinvested (see Note 7).

Cash Equivalents Cash equivalents, with purchased maturities of three months or less, consist of money market accounts, mutual funds and an overnight repurchase agreement. The repurchase agreement is fully collateralized by U.S. Government securities.

Investments At March 31, 2002, debt securities classified as available-for-sale are recorded at fair value, which was determined based on quoted market prices. In order to provide more flexibility with the Company's investment portfolio during fiscal 2002, the Company began to treat the remaining portion of its held-to-maturity portfolio as available-for-sale.

At March 31, 2001, debt securities that the Company had the positive intent and ability to hold to maturity were reported at amortized cost and were classified as held-to-maturity. All other debt securities were classified as available-for-sale and were recorded at fair value. Fair value was determined based on quoted market prices. In order to provide more flexibility with the Company's investment portfolio, during fiscal 2001, the Company began to treat a portion of its short-term investments, amounting to approximately \$119,400,000 (which approximated fair market value) as available-for-sale. Short-term investments classified as held-to-maturity had maturity dates within one year from March 31, 2001.

All short-term and long-term investments consist of U.S. Treasury and other government securities, commercial paper and corporate notes. Investments classified as long-term at March 31, 2002 and March 31, 2001 include securities totaling \$9,126,093 and \$5,861,000, respectively, held as collateral under certain letters of credit, lease and loan agreements.

Total
\$88,508,295 \$55,723,511 \$144,231,806 \$1,227,007 \$(8,952) \$145,449,861

March 31, 2001

Held-to-maturity securities:

U.S. Government obligations
\$14,866,529 \$49,177,530 \$64,044,059 \$420,188 \$ 64,464,247
Corporate debt securities
114,875,685 18,377,987 133,253,672 2,308,989 (17,552) 135,545,109

129,742,214 67,555,517 197,297,731 2,729,177 (17,552) 200,009,356

Available-for-sale securities:

U.S. Government obligations						
10,708,654	33,554,543	44,263,197	2,354,979	(1,541)	46,616,635	
Corporate debt securities						
54,709,256	23,359,160	78,068,416	467,207	(28,887)	78,506,736	

65,417,910 56,913,703 122,331,613 2,822,186 (30,428) 125,123,371

Total
\$195,160,124 \$124,469,220 \$319,629,344 \$5,551,363 \$(47,980) \$325,132,727

The Company also has investments in marketable equity securities (approximately \$1,429,000 and \$3,574,000 at March 31, 2002 and 2001, respectively) that are currently classified as available-for-sale securities under the caption other assets. This caption also includes non-marketable warrants to purchase securities. The warrants are recorded at the lower of cost or market. Unrealized gains (losses) are included in accumulated other comprehensive income in shareholders' equity.

Property, Plant and Equipment Property, plant and equipment are recorded at cost. Depreciation and amortization are recorded using the straight-line method over the following estimated useful lives of the assets: building 25 years; furniture, fixtures and equipment 3 to 7 years; or, in the case of leasehold improvements, over the lease terms 1 to 20 years.

Other Assets Other assets consist primarily of unamortized debt offering costs and purchased patents, which are being amortized over seven and five years, respectively, and certain equity securities (see discussion in Investments above). Other assets also include merger costs related to the proposed merger transaction with Reliant Pharmaceuticals, LLC (Reliant).

Table of Contents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue Short Term During fiscal 1998, the Company received an upfront payment from ALZA Corporation (ALZA) to fund clinical development of Cereport®. This amount has been recorded as deferred revenue and is being amortized based on actual costs incurred for the clinical development of Cereport. In addition, the Company received prepayments for research and development costs under collaborative research projects with other corporate partners that are being amortized over the estimated term of the agreements using the straight-line method. The Company has also received cash milestone payments that are creditable against future royalty payments which are being recognized upon product sales of Nutropin Depot.

Deferred Compensation Deferred compensation is related to awards under the Company s 1991 Restricted Common Stock Award Plan and pursuant to compensatory stock options and restricted common stock and is amortized over vesting periods ranging from one to five years.

401(k) Plan The Company s 401(k) Retirement Savings Plan (the 401(k) Plan) covers substantially all of its employees. Eligible employees may contribute up to 100% of their eligible compensation, subject to certain Internal Revenue Service limitations. The Company matches a portion of employee contributions. The match is equal to 50% of the first 6% of deferrals and is fully vested when made. During fiscal 2002, 2001 and 2000, the Company contributed approximately \$863,000, \$632,000 and \$505,000, respectively, to match employee deferrals under the 401(k) Plan.

Reclassifications Certain reclassifications have been made in fiscal 2001 and 2000 to conform to the presentation used in fiscal 2002.

Comprehensive Income Comprehensive income is composed of net income and other comprehensive income. Other comprehensive income includes certain changes in the equity of the Company that are excluded from the net loss. Specifically, other comprehensive income includes unrealized gains and losses on the Company s available-for-sale securities and changes in the cumulative foreign currency translation adjustments.

Segments The Company s operations are treated as one operating segment reporting to the chief operating decision-makers of the Company. Accordingly, the segment disclosures contemplated by SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, are not applicable.

Recently Adopted Accounting Pronouncements The Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, on April 1, 2001. The adoption did not have any impact on the financial position or results of operations of the Company.

New Accounting Pronouncements In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 is effective for any business combinations initiated after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. On April 1, 2002 the Company adopted this statement and is in the process of evaluating the impact that such adoption will have on its financial statements. Under the new rules, goodwill is no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other identifiable intangible assets continue to be amortized over their useful lives should they be determinable; otherwise, they will be subject to the same annual impairment test. The Company, as described in Note 8, did apply SFAS No. 141 to its equity method investment since such investment occurred subsequent to June 30, 2001. Its impact is discussed in Note 8.

Table of Contents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued) In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets or for Long-Lived Assets to Be Disposed Of, in its entirety, and APB No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, only for segments to be disposed of. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. On April 1, 2002, the Company adopted this statement, and such adoption had no significant impact on its financial statements.

3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at March 31:

	<u>2002</u>	<u>2001</u>
Accounts payable	\$ 14,829,096	\$ 5,831,589
Accrued compensation	2,603,413	1,821,644
Accrued other	3,331,866	1,761,094
	_____	_____
	_____	_____
	\$20,764,375	\$9,414,327
	_____	_____
	_____	_____

4. SHAREHOLDERS EQUITY

Restricted Stock Purchase Agreements/Common Stock During fiscal 1999, the Company issued 7,361,016 shares of its common stock in conjunction with its acquisition of AIR. Of these shares, 4,802,230 shares of common stock were issued to key employees and consultants of AIR, the unvested shares of which are subject to restricted stock purchase agreements. The Company assumed these restricted stock purchase agreements entered into by AIR. The restricted stock vests quarterly over a four-year period at different amounts for each shareholder. At March 31, 2002 and 2001, approximately 4,802,000 and 4,537,000 shares of restricted stock, respectively, had vested. The agreements state that if the consulting or employment relationship terminates within four years of issuance, the Company shall have the right, but not the obligation, to repurchase the non-vested shares from the shareholder at the share price initially paid by the shareholder. During fiscal 2000, the Company exercised its right to repurchase 83,602 shares of non-vested restricted stock.

Table of Contents

4. SHAREHOLDERS EQUITY (CONTINUED)

\$3.25 Preferred Stock In March 1998, the Company completed a private placement of 2,300,000 shares of its convertible exchangeable preferred stock (the "\$3.25 Preferred Stock") at \$50.00 per share. Net proceeds to the Company were approximately \$110,500,000. The \$3.25 Preferred Stock was convertible at the option of the holder at any time, unless previously redeemed or exchanged, into the Company's common stock at a conversion rate of 3.3756 shares of common stock for each share of \$3.25 Preferred Stock.

In February 2001, the Company called, without penalty, for redemption the then-outstanding 1,768,200 shares of the \$3.25 Preferred Stock. In March 2001, prior to the redemption date, the holders of 1,767,724 shares of the \$3.25 Preferred Stock converted their shares into 5,967,124 shares of the Company's common stock. The Company redeemed the remaining shares at a redemption price of \$52.275 per share plus accrued and unpaid dividends, or approximately \$25,000. Prior to February 2001, holders of 530,800 shares of \$3.25 Preferred Stock converted their shares into 1,791,764 shares of the Company's common stock. During fiscal 2000, the holders of 1,000 shares of the \$3.25 Preferred Stock converted their shares into 3,374 shares of the Company's common stock.

Dividends on the \$3.25 Preferred Stock were cumulative from the date of original issue and were paid quarterly, commenced on June 1, 1998, and were paid each September 1, December 1, March 1 and June 1 thereafter, at the annual rate of \$3.25 per share. The final dividend payment was made on March 1, 2001.

1999 Preferred Stock In April 1999, the Company amended its license agreement with Genentech, Inc. ("Genentech") to expand its collaboration for Nutropin Depot, an injectable long-acting formulation of Genentech's recombinant human growth hormone based on the Company's ProLease drug delivery system. Under the agreement, the companies have been conducting expanded development activities, including clinical trials in an additional indication, process and formulation development and manufacturing. The agreement included milestone payments to reimburse the Company for its past research expenditures incurred from January 1, 1999 through December 31, 2000 plus an additional \$5 million. The milestone payment for past research expenditures was earned in June 2000 when Genentech launched Nutropin Depot for sale in the United States.

The terms of the collaboration included the purchase by Genentech of \$35 million (3,500 shares) of newly issued redeemable convertible exchangeable preferred stock of the Company (the "1999 Preferred Stock"). The 1999 Preferred Stock was convertible at Genentech's option into shares of common stock and non-voting common stock during any period after September 1, 1999 that the closing price of the Company's common stock was above \$22.50 per share for at least 10 consecutive trading days. In February 2000, Genentech exercised its option to convert the 1999 Preferred Stock together with accrued and unpaid dividends into 322,376 shares of voting and 382,632 shares of non-voting common stock.

Dividends on the 1999 Preferred Stock were paid quarterly through March 2000 at a floating three-month LIBOR rate.

Table of Contents

5. LONG-TERM OBLIGATIONS

Long-term obligations at March 31 consist of the following:

	<u>2002</u>	<u>2001</u>
Notes payable to a bank, bearing interest at fixed rates (6.97%-8.58%), payable in monthly or quarterly installments, maturing in fiscal 2003 and 2004	\$ 11,825,000	\$ 16,808,334
Note payable to a corporate partner, bearing interest (8.50% at March 31, 2001) at 2.5% above the one-year LIBOR, matured in fiscal 2002		
5,983,292		
Other		
10,000,000		
<hr/>		
<hr/>		
21,825,000	22,791,626	
Less current portion		
14,025,000	10,966,626	
<hr/>		
<hr/>		
\$7,800,000	\$11,825,000	
<hr/>		
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The bank notes listed above are secured by a building and real property pursuant to a mortgage and certain of the Company's equipment pursuant to security agreements. The bank notes are also secured by cash collateral (included in long-term investments at March 31, 2002) having a minimum market value of the lesser of \$1,000,000 or the outstanding principal amount of the loan. Under the terms of the bank note agreement, the Company is required to maintain a minimum unencumbered balance of cash and permitted investments and a minimum ratio of unencumbered cash and net quick assets to total liabilities as well as a minimum consolidated capital base.

In October 1998, the Company converted a prepayment of royalties from a former corporate partner, plus accrued interest, to a convertible promissory note in the principal amount of \$5,983,292 as a result of the discontinuation of a collaboration. In accordance with the terms of the convertible promissory note, the debt could be satisfied, at the Company's option, in cash or the Company's common stock. In October 2001, and in accordance with the scheduled maturity, the principal amount of the note, together with accrued interest of \$1,523,038, was converted into 328,645 shares of the Company's common stock.

In March 2002, the Company borrowed \$10 million from one of its investment managers under a loan agreement that is collateralized by a portion of its short-term investments. The balance of the loan was \$10 million at March 31, 2002 and was included in long-term obligations - current portion. Interest is at the Federal Funds Rate plus 75 basis points (2.5% at March 31, 2002). The loan was repaid in April 2002.

At March 31, 2002, the maturities of the long-term obligations are as follows:

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2003	\$ 14,025,000
2004	7,800,000
<hr/>	
	\$21,825,000
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The valuation allowance has been provided because of the uncertainty of realizing the future benefits of the net deferred income tax assets. The valuation allowance increased by \$22,488,000 from March 31, 2000 to March 31, 2001.

8. INVESTMENT IN RELIANT PHARMACEUTICALS, LLC

In December 2001, the Company announced a strategic alliance with Reliant, a privately held pharmaceutical company marketing branded, prescription pharmaceutical products to primary care physicians in the U.S.

