

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

Table of Contents

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO. 1

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

For the quarterly period ended June 30, 2002

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

23-2472830

(State or other jurisdiction of
incorporation or organization)
88 Sidney Street, Cambridge, MA 02139-4136

(I.R.S. Employer
Identification No.)

(Address of principal executive offices) (Zip Code)

Registrant's telephone number including area code: (617) 494-0171

64 Sidney Street, Cambridge, MA 02139-4136

(Former name, former address, and former fiscal year, if changed since last report)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Shares Outstanding as of August 7, 2002 |
|--|---|
| Common Stock, par value \$.01 | 64,312,182 |
| Non-Voting Common Stock, par value \$.01 | |
| 382,632 | |

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS:

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

CERTIFICATIONS

Exhibit Index

Ex-99.1 Certification of Chief Executive Officer

Ex-99.1 Certification of Chief Financial Officer

Table of Contents

ALKERMES, INC. AND SUBSIDIARIES

INDEX

| | <u>Page No.</u> |
|---|---------------------|
| PART I FINANCIAL INFORMATION | |
| Item 1. Consolidated Financial Statements | |
| Consolidated Balance Sheets - June 30, 2002 and March 31, 2002 | 3 |
| Consolidated Statements of Operations - Three months ended June 30, 2002 and 2001 | 4 |
| Consolidated Statements of Cash Flows - Three months ended June 30, 2002 and 2001 | 5 |
| Notes to Consolidated Financial Statements | 6 |
| Item 6. Exhibits and Reports on Form 8-K | 9 |
| SIGNATURES | 10 |
| CERTIFICATIONS | 10 |
| EXHIBIT INDEX | 11 |

Table of Contents

Explanatory Note

The Registrant is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2002 to include summarized financial information with regard to a fifty percent or less owned person accounted for by the equity method by the Registrant in the notes to its financial statements. Accordingly, in this Form 10-Q/A, the Registrant is amending Note 4 to its Notes to Consolidated Financial Statements included in Item 1 to reflect such summarized financial information. This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q, or modify or update the disclosures therein in any way other than as required to reflect the amendment described above.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements:

ALKERMES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | June 30, 2002 | March 31, 2002 |
|---|------------------|-------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$9,488,795 | \$16,023,074 |
| Short-term investments | 100,338,942 | 136,323,768 |
| Receivables from collaborative arrangements | 19,501,908 | 19,039,706 |
| Prepaid expenses and other current assets | 5,647,655 | 5,249,797 |
| <hr/> | | |
| <hr/> | | |
| Total current assets | 134,977,300 | 176,636,345 |
| <hr/> | | |
| <hr/> | | |
| Property, Plant and Equipment: | | |
| Land | 235,000 | 235,000 |
| Building | 5,076,961 | 5,058,936 |
| Furniture, fixtures and equipment | 51,274,335 | 49,558,745 |
| Leasehold improvements | 15,108,993 | 15,016,553 |
| Construction in progress | 41,245,053 | 26,497,064 |
| <hr/> | | |
| <hr/> | | |

112,940,342 96,366,298
Less accumulated depreciation and
amortization
(36,745,946) (34,530,467)

76,194,396 61,835,831

Investments
8,823,556 9,126,093

Investment in Reliant Pharmaceuticals, LLC
70,383,636 94,596,536

Other Assets
7,224,197 8,155,472

Total Assets
\$297,603,085 \$350,350,277

LIABILITIES AND SHAREHOLDERS
EQUITY

Current Liabilities:

Accounts payable and accrued expenses

| | |
|-----------------------|-----------------|
| \$22,703,760 | \$20,764,375 |
| Accrued interest | |
| 2,881,226 | 1,013,521 |
| Deferred revenue | |
| 6,807,177 | 7,083,516 |
| Long-term obligations | current portion |
| 3,900,000 | 14,025,000 |

Total current liabilities
36,292,163 42,886,412

Long-Term Obligations
6,825,000 7,800,000

Convertible Subordinated Notes
200,000,000 200,000,000

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,
64,290,178 and 64,225,395 shares at
June 30, 2002 and March 31, 2002,
respectively

642,902 642,254

Non-voting common stock, par value \$.01
per share:

authorized, 450,000 shares; issued, 382,632
at June 30, 2002 and March 31, 2002

3,826 3,826

Additional paid-in capital

444,851,926 444,425,742

Deferred compensation

(2,587,460) (3,162,448)

Accumulated other comprehensive income

692,198 1,619,541
Accumulated deficit
(389,117,470) (343,865,050)

Total shareholders' equity
54,485,922 99,663,865

Total Liabilities and Shareholders' Equity
\$297,603,085 \$350,350,277

See notes to consolidated financial statements.