18

Table of Contents**8. INVESTMENT IN RELIANT PHARMACEUTICALS, LLC (CONTINUED)**

As part of the alliance, in December 2001, the Company purchased approximately 63% of an offering by Reliant of its Series C Convertible Preferred Units, representing approximately 19% of the equity interest in Reliant, for a purchase price of \$100 million. The investment is being accounted for under the equity method of accounting because Reliant is organized as a limited liability company which is treated in a manner similar to a partnership. Because, at the time of the Company's investment, Reliant had an accumulated deficit from operations and a deficit in members' capital, under applicable accounting rules, the Company's share of Reliant's losses from the date of the investment will be recognized in proportion to the Company's percentage participation in the Series C financing, and not in proportion to its percentage ownership interest in Reliant. The Company records its equity in the income or losses of Reliant three months in arrears. The Company anticipates that Reliant will have substantial net losses through 2003, and accordingly, recorded its 63% share of such losses in its consolidated financial statements beginning in the quarter ended March 31, 2002.

Summarized financial information with regard to Reliant as of December 31, 2001 and for the year then ended is as follows:

(In thousands)

Current assets	\$ 155,993
Noncurrent assets	52,333
Current liabilities	164,687
Noncurrent liabilities	
Redeemable preferred units	286,018
Revenues	276,665
Costs and expenses	472,713
Net loss	(198,021)

In connection with the Company's \$100 million equity investment in Reliant, the Company is in the process of allocating its proportionate share of the assets acquired and liabilities assumed in accordance with the guidance set forth in SFAS No. 141. The Company has taken a \$2.7 million noncash charge for in-process research and development through the Statements of Operations under the caption Equity in Losses of Reliant Pharmaceuticals, LLC. The \$2.7 million noncash charge is related to management's current estimate of the amount of the purchase price to be allocated to in-process research and development. This analysis of the purchase price allocation is preliminary and the amount allocated to in-process research and development is subject to future adjustment.

9. RELATED-PARTY TRANSACTIONS

In March 1992, the Company licensed to Clinical Partners, a limited partnership of which ADC II is the general partner, certain of its technology relating to Receptor-Mediated Permeabilizers (RMPs). Research and development of RMPs is being conducted by the Company for Clinical Partners. The Company also has an obligation to fund the development of the technology and the on-going operations of Clinical Partners in order to maintain its option to purchase the limited partnership interests in Clinical Partners. Amounts expended to, or on behalf of, Clinical Partners were \$31,068, \$32,158 and \$64,638 for fiscal 2002, 2001 and 2000, respectively.

10. RESEARCH AND DEVELOPMENT ARRANGEMENTS

The Company has entered into several collaborative arrangements with corporate partners (the Partners) to provide research and development activities relating to the Partners' products. In connection with these agreements, the Company has granted certain licenses or the right to obtain certain licenses to technology developed by the Company. In return for such grants, the Company will receive certain payments upon the achievement of certain milestones and will receive royalties on sales of products developed under the terms of the agreements. Additionally, the Company has, or may obtain, the right to manufacture and supply products developed under certain of these arrangements.

The Company is currently expanding its Medisorb manufacturing facility in Wilmington, Ohio in anticipation of the commercial manufacture of Risperdal Consta. Pursuant to the terms of an agreement with Janssen Pharmaceutica (Janssen), Janssen has committed to make certain payments to the Company. In addition, Janssen has agreed to reimburse the Company for certain cumulative payments made by the Company for the expansion of its Medisorb manufacturing facility in Wilmington, Ohio, in the event Janssen terminates the collaborative arrangement with the Company prior to any commercial launch of Risperdal Consta.

Table of Contents**10. RESEARCH AND DEVELOPMENT ARRANGEMENTS (CONTINUED)**

Pursuant to the terms of an agreement with Eli Lilly & Company (Lilly), Lilly has agreed to provide funding of certain amounts for the design and construction of a portion of AIR s manufacturing facility in Chelsea, Massachusetts. Lilly s investment will be used to fund pulmonary insulin production and packaging capabilities. This funding will be secured by Lilly s ownership of specific equipment to be located and used in the facility. The Company has the right to purchase the equipment from Lilly, at any time, at the then-current net book value.

During fiscal 2002, 2001 and 2000, research and development revenue under collaborative arrangements from Genentech amounted to 9%, 51% and 18%, from Johnson & Johnson amounted to 22%, 21% and 41%, from Serono S.A. amounted to 13%, 3% and 7%, from GlaxoSmithKline amounted to 19%, 7% and 2%, and from Lilly amounted to 25%, 5% and 2%, respectively, of research and development revenue. At March 31, 2002 and 2001, amounts receivable under these collaborative arrangements totaled approximately \$17,105,000 and \$8,893,000, respectively.

11. COMMITMENTS

Lease Commitments The Company leases certain of its offices, research laboratories and manufacturing facilities under operating leases with initial terms of one to twenty years, expiring between 2002 and 2022. Several of the leases contain provisions for extensions of up to ten years. These lease commitments include a commitment for a building for new corporate headquarters, which is expected to be completed during fiscal 2003. Total annual future minimum lease payments are as follows:

2003	\$ 12,051,000
2004	
12,313,000	
2005	
11,875,000	
2006	
10,452,000	
2007	
10,101,000	
Thereafter	
160,901,000	

Rent expense charged to operations was approximately \$8,044,000, \$6,213,000 and \$5,223,000 for the years ended March 31, 2002, 2001 and 2000, respectively.

License and Royalty Commitments The Company has entered into license agreements with certain corporations and universities that require the Company to pay annual license fees and royalties based on a percentage of revenues from sales of certain products and royalties from sublicenses granted by the Company. Amounts paid under these agreements were approximately \$261,000, \$124,000 and \$165,000 for the years ended March 31, 2002, 2001 and 2000, respectively, and are included in research and development expenses.

Table of Contents**12. STOCK OPTIONS AND AWARDS**

The Company's Stock Option Plans (the Plans) include the Amended and Restated 1989 Non-Qualified Stock Option Plan (the 1989 Plan), the Amended and Restated 1990 Omnibus Stock Option Plan, as amended (the 1990 Plan), the 1992 Non-Qualified Stock Option Plan (the 1992 Plan), the 1998 Equity Incentive Plan (the 1998 Plan) and the 1999 Stock Option Plan (the 1999 Plan), which provide for the granting of stock options to employees, officers and directors of and consultants to, the Company. In addition, the Stock Option Plan for Non-Employee Directors (the Director Plan) provides for the granting of stock options to non-employee directors of the Company. Non-qualified options were initially authorized to purchase up to 450,000 shares of the Company's common stock under the 1989 Plan, non-qualified and incentive options were initially authorized to purchase up to 6,500,000 shares of the Company's common stock under the 1990 Plan, non-qualified options were initially authorized to purchase up to 2,000,000 shares of the Company's common stock under the 1992 Plan, non-qualified and incentive stock options and restricted stock were initially authorized to purchase up to 1,156,262 shares under the 1998 Plan, non-qualified and incentive options were initially authorized to purchase up to 9,900,000 shares under the 1999 Plan and non-qualified options were initially authorized to purchase up to 500,000 shares of the Company's common stock under the Director Plan. The 1989 Plan terminated on July 18, 1999 and the 1990 Plan terminated on September 19, 2000. Unless sooner terminated, the 1992 Plan will terminate on November 11, 2002, the 1998 Plan will terminate on April 1, 2008, the 1999 Plan will terminate on June 2, 2009 and the Director Plan will terminate on March 18, 2006. The Company has reserved a total of 14,112,176 shares of common stock for issuance upon exercise of options that have been or may be granted under the Plans.

The Compensation Committee of the Board of Directors administers the Plans and determines who is to receive options and the exercise price and terms of such options. The Compensation Committee has delegated its authority to the Compensation Sub-Committee to make grants and awards under the Plans to officers and has delegated its authority to the Limited Compensation Sub-Committee to make grants under the Plans up to 5,000 shares per individual grantee. The Board of Directors administers the Director Plan. The option exercise price of stock options granted under the 1989 Plan, the 1990 Plan, the 1998 Plan, the 1999 Plan and the Director Plan may not be less than 100% of the fair market value of the common stock on the date of grant. Under the terms of the 1992 Plan, the option exercise price may be below the fair market value, but not below par value, of the underlying stock at the time the option is granted.

The 1989 Plan, the 1990 Plan and the 1992 Plan also provide that the Compensation Committee may grant Limited Stock Appreciation Rights (LSARs) with respect to all or any portion of the shares covered by stock options granted to directors and executive officers. LSARs may be granted with the grant of a non-qualified stock option or at any time during the term of such option but may only be granted at the time of the grant of an incentive stock option. The grant of LSARs will not be effective until six months after their date of grant. Upon the occurrence of certain triggering events, including a change of control, the options with respect to which LSARs have been granted shall become immediately exercisable and the persons who have received LSARs will automatically receive a cash payment in lieu of shares. At March 31, 2002, there are 115,000 LSARs outstanding which have been granted under the 1990 Plan. No LSARs were granted during fiscal 2002, 2001 or 2000.

Table of Contents**12. STOCK OPTIONS AND AWARDS (CONTINUED)**

The Company has also adopted the 1991 Restricted Common Stock Award Plan (the Award Plan). The Award Plan provides for the award to certain eligible employees, officers and directors of, and consultants to, the Company of up to a maximum of 500,000 shares of common stock. The Award Plan is administered by the Compensation Committee. Awards generally vest over five years. During fiscal 2002, 2001 and 2000, 135,000, 2,500, and 7,000 shares of common stock, respectively, were awarded under the Award Plan and 1,250, zero, and 8,200 shares, respectively, ceased to be subject to forfeiture and were issued. In addition, zero shares were canceled during each of the years ended March 31, 2002, 2001 and 2000, respectively. At March 31, 2002, 2001 and 2000, there were awards for 195,850, 62,100 and 59,600 shares outstanding under the Award Plan, respectively. The Award Plan terminated on November 15, 2001.

Noncash compensation expense of \$1,943,693 in fiscal 2002 primarily resulted from the grant of restricted stock awards to certain employees and has been charged to research and development and general and administrative expenses, as appropriate. Included in the statement of shareholders' equity is deferred compensation of \$3,631,656 related to option and award grants in fiscal 2002, which will be amortized over the vesting periods.

Pro forma information regarding net loss and basic and diluted loss per common share in fiscal 2002, 2001 and 2000 has been determined as if the Company had accounted for its employee stock options under the fair-value method prescribed by SFAS No. 123. The resulting effect on pro forma net loss and basic and diluted loss per common share is not necessarily likely to be representative of the effects on net loss and basic and diluted loss per common share on a pro forma basis in future years, due to (i) grants made prior to fiscal 1996 being excluded from the calculation and (ii) the uncertainty regarding the magnitude of future grants. The fair value of options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates ranging from 3.93% - 4.97% in fiscal 2002, 4.64% - 6.30% in fiscal 2001 and 5.81% - 6.50% in fiscal 2000; dividend yields of 0% in fiscal 2002, 2001 and 2000; volatility factors for the expected market price of the Company's common stock of 70% in fiscal 2002 and in fiscal 2001 and 67% in fiscal year 2000; and a weighted average expected life of 4 years in fiscal 2002, 2001 and 2000. Using the Black-Scholes option pricing model, the weighted average fair value of options granted in fiscal 2002, 2001 and 2000 was \$11.29, \$16.99 and \$9.38, respectively. For purposes of pro forma disclosures, the estimated fair value of options is amortized to pro forma expense over the vesting period of the option. Pro forma information for the years ended March 31 is as follows:

	2002	2001	2000
Net loss - as reported	\$(61,354,969)	\$(24,136,646)	\$(77,436,141)
Net loss - pro forma (98,045,246) (49,346,718) (87,469,415)			
Basic and diluted loss per common share - as reported (0.96) (0.43) (1.52)			
Basic and diluted loss per common share - pro forma (1.54) (0.89) (1.71)			

Table of Contents**12. STOCK OPTIONS AND AWARDS (CONTINUED)**

A summary of option activity under the 1989, 1990, 1992, 1998, 1999 and Director Plans is as follows:

	Number of Shares	Exercise Price Per Share		Weighted Average Exercise Price
	_____	_____	_____	_____
Balance, March 31, 1999	6,623,632	\$ 0.28	-	\$15.92
				\$5.41
Granted				
3,214,700				11.61
-				
96.88				17.29
Exercised				
(1,768,252)				0.28
-				
5.50				3.56
Canceled				
(422,890)				1.66
-				
17.27				8.79

Balance, March 31, 2000				
7,647,190				0.30
-				
96.88				10.60
Granted				
3,478,450				23.19
-				
48.03				30.67
Exercised				
(1,250,434)				0.30
-				
22.13				3.69
Canceled				
(262,603)				5.00
-				
94.10				18.19

Balance, March 31, 2001				

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9,612,603 0.30
 -
 96.88 18.43
 Granted
 2,858,575 18.28
 -
 35.89 21.17
 Exercised
 (771,252) 0.30
 -
 23.88 7.42
 Canceled
 (250,804) 1.66
 -
 85.53 21.12

Balance,
 March 31, 2002
 11,449,122 \$0.30
 -
 \$96.88 \$19.85

Options granted generally vest ratably over four years, except options granted under the Director Plan which vest after six months.

The following table summarizes information concerning outstanding and exercisable options at March 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$0.30 - \$ 7.94	1,949,235	5.41	\$5.77	1,594,471	\$5.72
8.16 - 15.20					
733,439 6.42 10.69 506,748 10.55					
15.24 - 16.69					
2,370,101 7.58 16.68 1,161,631 16.68					
16.94 - 19.40					
2,167,921 9.46 19.35 23,496 18.08					
19.50 - 27.33					
752,275 9.21 25.19 216,100 23.04					

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28.03 - 29.31
2,547,913 8.67 29.25 618,393 29.29
29.34 - 96.88
928,238 8.55 35.86 311,008 37.40

\$0.30 - \$96.88
11,449,122 7.92 \$19.85 4,431,847 \$15.62

Table of Contents

13. PROPOSED MERGER TRANSACTION WITH RELIANT PHARMACEUTICALS, LLC

On March 20, 2002 the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Reliant Pharmaceuticals, LLC pursuant to which, if consummated, each Reliant unit would be converted into the right to receive 1.3297 shares of our common stock (the Exchange Ratio). Reliant is a privately held pharmaceutical company marketing branded, prescription pharmaceutical products to primary care physicians in the U.S. The transactions contemplated by the Merger Agreement are structured as a tax-free exchange. In addition, the Company would assume the equity incentive plans of Reliant.

At the time of the announcement of the merger, the estimated purchase price was approximately \$885 million, which included the estimated fair value of the Company s common stock to be issued, the value of the Reliant options and restricted common units to be assumed and the Company s direct transaction costs. If the merger is approved and consummated, the Company would issue a maximum of 31.25 million shares of common stock. The final purchase price would be determined based upon the number of Reliant units, restricted units and options outstanding at the effective time. The closing is subject to various conditions, including the approval by the shareholders of the Company and members of Reliant and the receipt of customary regulatory approvals. In addition, both we and Reliant have rights to terminate the merger agreement before closing in certain circumstances, including if the closing has not occurred prior to August 31, 2002, if certain representations, warranties and covenants have been breached or if the average closing price of Alkermes common stock is below \$17.70 per share for the ten trading days before the closing of the transaction.

Table of Contents

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Documents filed as part of the Report:

(1) Consolidated Financial Statements of the Registrant and Independent Auditors Report thereon:

Consolidated Balance Sheets, March 31, 2002 and 2001.

Consolidated Statements of Operations and Comprehensive Loss for the Years Ended March 31, 2002, 2001 and 2000.

Consolidated Statements of Shareholders Equity for the Years Ended March 31, 2002, 2001 and 2000.

Consolidated Statements of Cash Flows for the Years Ended March 31, 2002, 2001 and 2000.

25

Table of Contents

Notes to Consolidated Financial Statements.

(2) Financial Statement Schedules:

I Financial Statements of Reliant Pharmaceuticals, LLC (financial statements required by Regulation S-X).

Schedules other than that listed above have been omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements of the Registrant or the notes thereto.

(3) Exhibits

Exhibit No.

3.1 Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on June 7, 2001. (Incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)

3.2 Amended and Restated By-Laws of Alkermes, Inc., effective as of February 11, 2001.

(Incorporated by reference to Exhibit 3.2 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)

4.1 Specimen of Common Stock Certificate of Alkermes, Inc.

(Incorporated by reference to Exhibit 4 to the Registrant's Registration Statement on Form S-1, as amended (File No. 33-40250).)

4.2 Specimen of Non-Voting Common Stock Certificate of Alkermes, Inc.

(Incorporated by reference to Exhibit 4.4 to the Registrant's Report on Form 10-K for the fiscal year ended March 31,

1999.)
4.3 Indenture,
dated as of
February 18,
2000, between
Alkermes, Inc.
and State Street
Bank and Trust
Company, as
Trustee.
(Incorporated by
reference to
Exhibit 4.6 to the
Registrant's
Registration
Statement on
Form S-3, as
amended (File
No.
333-31354).)
10.1 Amended
and Restated 1989
Non-Qualified
Stock Option
Plan, as amended.
(Incorporated by
reference to
Exhibit 4.2(c) to
the Registrant's
Registration
Statement on
Form S-8 (File
No.
33-44752).)+
10.2 Amended
and Restated 1990
Omnibus Stock
Option Plan, as
amended.
(Incorporated by
reference to
Exhibit 10.2 to
the Registrant's
Report on
Form 10-K for the
fiscal year ended
March 31,
1998).)+
10.3 1991
Restricted
Common Stock
Award Plan.
(Incorporated by
reference to
Exhibit 4.2(a) to
the Registrant's
Registration
Statement on
Form S-8 (File
No. 33-58330).)+
10.4 1992
Non-Qualified

Stock Option
Plan.

(Incorporated by
reference to
Exhibit 10.26 to
the Registrant's
Registration
Statement on
Form S-4, as
amended (File
No. 33-54932).)+

10.5 Stock
Option Plan for
Non-Employee
Directors.

(Incorporated by
reference to
Exhibit 10.5 to
the Registrant's
Report on
Form 10-K for the
fiscal year ended
March 31,
1996).)+

Table of Contents

10.6 Alkermes, Inc. 1998 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.6 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1999.) +

10.7 1999 Stock Option Plan. (Incorporated by reference to Exhibit 10.7 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)

10.8 Lease, dated as of October 26, 2000, between FC88 Sidney, Inc. and Alkermes, Inc. (Incorporated by reference to Exhibit 10.3 to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2000.)

10.9 Lease, dated as of October 26, 2000, between Forest City 64 Sidney Street, Inc. and Alkermes, Inc. (Incorporated by reference to Exhibit 10.4 to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2000.)

10.10 Lease, dated July 26,

1993, between the Massachusetts Institute of Technology and Alkermes, Inc. (Incorporated by reference to Exhibit 10.8 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1997.)

10.10(a) First Amendment of Lease, dated June 9, 1997, between the Massachusetts Institute of Technology and Alkermes, Inc. (Incorporated by reference to Exhibit 10.8(a) to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1997.)

10.11 Product Development Agreement, dated as of March 6, 1992, between Alkermes Clinical Partners, L.P. and the Registrant. (Incorporated by reference to Exhibit 10.21 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1992.)

10.12 Purchase Agreement, dated as of March 6, 1992, by and among the Registrant and each of the Limited Partners, from time to

time, of the Partnership.
(Incorporated by reference to Exhibit 10.22 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1992.)

10.13 Alkermes Clinical Partners, L.P. Agreement of Limited Partnership, dated as of February 7, 1992.

(Incorporated by reference to Exhibit 10.23 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1992.)

10.13(a) Amendment No. 1 to Alkermes Clinical Partners, L.P. Agreement of Limited Partnership, dated as of September 29, 1992.

(Incorporated by reference to Exhibit 10.22(a) to the Registrant's Registration Statement on Form S-4, as amended (File No. 33-54932).)

10.13(b) Amendment No. 2 to Alkermes Clinical Partners, L.P. Agreement of Limited Partnership, dated as of March 30, 1993.

(Incorporated by reference to Exhibit 10.22(b) to the Registrant's

Registration
Statement on
Form S-3, as
amended (File
No. 33-64964.)
10.14 Class A
Note of
Alkermes
Development
Corporation II,
dated April 10,
1992, to
PaineWebber
Development
Corporation in
the amount of
\$100.00.
(Incorporated by
reference to
Exhibit 10.24 to
the Registrant's
Report on
Form 10-K for
the fiscal year
ended March 31,
1992.)

Table of Contents

10.15 License Agreement, dated as of April 14, 1999, by and between Genentech, Inc. and Alkermes Controlled Therapeutics, Inc. (Incorporated by reference to Exhibit 10.18 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1999.)*

10.16 Manufacture and Supply Agreement, entered into April 5, 2001, by and between Alkermes, Inc. and Genentech, Inc. (Incorporated by reference to Exhibit 10.16 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)**

10.17 License Agreement, dated as of February 13, 1996, between Medisorb Technologies International L.P. and Janssen Pharmaceutica International (United States) (assigned to Alkermes Controlled Therapeutics Inc. II in March 1996). (Incorporated by reference to Exhibit 10.19 to the Registrant's

Report on
Form 10-K for
the fiscal year
ended March 31,
1996.)***

10.18 License
Agreement,
dated as of
February 21,
1996, between
Medisorb
Technologies
International
L.P. and Janssen
Pharmaceutica
International
(worldwide
except United
States) (assigned
to Alkermes
Controlled
Therapeutics Inc.
II in March
1996).
(Incorporated by
reference to
Exhibit 10.20 to
the Registrant's
Report on
Form 10-K for
the fiscal year
ended March 31,
1996.)***

10.19 Manufacturing
and Supply
Agreement,
dated August 6,
1997, by and
among Alkermes
Controlled
Therapeutics Inc.
II, Janssen
Pharmaceutica
International and
Janssen
Pharmaceutica,
Inc. §

10.19(a) Letter
Agreement and
Exhibits to
Manufacturing
and Supply
Agreement,
dated February
1, 2002, by and
among Alkermes
Controlled
Therapeutics Inc.
II, Janssen

Pharmaceutica
International and
Janssen
Pharmaceutica,
Inc. §

10.19(b) Addendum
to Manufacturing
and Supply
Agreement,
dated August
2001, by and
among Alkermes
Controlled
Therapeutics Inc.
II, Janssen
Pharmaceutica
International and
Janssen
Pharmaceutica,
Inc. §

10.20 Patent
License
Agreement,
dated as of
August 11, 1997,
between
Massachusetts
Institute of
Technology and
Advanced
Inhalation
Research, Inc.,
as amended.
(Incorporated by
reference to
Exhibit 10.25 to
the Registrant's
Report on
Form 10-K for
the fiscal year
ended March 31,
1999.)*

10.21 Letter
Agreement,
dated
September 27,
1996, by and
among Fleet
National Bank,
Alkermes
Controlled
Therapeutics,
Inc., Alkermes
Controlled
Therapeutic Inc.
II and the
Registrant.
(Incorporated by
reference to

Exhibit 10.3 to
the Registrant's
Report on
Form 10-Q for
the quarter ended
September 30,
1996.)

10.22(a) Second
Loan
Supplement and
Modification
Agreement,
dated as of
March 19, 1998,
by and among
Fleet National
Bank, Alkermes
Controlled
Therapeutics,
Inc., Alkermes
Controlled
Therapeutics Inc.
II and the
Registrant.

(Incorporated by
reference to
Exhibit 10.29(b)
to the
Registrant's
Report on
Form 10-K for
the fiscal year
ended March 31,
1998.)

10.22(b) Third
Loan
Supplement and
Modification
Agreement,
dated as of
September 24,
1998, by and
among Fleet
National Bank,
Alkermes
Controlled
Therapeutics,
Inc., Alkermes
Controlled
Therapeutics Inc.
II and the
Registrant.

(Incorporated by
reference to
Exhibit 10.1 to
the Registrant's
Report on
Form 10-Q for
the quarter ended
September 30,
1998.)

Table of Contents

10.23 Security Agreement, dated as of September 27, 1996, from the Registrant, Alkermes Controlled Therapeutics, Inc. and Alkermes Controlled Therapeutic Inc. II to Fleet National Bank. (Incorporated by reference to Exhibit 10.4 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 1996.)

10.24 Pledge Agreement, dated as of September 27, 1996, from the Registrant to Fleet National Bank. (Incorporated by reference to Exhibit 10.5 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 1996.)

10.25 Mortgage and Security Agreement, dated as of September 27, 1996, from Alkermes Controlled Therapeutics Inc. II to Fleet National Bank. (Incorporated by reference to Exhibit 10.6 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 1996.)

10.26 Environmental
Indemnity
Agreement, dated
as of
September 27,
1996, from the
Registrant and
Alkermes
Controlled
Therapeutics Inc.
II to Fleet
National Bank.
(Incorporated by
reference to
Exhibit 10.7 to
the Registrant's
Report on
Form 10-Q for the
quarter ended
September 30,
1996.)

10.27 Promissory
Note, dated
March 19, 1998,
from the
Registrant,
Alkermes
Controlled
Therapeutics, Inc.
and Alkermes
Controlled
Therapeutics Inc.
II to Fleet
National Bank.
(Incorporated by
reference to
Exhibit 10.38 to
the Registrant's
Report on
Form 10-K for the
fiscal year ended
March 31,
1998.)

10.28 Promissory
Note, dated
September 24,
1998, from the
Registrant,
Alkermes
Controlled
Therapeutics, Inc.
and Alkermes
Controlled
Therapeutics Inc.
II to Fleet
National Bank
(\$11,000,000).
(Incorporated by
reference to
Exhibit 10.2 to
the Registrant's
Report on

Form 10-Q for the quarter ended September 30, 1998.)

10.29 Promissory Note, dated September 24, 1998, from the Registrant, Alkermes Controlled Therapeutics, Inc. and Alkermes Controlled Therapeutics Inc.

II to Fleet National Bank (\$9,000,000). (Incorporated by reference to Exhibit 10.3 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 1998.)

10.30 Employment Agreement, entered into as of February 7, 1991, between Richard F. Pops and the Registrant.

(Incorporated by reference to Exhibit 10.12 to the Registrant's Registration Statement on Form S-1, as amended (File No. 33-40250).)+

10.31 Change in Control Employment Agreement, dated as of December 19, 2000, between Alkermes, Inc. and Richard F. Pops.

(Incorporated by reference to Exhibit 10.1 to the Registrant's Report on Form 10-Q for the quarter ended December 31, 2000).)+

10.32 Change in

Control
Employment
Agreement, dated
as of December
19, 2000, between
Alkermes, Inc.
and each of
Raymond T.
Bartus, J. Duncan
Higgon, James
L. Wright, James
M. Frates and
Michael J.
Landine and dated
as of June 27,
2001, between
Alkermes, Inc.
and David A.
Broecker. (Form
of agreement
incorporated by
reference to
Exhibit 10.2 to
Registrant's
Report on
Form 10-Q for the
quarter ended
December 31,
2000.)+

Table of Contents

10.33 Employment Agreement, dated December 22, 2000 by and between David A. Broecker and the Registrant. (Incorporated by reference to Exhibit 10.32 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)+

10.34 Agreement and Plan of Merger, dated as of March 20, 2002, by and among Alkermes, Inc., New Alkermes, Inc. Adams Acquisition Sub, Inc. Revere Acquisition Sub, LLC and Reliant Pharmaceuticals, LLC. (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated March 20, 2002.)

10.35 Amendment, dated as of April 29, 2002, to the Agreement and Plan of Merger, dated as of March 20, 2002, by and among Alkermes, Inc., New Alkermes, Inc. Adams Acquisition Sub, Inc. Revere Acquisition Sub, LLC and Reliant Pharmaceuticals, LLC.

21 Subsidiaries
of the Registrant.

23 Consent of
Deloitte &
Touche LLP.

99.1 Certification
pursuant to
Section 906 of
the
Sarbanes-Oxley
Act of 2002,
18 U.S.C.
Section 1350 by
Chief Executive
Officer.

99.2 Certification
pursuant to
Section 906 of
the
Sarbanes-Oxley
Act of 2002,
18 U.S.C.
Section 1350 by
Chief Financial
Officer.

* Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted August 19, 1999. Such provisions have been filed separately with the Commission.

** Confidential
status has been
granted for
certain
portions
thereof
pursuant to a
Commission
Order granted
September 27,
2001. Such
provisions
have been filed
separately with
the
Commission. *** Confidential
status has been
granted for
certain
portions
thereof
pursuant to a
Commission
Order granted
September 3,
1996. Such
provisions

have been filed separately with the Commission. § Confidential status has been requested for certain portions thereof pursuant to a Confidential Treatment Request filed July 1, 2002. Such provisions have been separately filed with the Commission. + Constitutes a management contract or compensatory plan required to be filed as an Exhibit to this Report pursuant to Item 14(c) of Form 10-K. Filed with original Form 10-K on July 1, 2002.

Filed herewith.

- (b) Since the beginning of the quarter ended March 31, 2002, the Registrant filed a Current Report on Form 8-K, dated March 20, 2002. After March 31, 2002, the Registrant filed a Current Report on Form 8-K, dated April 2, 2002, for the purpose of furnishing certain information pursuant to Regulation FD promulgated under the Securities Exchange Act of 1934, as amended and a Current Report on Form 8-K, dated June 28, 2002.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused Amendment No. 1 to this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALKERMES, INC.

November 14, 2002

By: /s/ James M. Frates

James M. Frates
Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Table of Contents

CERTIFICATIONS

I, Richard F. Pops, certify that:

1. I have reviewed this Amendment No. 1 to the annual report on Form 10-K/A of Alkermes, Inc.;
2. Based on my knowledge, this Amendment No. 1 to the annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Amendment No. 1 to the annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1 to the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Amendment No. 1 to the annual report.

Date: November 14, 2002

/s/ Richard F. Pops

Richard F. Pops
Chief Executive Officer

Table of Contents

CERTIFICATIONS

I, James M. Frates, certify that:

1. I have reviewed this Amendment No. 1 to the annual report on Form 10-K/A of Alkermes, Inc.;
2. Based on my knowledge, this Amendment No. 1 to the annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Amendment No. 1 to the annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1 to the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Amendment No. 1 to the annual report.

Date: November 14, 2002

/s/ James M. Frates

James M. Frates
Chief Financial Officer

Table of Contents

Schedule I

RELIANT PHARMACEUTICALS, LLC

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS FINANCIAL STATEMENTS:	I-2
Balance Sheets as of December 31, 2001 and 2000	
I-3	
Statements of Operations for the Years Ended December 31, 2001 and 2000 and the Period from Inception (August 31, 1999) to December 31, 1999	
I-4	
Statements of Changes In Members (Deficit) Capital for the Years Ended December 31, 2001 and 2000 and the Period from Inception (August 31, 1999) to December 31, 1999	
I-5	
Statements of Changes In Members (Deficit) Capital (continued) for the Years Ended December 31, 2001 and 2000 and the Period from Inception (August 31, 1999) to December 31, 1999	
I-6	
Statement of Cash Flows for the Years Ended December 31, 2001 and 2000 and the Period from Inception (August 31, 1999) to December 31, 1999	
I-7	
NOTES TO FINANCIAL STATEMENTS DECEMBER 31,	

2001 AND 2000
I-8

I-1

Table of Contents

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Managers of

Reliant Pharmaceuticals, LLC:

We have audited the accompanying balance sheets of Reliant Pharmaceuticals, LLC (a Delaware limited liability company) (the Company) as of December 31, 2001 and 2000, and the related statements of operations, changes in members' capital and cash flows for the years ended December 31, 2001 and 2000 and the period from inception (August 31, 1999) to December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Reliant Pharmaceuticals, LLC as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000 and the period from inception (August 31, 1999) to December 31, 1999 in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Roseland, New Jersey
February 15, 2002

This is a hard copy of a report previously issued by Arthur Andersen LLP. This report has not been reissued by Arthur Andersen LLP nor has Arthur Andersen LLP provided a consent to the inclusion of its report in the annual report on Form 10-K/A.

Table of Contents**RELIANT PHARMACEUTICALS, LLC****BALANCE SHEETS**
As of December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
	(Dollars in thousands except for liquidation preference amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$66,109	\$96,171
Accounts receivable, net of allowance for doubtful accounts of \$460 as of December 31, 2001 and \$26 as of December 31, 2000	10,417	22,203
Inventory, net of inventory reserves of \$367 as of December 31, 2001 and \$0 as of December 31, 2000	44,824	14,199
Other current assets	34,643	23,271
	<hr/>	
	<hr/>	
Total current assets	155,993	155,844
FIXED ASSETS, net of accumulated depreciation of \$436 as of December 31, 2001 and \$54 as of December 31, 2000	1,968	650
INTANGIBLE ASSETS, net of accumulated amortization of \$35,746 as of December 31, 2001 and \$13,183 as of December 31, 2000	48,408	90,971
OTHER LONG TERM ASSETS	1,957	
	<hr/>	
	<hr/>	
Total assets	\$208,326	\$247,465
	<hr/>	
	<hr/>	

**LIABILITIES, REDEEMABLE
PREFERRED UNITS
AND MEMBERS (DEFICIT)
CAPITAL**

CURRENT LIABILITIES:

Accounts payable		
\$66,316	\$65,587	
Accrued expenses		
98,072	25,315	
Other current liabilities		
299	60,167	

Total current liabilities		
164,687	151,069	

**COMMITMENTS AND
CONTINGENCIES**

REDEEMABLE PREFERRED UNITS:

Series A redeemable preferred units; 425,000 units issued at December 31, 2001 (liquidation preference cap \$14,737,689)		
4,275		
Series B redeemable preferred units; 13,500,000 units issued at December 31, 2001 (liquidation preference cap \$449,874,912)		
135,714		
Series C redeemable preferred units; 7,500,000 units issued at December 31, 2001 (liquidation preference \$150,495,833)		
146,029		

MEMBERS (DEFICIT) CAPITAL:

Common units; 4,219,359 units issued at December 31, 2001 and 3,831,659 units issued at December 31, 2000		
3,915	38	
Series A preferred units; 425,000 units issued at December 31, 2000		
4,250		
Series B preferred units; 13,500,000 issued at December 31, 2000		
135,000		
Subscriptions and loans receivables		
(5,138)	(1,116)	
Accumulated deficit		
(241,156)	(41,776)	

Total members (deficit) capital
(242,379) 96,396

Total liabilities, redeemable preferred
units and members (deficit) capital
\$208,326 \$247,465

The accompanying notes are an integral part of these balance sheets.

I-3

Table of Contents

RELIANT PHARMACEUTICALS, LLC

**STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2001 and 2000 and
the Period from Inception (August 31, 1999) to December 31, 1999**

For the Years Ended December 31,		From Inception (August 31, 1999) to December 31,
2001	2000	1999

(Dollars in thousands)

REVENUES:

Net product sales		
\$234,113	\$68,817	\$
Promotion revenues		
42,552	1,837	

Total revenues		
276,665	70,654	

COSTS AND EXPENSES:

Cost of product sales		
174,705	39,702	
Cost of promotion revenues		
102,591	10,874	
Selling, general and administrative		
145,672	55,612	386
Research and development		
49,745	5,341	240

Total costs and expenses		
472,713	111,529	626

LOSS FROM OPERATIONS
(196,048) (40,875) (626)

INTEREST EXPENSE, net

Interest income
1,879 1,419
Interest expense
(3,852) (1,683) (11)

Interest expense, net
(1,973) (264) (11)

Net loss
\$(198,021) \$(41,139) \$(637)

The accompanying notes are an integral part of these financial statements.

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Issuance of Founders Units including units originally issued
pre-conversion as Founder Options

Net loss

BALANCE, December 31, 2000

425,000 4,250 13,500,000 135,000

Exercise of employee stock options

Proceeds from Subscriptions and Loans Receivables

Reclassification of Series A Preferred and Series B Preferred

(425,000) (4,250) (13,500,000) (135,000)

Series A, B and C preferred dividends

Interest on subscriptions and loans receivables

Issuance of warrants

Net loss

BALANCE, December 31, 2001

\$ \$ \$ \$



The accompanying notes are an integral part of these financial statements.

I-5

Table of Contents

RELIANT PHARMACEUTICALS, LLC

STATEMENTS OF CHANGES IN MEMBERS (DEFICIT) CAPITAL (Continued)

	Common Units	Additional Paid-in Capital	Subscriptions and Loans Receivables	Members Accumulated Deficit	Members Capital
(Dollars in thousands)					
BALANCE, August 31, 1999 (Inception)	\$	\$	\$	\$	\$
Initial capitalization of the Company					
Net loss from Inception (August 31, 1999) to December 31, 1999				(637)	(637)
<hr/>					
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BALANCE, December 31, 1999				(637)	(637)
Conversion of promissory note into Series A Preferred Stock and Founders warrant to acquire common stock		4,246			4,250
Termination of C Corporation					
Exchange of Series A Preferred Stock for Series A Preferred Units		(4,246)			
Exchange of Common Stock for Common Units	100				
Sale of Series B Preferred Units		(1,073)	133,927		
Exercise of Founders Warrant	2,181,016	22		22	
Interest on subscriptions receivable		(27)	(27)		
Issuance of Founders Units including units originally issued pre-conversion as Founder Options	1,650,543	16		(16)	
Net loss				(41,139)	(41,139)
<hr/>					
<hr/>					
<hr/>					

Table of Contents**RELIANT PHARMACEUTICALS, LLC****STATEMENT OF CASH FLOWS**

**For the Years Ended December 31, 2001 and 2000 and the Period from Inception
(August 31, 1999) to December 31, 1999**

For the Years Ended December 31		From Inception (August 31, 1999) to December 31,
2001	2000	1999

(Dollars in thousands)

CASH FLOWS FROM OPERATING
ACTIVITIES:

Net loss	\$(198,021)	\$(41,139)	\$(637)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities			
Depreciation	406	54	
Loss on inventory purchase commitment	30,000		
Amortization of intangible assets	37,748	13,183	
Write-down of intangible asset	4,815		
Loss on disposal of assets	8		
Provision for doubtful accounts	434	26	
Changes in operating assets and liabilities			
Decrease (increase) in accounts receivable	11,352	(22,229)	
Increase in inventory	(30,625)	(14,199)	
Increase in other current assets	(11,372)	(23,271)	
Increase in other assets	(1,957)		
Increase in accounts payables and accrued expenses	43,486	90,462	440
Increase in other current liabilities	299		

Net cash (used in) provided by operating activities

(113,427) 2,887 (197)

CASH FLOWS FROM INVESTING ACTIVITIES:

Payments for the acquisitions of licenses

(60,167) (43,987)

Capital expenditures

(1,732) (704)

Net cash used in investing activities

(61,899) (44,691)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from notes payable to Founders

1,050 4,200

Repayment of note payable

(1,000)

Exercise of Founders Warrants

22

Proceeds from subscriptions and loan receivables

(145)

Sale of Series B Preferred Units

133,900

Net borrowings under bridge financing

50,000

Sale of Series C Redeemable Preferred Units, net

95,409

Net cash provided by financing activities

145,264 133,972 4,200

Net (decrease) increase in cash and cash equivalents

(30,062) 92,168 4,003

CASH AND CASH EQUIVALENTS,

beginning of period

96,171 4,003

CASH AND CASH EQUIVALENTS, end

of period

\$66,109 \$96,171 \$4,003

SUPPLEMENTAL DISCLOSURE OF
CASH FLOW INFORMATION:

Cash paid during the period for interest

\$4,685 \$913 \$

Supplemental Disclosure of Non Cash Investing and Financing Activities:

In 2001, the Company converted \$50.0 million of bridge loans into Series C Redeemable Preferred Units (see Notes 9 and 12).

In 2000, the Company converted a \$4.25 million convertible demand note into Series A Preferred Stock and a common stock warrant, which subsequently converted into Series A Preferred Units and a common unit warrant (see Notes 1 and 12).

The accompanying notes are an integral part of these financial statements.

Table of Contents

RELIANT PHARMACEUTICALS, LLC

**NOTES TO FINANCIAL STATEMENTS
December 31, 2001 and 2000**

1. The Company

Reliant Pharmaceuticals, LLC (the Company or Reliant), a Delaware limited liability company, was formed July 6, 2000, as the successor to Reliant Pharmaceuticals, Inc., a Delaware corporation, which was originally incorporated on August 31, 1999, as Bay City Pharmaceuticals, Inc. The name of the Company was changed from Bay City Pharmaceuticals, Inc. to Reliant Pharmaceuticals, Inc. on April 17, 2000. The Company commenced operating activities in July 2000.

The Company is a privately owned U.S. based ethical, branded pharmaceutical company. The Company has acquired rights to certain marketed and distributed branded prescription pharmaceutical products from companies in the pharmaceutical industry. The Company is advancing several clinical development projects and may acquire rights to additional branded prescription pharmaceutical products and compounds that are in clinical development.

The Company was founded by Joseph Krivulka and Stefan Aigner together with Jack L. Bowman, Herbert Conrad, Irwin Lerner, David V. Milligan and Bay City Capital (BCC), collectively referred to as the Founders. In connection with the formation of the Company, each Founder received a specified Founder s interest in the Company based on a predetermined percentage of defined contributed equity of \$125.0 million (the Predetermined Amount) of the Company, and upon receipt by the Company of the Predetermined Amount. Each Founder s equity interest in the Company based upon the Predetermined Amount was initially established as follows-

BCC	15.0%
Joseph Krivulka	5.0%
Stefan Aigner	2.5%
Jack L. Bowman	0.5%
Herbert Conrad	0.5%
Irwin Lerner	0.5%
David V. Milligan	0.5%

Each Founder owns preferred units in the Company as a result of participation in both the Series B Financing and Series C Financing (see Notes 12 and 19). Up to the Predetermined Amount, the Founders interest was not diluted. In connection with and subsequent to the Series B Financing, as well as the Series C Financing, the Founders ownership percentage with respect to their Founders equity has been diluted.

BCC initially contributed \$100 for 100 shares of common stock and agreed to fund up to \$4.25 million in the form of a convertible demand note (the Note) bearing interest at the applicable federal rate provided under the Internal Revenue Code of 1986, as amended. The Note was convertible, at BCC s option, into (a) Series A Preferred Stock of the Company (see Note 12) at such time the preferred stock was designated by the Company, and (b) a warrant (the Founder s Warrant) to purchase common stock of Reliant, which warrant upon exercise and together with the preferred

and common stock owned by BCC at the time of exercise would give BCC its 15% Founder's interest. The Warrant was exercisable at \$0.01 per share. The Note was fully drawn upon by the Company, and in April 2000 BCC converted the Note into 425,000 shares of Series A Preferred Stock and the Founder's Warrant.

The remaining Founders received their Founders interest in the form of options (the Founders Options). The options were exercisable at \$0.01 per share, which approximated fair value.

Table of Contents

RELIANT PHARMACEUTICALS, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

Upon Reliant's conversion to a limited liability company (LLC) and pursuant to the Agreement and Plan of Conversion (the Plan of Conversion), the shares of common stock and Series A Preferred Stock owned by BCC automatically converted into an equal number of Class One Common Units (Common Units) and Series A Preferred Units, respectively, of the LLC. Similarly, the Founder's Warrant was replaced by an LLC Common Unit Purchase Warrant (Founders' LLC Warrant). The Founders' Options were cancelled and automatically replaced, in equal number, with LLC Common Units pursuant to the Plan of Conversion (see Note 13).

In July 2000, the Company accepted subscriptions for \$135.0 million of its Series B Preferred Units (the Series B Financing) (see Note 12). Following the initial closing of the Series B Financing, the Founders' LLC Warrant was exercised and the remaining Founders' Units were issued (see Note 13).

In December 2001, the Company accepted subscriptions for \$150.0 million of its Series C Preferred Units (the Series C Financing) (see Notes 12 and 19).

The Company's business is subject to significant risks including, but not limited to, (i) its ability to obtain funding, (ii) its uncertainty of future profitability, (iii) the risks inherent in its clinical development efforts, (iv) uncertainties associated with obtaining and enforcing its patents and with the patent rights of others, (v) the lengthy, expensive and uncertain process of seeking regulatory approvals, (vi) uncertainties regarding government reforms and product pricing and reimbursement levels, (vii) technological change and competition, (viii) manufacturing uncertainties and (ix) dependence on collaborative partners and other third parties.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less. Cash and cash equivalents are stated at cost, which approximates market value.

Inventory

Inventories are valued at the lower of first-in, first-out (FIFO) cost or market. Inventory consists of approximately \$44.6 million and \$14.2 million of finished goods and approximately \$225,000 and \$0 of raw materials at December 31, 2001 and 2000, respectively.

Axid® and DynaCirc® volume-based purchase price adjustments (see Note 3) are recorded as contra-inventory and are recognized as a reduction to cost of product sales in the period the product is sold. Eli Lilly and Company (Lilly) and Novartis Pharmaceuticals Corporation, an indirect subsidiary of Novartis AG (Novartis) have a security interest in the Axid® and DynaCirc® inventories, respectively. Axid® is a registered trademark of Lilly. DynaCirc® is a registered trademark of Novartis.

Revenue Recognition

Revenues from sales of pharmaceutical products are recognized upon shipment of products and are net of certain rebates estimated at the time of sale. Sales terms are FOB shipping point. Promotion revenues received from Novartis in connection with sales of the Lescol® brands are recognized as revenues by the Company once contractual sales performance measures contained in the promotion agreement with Novartis have been met. Promotional costs in connection with the selling of the Lescol® brands are classified as costs of promotion revenues and expensed as incurred. Lescol® is a registered trademark of Novartis.

Table of Contents

RELIANT PHARMACEUTICALS, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

Fixed Assets

Property and equipment are carried at historical cost. Expenditures for maintenance and repairs are charged to operations as incurred.

Depreciation

Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives range from three to seven years for computer and office equipment, furniture and accessories, warehouse fixtures and vehicles. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

Advertising and Promotional Costs

Advertising and promotional costs are expensed as incurred.

Intangible Assets

Acquired intangible assets, which consist primarily of product licenses (see Note 3), are recorded at the net present value of the license payments. These intangible assets are amortized on a straight-line basis over the shorter of the estimated useful life of the license or the underlying patent or agreement term. As of December 31, 2001 and 2000, intangible assets are comprised of gross product licenses of \$84.2 million and \$104.2 million, net of accumulated amortization of \$35.8 million and \$13.2 million, respectively. The Company evaluates the carrying value of intangible assets to determine if facts and circumstances suggest they may be impaired. Impairments would be recognized when the expected discounted future operating cash flows derived from such intangible assets is less than their respective carrying value.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and cash equivalents and accounts receivable. The Company maintains cash balances and cash equivalents in financial institutions with strong credit ratings. At times, amounts invested with financial institutions may be in excess of FDIC insurance limits. As of December 31, 2001 and 2000, the Company had not experienced any losses on its cash and cash equivalents.

The Company also monitors the creditworthiness of its customers to whom it grants credit terms in the normal course of business. The Company does not normally require collateral or any other security to support credit sales.

Accounting for Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed (SFAS 121). This statement establishes financial accounting and reporting standards for the

impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of. SFAS 121 requires, among other things, that an entity review its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable (see Note 3).

Table of Contents

RELIANT PHARMACEUTICALS, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

Stock-Based Compensation

SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), allows companies to account for stock-based compensation for employees either under the provisions of SFAS 123 or under the provisions of Accounting Principles Bulletin (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), but requires pro forma disclosure for net income in the notes to the financial statements as if the measurement provisions of SFAS 123 had been adopted. The Company has elected to account for its stock-based compensation for employees in accordance with the provisions of APB 25.

In March 2000, the Financial Accounting Standards Board (FASB) issued Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25 (FIN 44). FIN 44 clarifies the application of APB 25 for certain issues, including the definition of an employee, the treatment of the acceleration of stock options vesting and the accounting treatment for options assumed in business combinations. FIN 44 became effective July 1, 2000, but is applicable for certain transactions dating back to December 1998. The adoption of FIN 44 did not have a material impact on the Company's results of operations, cash flows, or financial position.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair values due to their short-term maturity.

Income Taxes

Federal and state income tax regulations provide that the profit and loss of a limited liability company that has elected to be treated as a partnership for tax purposes, be allocated and reported on the tax return of each member. Accordingly, no Federal or state taxes have been provided for in the accompanying financial statements.

Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). In June 2000, the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133 (SFAS 138). SFAS 138 was issued to address a limited number of issues causing implementation difficulties for entities that apply SFAS 133. SFAS 133 and 138 require that all derivatives be measured at fair value and recognized as assets or liabilities on the balance sheet. Changes in the fair value of derivatives should be recognized in either net income (loss) or other comprehensive income (loss), depending on the designated purpose of the derivative. The Company was required to and did adopt SFAS 133 and SFAS 138 in the first quarter of fiscal 2001. The adoption of these pronouncements did not have an impact on the Company's results of operations, cash flows, or financial position since the Company has not utilized derivative financial instruments or entered into hedging transactions.

In June 2001, FASB issued SFAS No. 141, Business Combinations (SFAS 141) and SFAS No. 142 Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 changes the accounting for business combinations in APB Opinion

No. 16 in that it requires all business combinations to be accounted for by a single method – the purchase method. In addition, SFAS 141 requires that all intangible assets be recognized as assets apart from goodwill, provided certain criteria are met. Disclosure requirements for SFAS 141 includes disclosure of the primary reasons for a business combination as well as the allocation of the purchase price paid to the assets acquired and the liabilities assumed by major balance sheet caption. With the adoption of SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment

Table of Contents

RELIANT PHARMACEUTICALS, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

by applying a fair-value-based test. SFAS 142 requires that all acquired intangible assets be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the acquirer's intent to do so. Intangible assets that have finite lives will continue to be amortized over their useful lives. SFAS 141 applies to all business combinations initiated after June 30, 2001. SFAS 142 is required to be adopted in the first quarter of 2002. Adoption of SFAS 141 and 142 is not expected to have a material effect on the Company's results of operations, cash flows, or financial position.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 is required to be adopted in the first quarter of 2003. Adoption of SFAS 143 is not expected to have a material effect on the Company's results of operations, cash flows, or financial position.

During October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). SFAS 144 supersedes SFAS 121 and replaces the accounting and reporting provisions of APB Opinion No. 30, *Reporting Results of Operations—Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, as it relates to the disposal of a segment of a business. SFAS 144 requires the use of a single accounting model for long-lived assets to be disposed of by sale, including discontinued operations, by requiring those long-lived assets to be measured at the lower of carrying amount, or fair value less costs to sell. The impairment recognition and measurement provisions of SFAS 121 were retained for all long-lived assets to be held and used with the exception of goodwill. The Company will adopt this standard on January 1, 2002. SFAS 144 is not expected to have a material effect on the Company's results of operations, cash flows, or financial position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

3. Product Licenses/ Promotion Agreements

DynaCirc®

In July 2000, the Company entered into an agreement with Novartis to acquire an exclusive U.S. license through December 2002 to use, market, promote, sell, distribute and warehouse the DynaCirc® brands of anti-hypertensive agents. Under this agreement, the Company is required to purchase all of its requirements for DynaCirc® brand

products and product samples from Novartis during the license term at predetermined prices. The Company earns favorable, volume-based purchase price adjustments on these purchases upon reaching specified minimum purchases (see Note 2). The Company has capitalized the present value of the \$47.6 million license payments as an intangible asset that is being amortized over the life of the license, 2.5 years.

Table of Contents

RELIANT PHARMACEUTICALS, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

In July 2000, the Company was also granted an exclusive, irrevocable option to purchase all of the assets related to the DynaCirc® brands prior to December 2002. Upon exercise of the option by the Company and satisfaction of certain contractual commitments by Novartis, the Company will be required to make two payments to Novartis totaling \$12.5 million (see Note 11). In December 2001, the Company gave written notice of its exercise of this option. Net product sales from the sale of DynaCirc® products amounted to approximately \$32.2 million and \$19.6 million for the years ended December 31, 2001 and 2000, respectively, and have been included in net product sales in the accompanying statements of operations.

Axid®

In October 2000, the Company entered into an agreement with Lilly to acquire certain patent rights, trademarks and copyrights (by way of a license and/or assignment) for \$20.0 million for the antiulcer agent Axid® from Lilly. Under this agreement, subject to specified minimums, the Company is required to purchase all of its requirements of Axid® brand products and product samples from Lilly through April 2002 at 95% of the Company's estimated net selling price of the product (see Note 11). The Company earns favorable volume-based purchase price adjustments on these purchases upon reaching specified minimum purchases (see Note 2). The Company has capitalized the above license payment as an intangible asset, which was being amortized over the remaining life of the underlying patent, which expires in April 2002. Net product sales from the sale of Axid® products amounted to approximately \$201.9 million and \$49.2 million for the years ended December 31, 2001 and 2000, respectively, and have been included in net product sales in the accompanying statements of operations.

During the fourth quarter of 2001, based on estimated future sales of Axid® products, the Company determined it would not be able to realize the value of contractually required and committed product purchases to be made in 2002. Additionally, as a direct result of this estimate, the Company re-evaluated the carrying value of the intangible asset related to the above license agreement. Based on expected cash flows, the Company recorded a charge of \$30.0 million to cost of goods sold in the fourth quarter of 2001 related to the above purchase commitments and a charge of approximately \$4.8 million to selling, general and administrative expenses related to a write-down of the product license carrying value.

Lescol®

In November 2000, the Company entered into an agreement to acquire the U.S. marketing rights through December 2005 for the Lescol® and Lescol XL® cholesterol-controlling agents for \$40.0 million from Novartis under a promotion agreement. Under this agreement, the Company is entitled to receive a substantial percentage of Lescol® and Lescol XL® net sales recorded by Novartis over and above a contract-specified sales baseline. Commencing on January 1, 2003 and annually thereafter during the term of the agreement, Novartis shall be entitled to terminate the agreement if certain net sales targets are not met. The promotion agreement may be extended up to an additional four years provided certain future minimum sales levels are achieved. The Company has capitalized the present value of the above payments as an intangible asset that is being amortized over the initial five-year term of the promotion agreement.

The Company is required to provide promotional, selling and marketing support over the period of the agreement (see Note 11). Promotional revenues received under the terms of this agreement amounted to approximately

\$42.6 million and \$1.8 million for the years ended December 31, 2001 and 2000, respectively, and have been included in promotion revenues in the accompanying statements of operations. Direct costs associated with the promotion of the Lescol® brands are expensed as incurred and have been included in the cost of promotion revenues in the accompanying statements of operations.

Table of Contents**RELIANT PHARMACEUTICALS, LLC****NOTES TO FINANCIAL STATEMENTS (Continued)*****Ethypharm***

In May 2001, the Company obtained an exclusive license from Ethypharm, SA, of Saint-Cloud, France (Ethypharm) to market, sell and distribute Ethypharm's proprietary micronized fenofibrate product for the treatment of hyperlipidemia in the U.S., Canada and Mexico. The Company is responsible for all clinical development and regulatory activities in the identified markets. The initial term of the agreement is fifteen years from the first commercial sale of the product in the U.S. with automatic two-year renewals if notice of termination is not received from either party. Product for use in clinical development programs, as well as eventual commercial sales, are required to be purchased at predetermined prices from Ethypharm during the license term. The Company is required to make approximately \$2.4 million in payments to Ethypharm based on the achievement of predetermined milestones and to pay a 5% royalty of all future net sales of this product. To date the Company has paid \$500,000 in milestone payments, which have been expensed as incurred.

4. Accounts Receivable

Trade receivables are primarily comprised of amounts billed to pharmaceutical wholesalers. The Company's top three wholesalers accounted for \$187.3 million and \$44.6 million of net product sales for the year ended December 31, 2001 and 2000, respectively. Accounts receivable from these wholesalers totaled \$6.6 million and \$18.1 million at December 31, 2001 and 2000, respectively. The Company's largest customer accounted for 34% and 30% of net product sales for the year ended December 31, 2001 and the period ended December 31, 2000, respectively and 12% and 50% of the gross accounts receivable balance as of December 31, 2001 and 2000, respectively.

5. Other Current Assets

Other current assets were comprised of the following

	December 31	
	2001	2000
	(In thousands)	
Due from Lilly		
\$10,240	\$11,155	
Due from Novartis		
19,819	8,589	
Other		
4,584	3,527	
<hr/>		
<hr/>		
Total		
\$34,643	\$23,271	
<hr/>		

6. Fixed Assets

Fixed assets consisted of the following

	<u>December 31</u>	
	<u>2001</u>	<u>2000</u>
	(In thousands)	
Computer and Office Equipment	\$1,295	\$351
Furniture and Accessories	830	212
Building and Leasehold Improvements	246	108
Vehicles	33	33
	<hr/>	
	<hr/>	
Gross fixed assets	2,404	704
Less: accumulated depreciation	(436)	(54)
	<hr/>	
	<hr/>	
Fixed assets, net	\$1,968	\$650
	<hr/>	
	<hr/>	

Table of Contents**RELIANT PHARMACEUTICALS, LLC****NOTES TO FINANCIAL STATEMENTS (Continued)****7. Accounts Payable**

As of December 31, 2001 and 2000, the accounts payable balance consisted primarily of amounts payable to Lilly and Novartis for the purchase of finished product and product samples.

8. Accrued Expenses

Accrued expenses were comprised of the following

	December 31	
	2001	2000
Managed care and Medicaid rebates	\$30,409	\$8,782
Accrued contract loss reserve (see Note 3)		
30,000		
Contract sales force expenses		
17,112 9,553		
Research and development expenses		
7,218 194		
Other		
13,333 6,786		
<hr/>		
<hr/>		
Total		
\$98,072 \$25,315		
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9. Notes Payable

Effective June 29, 2001, the Company obtained a two-year revolving line of credit (the Revolver) with a credit limit of \$20.0 million. The lending formula of the Revolver is currently 85% of qualifying receivables, subject to certain limitations. During 2001, the Company borrowed up to \$19.9 million on the Revolver. At December 31, 2001, there were no outstanding balances under the Revolver. Interest on amounts outstanding under the Revolver accrued at 1% per annum above the prime rate, as determined by a major bank. The Company is liable for an unutilized loan fee of 0.37% per annum of the difference between the credit limit and the average outstanding loan amount calculated on a monthly basis. The lender has a first priority security interest in the Company's accounts receivable from its customers. Interest expense on the Revolver for the period ended December 31, 2001, was approximately \$180,000.

On July 30, 2001 the Company obtained from certain existing members or affiliates thereof (the Lenders), an \$80.0 million bridge loan facility in the form of two secured demand promissory notes of \$40.0 million each (the Bridge Loan). Interest on the Bridge Loan accrued at an initial rate of 10% per annum and automatically increased by an additional 2% every three months following the initial draw. Interest compounded quarterly and was payable in arrears on the last day of the calendar quarter. The outstanding amount on the Bridge Loan is payable in full on demand. The holders of the Bridge Loan have a first priority security interest in certain property and assets of the Company. On December 16, 2001, the Company had approximately \$54.0 million outstanding on the Bridge Loan. On December 17, 2001, \$50.0 million of the outstanding balance on the Bridge Loan was exchanged for Series C Convertible Preferred Units (as defined below) of the Company at a price per Series C Convertible Preferred Unit of \$20. The Company repaid the remaining \$4.0 million balance outstanding on the Bridge Loan with proceeds from the Series C Financing transaction (see Note 12).

In conjunction with the Series C Financing, the Company issued to the Lenders warrants to purchase a total of up to 833,334 Common Units at a purchase price per unit of \$0.01, as a consideration for the exchange of \$50.0 million in Bridge Loan for Series C Units. The lenders also agreed to keep available to the Company \$30.0 million in Bridge Loan capacity and to reduce the Bridge Loan interest rate to 2% above the prime lending rate (the prime lending rate was 4.75% as of December 31, 2001) (see Note 12). The terms of the two demand promissory notes were amended to expire on February 28, 2003. The warrants may be exercised at any time up to the expiration date of December 18, 2006. Interest expense on the Bridge Loan for the period ended December 31, 2001, was approximately \$1.7 million.

Table of Contents**RELIANT PHARMACEUTICALS, LLC****NOTES TO FINANCIAL STATEMENTS (Continued)**

During 2000, the Company received a \$1.0 million loan from BCC, which was repaid in 2000 with proceeds from the Series B Financing (see Note 12). The interest rate of 6.53% on the loan is the IRS Applicable Federal Rate (AFR) for June 2000. Interest expense on this loan for the period ended December 31, 2000, was approximately \$4,500.

10. Other Current Liabilities

As of December 31, 2000, other current liabilities represented license payments to be made by the Company to Novartis pursuant to the license agreement relating to the DynaCirc® brands and the promotion agreement relating to the Lescol® brands. These amounts were paid during 2001.

11. Commitments and Contingencies***Operating Leases***

The Company leased approximately 12,800 square feet of office space in Bridgewater, New Jersey under a sublease through December 31, 2001. On June 30, 2001, the Company was released from its obligations under the sublease. In February 2001, the Company entered into a lease agreement, which expires in June 2011, for approximately 52,400 square feet of office space in Liberty Corner, New Jersey. The Company provided a security deposit in the form of an irrevocable letter of credit issued by Bank One, NA for the benefit of the landlord in the amount of approximately \$2.0 million. The letter of credit was applied for by Diversified Capital, L.P. (a related party) on behalf of the Company. As such, Diversified Capital is responsible to Bank One, NA for reimbursement obligations. In connection with the foregoing, the Company has agreed to (i) reimburse Diversified Capital for any amounts that Diversified Capital is required to pay over to Bank One, NA and (ii) pay Diversified Capital customary fees. The Company's payment obligations to Diversified Capital are collateralized by a cash deposit equal to the face amount of the letter of credit. Such deposit is included in other long-term assets as at December 31, 2001. In addition, the Company leases vehicles, office equipment and other assets used in the operation of the business under operating leases. Certain leases provide that the Company pays for taxes, maintenance, insurance and other expenses.

The approximate minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at December 31, 2001 are:

	(In thousands)
2002	
\$1,769	
2003	
1,742	
2004	
1,668	
2005	
1,645	
2006	
1,797	
After 2006	
8,029	

Total
\$16,650

Rental expense amounted to approximately \$1.6 million, \$281,000 and \$18,000 for the years ended December 31, 2001 and 2000, and for the period from Inception (August 31, 1999) through December 31, 1999, respectively.

Other Commitments

Pursuant to various agreements, the Company has purchase commitments totaling \$57.5 million for trade products and samples (which includes the \$30 million loss on Axid® inventory purchase commitment

I-16

Table of Contents**RELIANT PHARMACEUTICALS, LLC****NOTES TO FINANCIAL STATEMENTS (Continued)**

(see Note 3)) and obligations to provide at least \$155.0 million of promotional, selling and marketing support.

The Company also has contractual arrangements with pharmaceutical product development companies and clinical research organizations to design formulations and perform clinical trials with respect to compounds under development. Pursuant to these contractual agreements, the Company has funding commitments totaling \$609,000 through December 2002.

As of December 31, 2001, aggregate minimum commitments (excluding leases), by year, related to such contractual arrangements are as follows:

	(In thousands)
2002	
\$98,084	
2003	
40,000	
2004	
40,000	
2005	
35,000	
<hr/>	
Total	
\$213,084	
<hr/>	

The Company is contractually obligated to pay \$4.6 million in the aggregate upon the achievement of specific milestones in clinical research and development programs.

In addition, provided Novartis satisfies certain contractual obligations, the Company will be required to pay Novartis \$12.5 million in connection with the exercise of its option to purchase all of Novartis' rights related to the DynaCirc® brands (see Note 3).

Legal Proceedings

The Company received letters dated April 27, 2001 and June 4, 2001 from counsel to the Fountainhead Group LLC (TFG), claiming compensation for investment banking services allegedly rendered by TFG. On December 20, 2001, TFG and Joel C. Newman served a complaint on the Company, Joseph Krivulka and Stefan Aigner as defendants making a demand for payment of a finder's fee in relation to services allegedly provided by TFG as well as damages in the amount of \$5.5 million (the Services). Management of the Company believes that this complaint is without merit and intends to vigorously defend the claims. Although the outcome of the aforementioned complaint cannot be predicted with certainty, in the opinion of management, the outcome is not expected to have a material adverse effect on the Company's results of operations, cash flows, or financial position.

From time to time, the Company may be involved in various legal proceedings and other regulatory matters arising in the normal course of business. At December 31, 2001, the Company was not involved in any proceedings that it believes would have a material adverse effect on the Company's results of operations, cash flows, or financial position.

12. Redeemable Preferred LLC Units

In April 2000, BCC converted the Note into 425,000 shares of Series A Preferred Stock, which were subsequently converted to 425,000 Series A Preferred Units (the "A Units") upon the conversion of the Company to an LLC (see Note 1).

In July 2000, the Company accepted subscriptions for 13,500,000 Series B Preferred Units (the "B Units") at a price of \$10 per unit pursuant to a private placement (the "Series B Financing"). Under the subscription agreement, 50% of the B Unit proceeds were drawn and paid in July 2000 with the balance subject to a capital draw notice by the Company. The Company made a capital draw on the

Table of Contents

RELIANT PHARMACEUTICALS, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

remaining 50% in December 2000. At December 31, 2001, the Company had subscriptions receivable totaling approximately \$1.1 million, which included a \$1.0 million note from a Founder. The interest rate on this note is the prime rate as determined by a major bank (4.75% at December 31, 2001).

In December 2001, the Company accepted subscriptions for \$150.0 million of its Series C Convertible Preferred Units (C Units) (the Series C Financing). The financing was comprised of the receipt of a cash payment of \$100.0 million from a publicly traded entity and an exchange of an aggregate of \$50.0 million of the outstanding balance on the Bridge Loan (see Note 9). The Company may issue and sell C Units to additional purchasers at any time on or before the earlier to occur of (a) June 30, 2002 or (b) the filing of a registration statement under the Securities Act of 1933 (see Note 19). The Company incurred costs of approximately \$4.6 million related to the closing of the Series C Financing, which includes \$2.6 million paid to the Advisor (see Note 17). Warrants to purchase up to 833,334 Common Units of the Company at a purchase price of \$0.01 per Common Unit (the Series C Warrants) were issued to holders of the Bridge Loan as consideration for the exchange of \$50.0 million in Bridge Loan for the C Units. The fair value of the warrants as determined by an independent valuation, was approximately \$8,300. The holders of the Bridge Loan also agreed to keep available to the Company \$30.0 million in Bridge Loan capacity and to reduce the Bridge Loan interest rate to 2% above the prime lending rate (see Note 9). The Series C Unit proceeds net of the issuance costs and the fair value of the warrants are being accreted up to their redemption value. The accretion is being recorded as preferred dividends. The Series C Warrants expire on the earlier to occur of (a) December 18, 2006, and (b) the mutual agreement of the Holder of the warrants and the Company.

The A, B and C Units are convertible into common units at a 1 to 1 ratio, (i) at the option of the holder, at any time, (ii) upon a Qualified IPO (as defined in the Company s LLC Operating Agreement) or (iii) upon the occurrence of certain other specified events. The conversion price shall initially be \$10 for the A and B Units and \$20 for the C Units. The conversion price is subject to adjustment pursuant to the Company s LLC Operating Agreement for distributions made in Common Units, subdivision or splitting its Common Units and the issuance of Common Units or options or warrants for Common Units at a price per unit that is less than the applicable conversion price.

The A, B and C Units have voting rights equal to the largest number of whole common units into which each respective Unit is convertible. The C Units rank senior to the A, B and Common Units. The A and B Units rank equally and rank senior to the Common Units.

The A, B and C Units are entitled to receive a preferred return at an annual rate of 8.5%, compounded quarterly, of the capital contributed to acquire each A, B and C Unit when, and if declared by the Board of Managers (the Board).

Prior to December 17, 2001, the A and B Units were non-redeemable. In connection with the Series C Financing, the LLC Operating Agreement was amended to provide redemption rights to the Series A, B, and C Unit holders. At the option of the holder, fifty percent of the A, B, and C Units are redeemable on December 17, 2005 for \$214.9 million and the remaining 50% are redeemable on December 17, 2006 for \$229.8 million. As a result of the additional subscriptions for the Series C Convertible Preferred Units (see Note 19), the redemption values of the A, B and C Units at December 17, 2005 and December 17, 2006, increased to \$221.3 million and \$236.8 million, respectively.

As defined in the Company s Amended LLC Operating Agreement, upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary (each, a Liquidation Event), the holders of the C Units shall be entitled, before any distribution or payment is made, to be paid an amount equal to their liquidation preference (the

Series C Liquidation Preference Cap). Once the C Unit holders have been paid, to the extent proceeds are available, the A and B Units shall be entitled to be paid, in accordance with their proportionate ownership of their respective units, an amount equal to three

Table of Contents

RELIANT PHARMACEUTICALS, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

times the sum of \$10 per Unit plus all accumulated and unpaid preferred returns, to the date of final distribution (the Series A/ B Liquidation Preference Caps) before any distribution or payment is made upon any unit ranking junior to the respective units; provided, however, that in the event the unit holders would realize proceeds in excess of the sum of the Series A/ B Liquidation Preference Caps and the Series C Liquidation Preference Cap, in connection with a Liquidation Event, the A, B and C Units shall automatically convert into Common Units at the then applicable conversion price.

If a proposed liquidation event was initiated but not effective by December 17, 2003 due to certain circumstances as defined in the Amended LLC Operating Agreement, then holders of C Units who are not also A and B Unit holders (New Holders) may, upon the request of New Holders holding not less than 50% of the Series C Preferred Units then held by the New Holders, request and the Company shall redeem 33.33% of the then outstanding C Units held by such holders requesting redemption on December 17, 2003 and the remaining C Units on December 17, 2004.

13. Common LLC Units

In connection with the conversion to an LLC (see Note 1), and upon exercise of the Founder s LLC Warrant, BCC received 2,181,116 Common Units in the Company. Similarly, pursuant to the Plan of Conversion, the Founders (excluding BCC) collectively received 1,650,543 restricted Common Units. Of the 1,650,543 Common Units issued to the remaining Founders, 434,353 were fully vested upon issuance and 1,216,190 vest over a four-year period beginning September 1, 1999. Of the restricted units subject to vesting, at December 31, 2001, 608,095 were fully vested and 608,095 remain subject to vesting.

14. Equity Incentive Plan

The Company has granted options to employees under an Equity Incentive Plan (the Plan) to purchase Common Units in the Company. Options granted under the Plan are granted at an exercise price per unit not less than the estimated fair market value of the Unit at the date of grant and have a maximum term of ten years. Options granted under the Plan generally vest ratably over four years on the anniversary of the grant date. All options have been granted at an exercise price of \$10 per unit.

The Company has made available to certain employees, who have been or may in the future be granted options, a loan in the amount of 100% of the total exercise price up to a maximum amount of \$1.0 million to effect the early exercise of all or a portion of such option holders options. These loans provide for exercise with 50/50 recourse/nonrecourse notes, bearing interest at the prime rate (4.75% as at December 31, 2001). The loans are full recourse with respect to interest. In 2001, 387,700 options were exercised in the amount of approximately \$3.9 million, with the full exercise price of these options being paid for through loans from the Company to employees. At December 31, 2001, \$25,000 of these loans was repaid.

Table of Contents**RELIANT PHARMACEUTICALS, LLC****NOTES TO FINANCIAL STATEMENTS (Continued)**

The activity under the Plan is as follows:

	<u>Plan Options</u>
Options outstanding, January 1, 2000	
Granted 2000	
561,100	
Cancelled 2000	
<hr/>	
Options outstanding, December 31, 2000	
561,100	
Granted 2001	
1,224,550	
Exercised 2001	
(387,700)	
Cancelled 2001	
(27,000)	
<hr/>	
Options outstanding, December 31, 2001	
1,370,950	
<hr/>	

At December 31, 2001, 212,125 options were vested and 1,158,825 were unvested. At December 31, 2001 and 2000, the weighted average remaining life of options outstanding was 9.3 years and 9.4 years, respectively.

The Company does not recognize compensation cost for its Plan. If the Company had elected to recognize compensation cost based on the fair value of the options granted at the grant date, there would have been no effect on the net loss of the Company for the years ended December 31, 2001 and 2000.

Compensation cost was estimated using the Black-Scholes option-pricing model with the following assumptions:

	Twelve Months Ended December 31	
	<u>2001</u>	<u>2000</u>
Expected dividend	0.0%	0.0%
Risk-free interest rate		
4.84% 5.16%		

Expected volatility
0.0% 0.0%
Expected life (in years)
6.6 6.7

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including the expected stock price volatility. The Company has used a volatility of zero, as there is no market for the Company's Units and there have not been any fluctuations in the estimated fair value of the underlying Common Units since the inception of the Plan. In management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's options. This is a result of the fact that the Company's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate.

15. Employee Agreements

The Company has entered into employment agreements with certain officers and employees of the Company. The agreements provide for salaries aggregating approximately \$2.2 million on an annualized basis. The agreements also have termination clauses that, under certain circumstances, entitle the employee to receive severance benefits upon termination. Certain agreements provide for bonus payments upon the achievement of specified quantitative and qualitative targets.

Table of Contents**RELIANT PHARMACEUTICALS, LLC****NOTES TO FINANCIAL STATEMENTS (Continued)****16. Board Consulting and Non-Compete Agreements**

In May 2000, consulting agreements, that include non-compete provisions, were entered into between the Company and each of the following individuals: Jack L. Bowman, Herbert Conrad, Irwin Lerner, David V. Milligan, and Gerald Cohn. The consulting fee payments for the years ended December 31, 2001 and 2000 were \$490,000 and \$540,000, respectively. Concurrent with the commencement of his employment as chief executive officer, the consulting agreement between the Company and Irwin Lerner was terminated. The employment agreement with Irwin Lerner lapsed on December 31, 2001. For each calendar year during the consulting period in which the Company's earnings before interest, taxes, depreciation and amortization (EBITDA) and free cash flow targets for acquired products and developed products, as set by the Board of Managers (the Board), are satisfied, the Company shall pay a bonus of \$100,000 to each consultant. For each calendar year in which the Company's EBITDA and free cash flow targets for acquired products and developed products, as set by the Board, are exceeded by 25 percent or more, the Company shall pay an additional bonus of \$100,000 to each consultant. For the years ended December 31, 2001 and 2000, bonus payments of \$400,000 and \$1.08 million respectively, were made.

17. BCC BD Arrangements

Bay City Capital BD LLC (the Advisor), a related party, provides the Company with (i) business advice and (ii) financial advisory services in connection with defined business transactions involving the acquisition or disposition by the Company of pharmaceutical and/or biotechnology related assets and general corporate acquisition/divestiture transactions. The Advisor is providing the services for a three-year period that commenced in September 1999 pursuant to an arrangement order. Either party may terminate the arrangement upon ninety days prior notice. The Company pays the Advisor a monthly fee of \$25,000 as compensation for services and reimburses the Advisor for related business expenses incurred. For each of the years ended December 31, 2001 and 2000, the Company had charged \$300,000 to expense, respectively, for the Advisor's service fee. Additionally, the Company has agreed under specified conditions to pay the Advisor two percent (2%) of the total consideration (the Fee) with respect to general corporate acquisition/divestiture transactions. In consideration for an advance of \$1.0 million in 2001, the Advisor has agreed to reduce the Fee to 0.8% of the total consideration. Such advance is nonrefundable, but will be credited against future fees that may become due up to \$1.0 million. Since the amount is nonrefundable, the amount was expensed in 2001. As of December 31, 2001, the Company had not incurred a liability for the Fee.

In December 2001, in connection with closing the Series C Financing, the Company paid the Advisor \$2.6 million for their services in relation to the financing.

18. 401(k) Employee Benefit Plan

Effective May 29, 2001 the Company established the Reliant Pharmaceuticals 401(k) Plan (the Plan) for all eligible employees. Employees can elect to defer up to 15% of their compensation on a pretax basis, subject to maximum limits as set forth by the IRS. The Company may, but is not required to, provide matching contributions to be determined each year by the Company's Board. All employee contributions are 100% vested. Employer contributions vest over a three-year period beginning with the employee's full-time date of hire. The Company made no matching contributions during 2001.

Table of Contents

RELIANT PHARMACEUTICALS, LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

19. Events Subsequent to December 31, 2001

Financing Activities

On February 4, 2002, the Company accepted subscriptions for approximately \$9.3 million of additional Series C Convertible Preferred Units pursuant to a rights offering to existing members.

Sales Force Rollover

On February 5, 2002, the Company announced that it had exercised its option to convert its contracted sales force, who are currently employed by Ventiv Health, Inc., to full-time Reliant employees as of April 1, 2002.

Table of Contents

Exhibit Index

3.1 Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on June 7, 2001. (Incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)

3.2 Amended and Restated By-Laws of Alkermes, Inc., effective as of February 11, 2001. (Incorporated by reference to Exhibit 3.2 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)

4.1 Specimen of Common Stock Certificate of Alkermes, Inc. (Incorporated by reference to Exhibit 4 to the Registrant's Registration Statement on Form S-1, as amended (File No. 33-40250).)

4.2 Specimen of Non-Voting Common Stock Certificate of Alkermes, Inc. (Incorporated by reference to Exhibit 4.4 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1999.)

4.3 Indenture, dated as of February 18, 2000, between Alkermes, Inc. and State Street Bank and Trust Company, as Trustee.

(Incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-3, as amended (File No. 333-31354).)

10.1 Amended and Restated 1989 Non-Qualified Stock Option Plan, as amended.

(Incorporated by reference to Exhibit 4.2(c) to the Registrant's Registration Statement on Form S-8 (File No.

33-44752).)+

10.2 Amended and Restated 1990 Omnibus Stock Option Plan, as amended.

(Incorporated by reference to Exhibit 10.2 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1998).)+

10.3 1991 Restricted Common Stock Award Plan.

(Incorporated by reference to Exhibit 4.2(a) to the Registrant's Registration Statement on Form S-8 (File No. 33-58330).)+

10.4 1992 Non-Qualified Stock Option Plan.

(Incorporated by reference to Exhibit 10.26 to the Registrant's Registration Statement on Form S-4, as amended (File

No. 33-54932).)+
10.5 Stock
Option Plan for
Non-Employee
Directors.
(Incorporated by
reference to
Exhibit 10.5 to
the Registrant s
Report on
Form 10-K for the
fiscal year ended
March 31,
1996.)+
10.6 Alkermes,
Inc. 1998 Equity
Incentive Plan.
(Incorporated by
reference to
Exhibit 10.6 to
the Registrant s
Report on
Form 10-K for the
fiscal year ended
March 31, 1999.)
+
10.7 1999 Stock
Option Plan.
(Incorporated by
reference to
Exhibit 10.7 to
the Registrant s
Report on
Form 10-K for the
fiscal year ended
March 31, 2001.)

Table of Contents

10.8 Lease,
dated as of
October 26,
2000, between
FC88 Sidney,
Inc. and
Alkermes, Inc.
(Incorporated by
reference to
Exhibit 10.3 to
the Registrant's
Report on
Form 10-Q for
the quarter ended
December 31,
2000.)

10.9 Lease,
dated as of
October 26,
2000, between
Forest City 64
Sidney Street,
Inc. and
Alkermes, Inc.
(Incorporated by
reference to
Exhibit 10.4 to
the Registrant's
Report on
Form 10-Q for
the quarter ended
December 31,
2000.)

10.10 Lease,
dated July 26,
1993, between
the
Massachusetts
Institute of
Technology and
Alkermes, Inc.
(Incorporated by
reference to
Exhibit 10.8 to
the Registrant's
Report on
Form 10-K for
the fiscal year
ended March 31,
1997.)

10.10(a) First
Amendment of
Lease, dated
June 9, 1997,
between the
Massachusetts
Institute of
Technology and
Alkermes, Inc.

(Incorporated by reference to Exhibit 10.8(a) to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1997.)

10.11 Product Development Agreement, dated as of March 6, 1992, between Alkermes Clinical Partners, L.P. and the Registrant.

(Incorporated by reference to Exhibit 10.21 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1992.)

10.12 Purchase Agreement, dated as of March 6, 1992, by and among the Registrant and each of the Limited Partners, from time to time, of the Partnership.

(Incorporated by reference to Exhibit 10.22 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1992.)

10.13 Alkermes Clinical Partners, L.P. Agreement of Limited Partnership, dated as of February 7, 1992.

(Incorporated by reference to Exhibit 10.23 to the Registrant's Report on

Form 10-K for
the fiscal year
ended March 31,
1992.)

10.13(a) Amendment
No. 1 to
Alkermes
Clinical Partners,
L.P. Agreement
of Limited
Partnership,
dated as of
September 29,
1992.

(Incorporated by
reference to
Exhibit 10.22(a)
to the
Registrant s
Registration
Statement on
Form S-4, as
amended (File
No. 33-54932).)

10.13(b) Amendment
No. 2 to
Alkermes
Clinical Partners,
L.P. Agreement
of Limited
Partnership,
dated as of
March 30, 1993.

(Incorporated by
reference to
Exhibit 10.22(b)
to the
Registrant s
Registration
Statement on
Form S-3, as
amended (File
No. 33-64964).)

10.14 Class A
Note of
Alkermes
Development
Corporation II,
dated April 10,
1992, to
PaineWebber
Development
Corporation in
the amount of
\$100.00.

(Incorporated by
reference to
Exhibit 10.24 to
the Registrant s
Report on
Form 10-K for
the fiscal year

ended March 31, 1992.)

10.15 License Agreement, dated as of April 14, 1999, by and between Genentech, Inc. and Alkermes Controlled Therapeutics, Inc.

(Incorporated by reference to Exhibit 10.18 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1999.)*

10.16 Manufacture and Supply Agreement, entered into April 5, 2001, by and between Alkermes, Inc. and Genentech, Inc.

(Incorporated by reference to Exhibit 10.16 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)**

Table of Contents

10.17 License Agreement, dated as of February 13, 1996, between Medisorb Technologies International L.P. and Janssen Pharmaceutica International (United States) (assigned to Alkermes Controlled Therapeutics Inc. II in March 1996). (Incorporated by reference to Exhibit 10.19 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1996.)***

10.18 License Agreement, dated as of February 21, 1996, between Medisorb Technologies International L.P. and Janssen Pharmaceutica International (worldwide except United States) (assigned to Alkermes Controlled Therapeutics Inc. II in March 1996). (Incorporated by reference to Exhibit 10.20 to the Registrant's Report on Form 10-K for the fiscal year ended

March 31,
1996.)***
10.19 Manufacturing
and Supply
Agreement,
dated August 6,
1997, by and
among
Alkermes
Controlled
Therapeutics
Inc., Janssen
Pharmaceutica
International
and Janssen
Pharmaceutica,
Inc. §
10.19(a) Letter
Agreement and
Exhibits to
Manufacturing
and Supply
Agreement,
dated February
1, 2002, by and
among
Alkermes
Controlled
Therapeutics
Inc. II, Janssen
Pharmaceutica
International
and Janssen
Pharmaceutica,
Inc. §
10.19(b) Addendum
to
Manufacturing
and Supply
Agreement,
dated August
2001, by and
among
Alkermes
Controlled
Therapeutics
Inc. II, Janssen
Pharmaceutica
International
and Janssen
Pharmaceutica,
Inc. §
10.20 Patent
License
Agreement,
dated as of
August 11,
1997, between
Massachusetts
Institute of
Technology and
Advanced

Inhalation
Research, Inc.,
as amended.
(Incorporated
by reference to
Exhibit 10.25 to
the Registrant's
Report on
Form 10-K for
the fiscal year
ended
March 31,
1999.)*
10.21 Letter
Agreement,
dated
September 27,
1996, by and
among Fleet
National Bank,
Alkermes
Controlled
Therapeutics,
Inc., Alkermes
Controlled
Therapeutic
Inc. II and the
Registrant.
(Incorporated
by reference to
Exhibit 10.3 to
the Registrant's
Report on
Form 10-Q for
the quarter
ended
September 30,
1996.)
10.22(a) Second
Loan
Supplement and
Modification
Agreement,
dated as of
March 19,
1998, by and
among Fleet
National Bank,
Alkermes
Controlled
Therapeutics,
Inc., Alkermes
Controlled
Therapeutics
Inc. II and the
Registrant.
(Incorporated
by reference to
Exhibit
10.29(b) to the
Registrant's
Report on

Form 10-K for
the fiscal year
ended
March 31,
1998.)
10.22(b) Third
Loan
Supplement and
Modification
Agreement,
dated as of
September 24,
1998, by and
among Fleet
National Bank,
Alkermes
Controlled
Therapeutics,
Inc., Alkermes
Controlled
Therapeutics
Inc. II and the
Registrant.
(Incorporated
by reference to
Exhibit 10.1 to
the Registrant's
Report on
Form 10-Q for
the quarter
ended
September 30,
1998.)
10.23 Security
Agreement,
dated as of
September 27,
1996, from the
Registrant,
Alkermes
Controlled
Therapeutics,
Inc. and
Alkermes
Controlled
Therapeutic
Inc. II to Fleet
National Bank.
(Incorporated
by reference to
Exhibit 10.4 to
the Registrant's
Report on
Form 10-Q for
the quarter
ended
September 30,
1996.)
10.24 Pledge
Agreement,
dated as of
September 27,

1996, from the
Registrant to
Fleet National
Bank.
(Incorporated
by reference to
Exhibit 10.5 to
the Registrant's
Report on
Form 10-Q for
the quarter
ended
September 30,
1996.)

Table of Contents

10.25 Mortgage
and Security
Agreement, dated
as of
September 27,
1996, from
Alkermes
Controlled
Therapeutics Inc.
II to Fleet
National Bank.
(Incorporated by
reference to
Exhibit 10.6 to
the Registrant s
Report on
Form 10-Q for the
quarter ended
September 30,
1996.)

10.26 Environmental
Indemnity
Agreement, dated
as of
September 27,
1996, from the
Registrant and
Alkermes
Controlled
Therapeutics Inc.
II to Fleet
National Bank.
(Incorporated by
reference to
Exhibit 10.7 to
the Registrant s
Report on
Form 10-Q for the
quarter ended
September 30,
1996.)

10.27 Promissory
Note, dated
March 19, 1998,
from the
Registrant,
Alkermes
Controlled
Therapeutics, Inc.
and Alkermes
Controlled
Therapeutics Inc.
II to Fleet
National Bank.
(Incorporated by
reference to
Exhibit 10.38 to
the Registrant s

Report on
Form 10-K for the
fiscal year ended
March 31,
1998.)

10.28 Promissory
Note, dated
September 24,
1998, from the
Registrant,
Alkermes
Controlled
Therapeutics, Inc.
and Alkermes
Controlled
Therapeutics Inc.
II to Fleet
National Bank
(\$11,000,000).

(Incorporated by
reference to
Exhibit 10.2 to
the Registrant's
Report on
Form 10-Q for the
quarter ended
September 30,
1998.)

10.29 Promissory
Note, dated
September 24,
1998, from the
Registrant,
Alkermes
Controlled
Therapeutics, Inc.
and Alkermes
Controlled
Therapeutics Inc.
II to Fleet
National Bank
(\$9,000,000).

(Incorporated by
reference to
Exhibit 10.3 to
the Registrant's
Report on
Form 10-Q for the
quarter ended
September 30,
1998.)

10.30 Employment
Agreement,
entered into as of
February 7, 1991,
between Richard
F. Pops and the
Registrant.
(Incorporated by
reference to
Exhibit 10.12 to
the Registrant's

Registration
Statement on
Form S-1, as
amended (File
No. 33-40250).)+
10.31 Change in
Control
Employment
Agreement, dated
as of December
19, 2000, between
Alkermes, Inc.
and Richard F.
Pops.
(Incorporated by
reference to
Exhibit 10.1 to
the Registrant's
Report on
Form 10-Q for the
quarter ended
December 31,
2000).)+
10.32 Change in
Control
Employment
Agreement, dated
as of December
19, 2000, between
Alkermes, Inc.
and each of
Raymond T.
Bartus, J. Duncan
Higgins, James
L. Wright, James
M. Frates and
Michael J.
Landine and dated
as of June 27,
2001, between
Alkermes, Inc.
and David A.
Broecker. (Form
of agreement
incorporated by
reference to
Exhibit 10.2 to
Registrant's
Report on
Form 10-Q for the
quarter ended
December 31,
2000).)+
10.33 Employment
Agreement, dated
December 22,
2000 by and
between David A.
Broecker and the
Registrant.
(Incorporated by
reference to

Exhibit 10.32 to
the Registrant's
Report on
Form 10-K for the
fiscal year ended
March 31,
2001.)+

10.34 Agreement
and Plan of
Merger, dated as
of March 20,
2002, by and
among Alkermes,
Inc., New
Alkermes, Inc.
Adams
Acquisition Sub,
Inc. Revere
Acquisition Sub,
LLC and Reliant
Pharmaceuticals,
LLC.

(Incorporated by
reference to
Exhibit 2.1 to the
Registrant's
Current Report on
Form 8-K dated
March 20,
2002.)

10.35 Amendment,
dated as of
April 29, 2002, to
the Agreement
and Plan of
Merger, dated as
of March 20,
2002, by and
among Alkermes,
Inc., New
Alkermes, Inc.
Adams

Table of Contents

Acquisition
Sub, Inc. Revere
Acquisition Sub,
LLC and Reliant
Pharmaceuticals,
LLC.
21 Subsidiaries
of the
Registrant.
23 Consent of
Deloitte &
Touche LLP.
99.1 Certification
pursuant to
Section 906 of
the
Sarbanes-Oxley
Act of 2002, 18
U.S.C. Section
1350 by Chief
Executive
Officer.
99.2 Certification
pursuant to
Section 906 of
the
Sarbanes-Oxley
Act of 2002, 18
U.S.C. Section
1350 by Chief
Financial Officer.

* Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted August 19, 1999. Such provisions have been filed separately with the Commission.

** Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted September 27, 2001. Such provisions have been filed separately with the Commission. *** Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted

September 3,
1996. Such
provisions
have been filed
separately with
the
Commission. § Confidential
status has been
requested for
certain
portions
thereof
pursuant to a
Confidential
Treatment
Request filed
July 1, 2002.
Such
provisions
have been
separately filed
with the
Commission. + Constitutes
a management
contract or
compensatory
plan required
to be filed as
an Exhibit to
this Report
pursuant to
Item 14(c) of
Form
10-K. Filed
with original
Form 10-K on
July 1,
2002. Filed
herewith.