(3)

Table of Contents

ALKERMES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended June 30, 2002 | Three Months Ended June 30, 2001 |
|---|---|---|
| Revenues: | | |
| Research and development revenue under collaborative arrangements | | |
| \$10,291,391 | \$15,526,675 | |
| <hr/> | | |
| <hr/> | | |
| Expenses: | | |
| Research and development | | |
| 24,599,673 | 20,710,031 | |
| General and administrative | | |
| 6,016,040 | 5,374,278 | |
| <hr/> | | |
| <hr/> | | |
| Total expenses | | |
| 30,615,713 | 26,084,309 | |
| <hr/> | | |
| <hr/> | | |
| Net operating loss | | |
| (20,324,322) | (10,557,634) | |
| <hr/> | | |
| <hr/> | | |
| Other income (expense): | | |
| Interest income | | |
| 1,365,936 | 4,525,015 | |
| Interest expense | | |
| (2,081,134) | (2,309,927) | |

Total other (expense) income
(715,198) 2,215,088

Equity in losses of Reliant Pharmaceuticals,
LLC
24,212,900

Net loss
(\$45,252,420) (\$8,342,546)

Basic and diluted loss per common share
(\$0.70) (\$0.13)

Weighted average number of common
shares outstanding
64,260,903 63,236,893

See notes to consolidated financial statements.

(4)

Table of Contents**ALKERMES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

| | Three Months Ended June 30, 2002 | Three Months Ended June 30, 2001 |
|--|---|---|
| Cash flows from operating activities: | | |
| Net loss | | |
| (\$45,252,420) (\$8,342,546) | | |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation, amortization and other noncash expenses | | |
| 3,071,035 2,313,341 | | |
| Equity in losses of Reliant Pharmaceuticals, LLC | | |
| 24,212,900 | | |
| Noncash interest expense | | |
| 138,730 | | |
| Adjustments to other assets | | |
| 250,447 | | |
| Changes in assets and liabilities: | | |
| Receivables from collaborative arrangements | | |
| (462,201) (6,132,254) | | |
| Prepaid expenses and other current assets | | |
| (400,779) 1,011,462 | | |
| Accounts payable and accrued expenses | | |
| 3,823,187 1,818,670 | | |
| Deferred revenue | | |
| (276,341) (579,472) | | |
| <hr/> | | |
| <hr/> | | |
| Net cash used by operating activities | | |
| (15,284,619) (9,521,622) | | |
| <hr/> | | |
| <hr/> | | |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | | |
| (16,626,892) (2,441,554) | | |

Purchases of available-for-sale short-term investments
 (35,290,276) (69,221,396)
 Sales of available-for-sale short-term investments
 71,241,888 66,764,763
 Purchases of held-to-maturity short-term investments, net
 (19,309,847)
 Maturities of long-term investments, net
 38,739,459
 Increase in other assets
 (300,000)

Net cash provided by investing activities
 19,324,720 14,231,425

Cash flows from financing activities:

Proceeds from issuance of common stock
 480,681 1,402,349
 Repayment of loan
 (10,000,000)
 Payment of long-term obligations
 (1,100,000) (1,350,000)

Net cash (used by) provided by financing activities
 (10,619,319) 52,349

Effect of exchange rate changes on cash
 44,939 (10,948)

Net (decrease) increase in cash and cash equivalents

(6,534,279) 4,751,204

Cash and cash equivalents, beginning of period

16,023,074 5,923,282

Cash and cash equivalents, end of period

\$9,488,795 \$10,674,486

Supplementary information:

Cash paid for interest

\$213,428 \$301,123

See notes to consolidated financial statements.

(5)

Table of Contents**ALKERMES, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. BASIS OF PRESENTATION**

The consolidated financial statements of Alkermes, Inc. (the Company) for the three months ended June 30, 2002 and 2001 are unaudited and include all adjustments which are normal and recurring and, in the opinion of management, are necessary to present fairly the results of operations for the periods then ended. All such adjustments are of a normal recurring nature. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended March 31, 2002, which includes consolidated financial statements and notes thereto for the years ended March 31, 2002, 2001 and 2000. In addition, the financial statements include the accounts of Alkermes Controlled Therapeutics, Inc., Alkermes Controlled Therapeutics Inc. II, Advanced Inhalation Research, Inc. (AIR), Alkermes Investments, Inc., Alkermes Europe, Ltd. and Alkermes Development Corporation II (ADC II), wholly owned subsidiaries of the Company.

The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for any other interim period or for a full fiscal year.

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.

2. COMPREHENSIVE INCOME (LOSS)

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

Comprehensive income (loss) for the three months ended June 30, 2002 and 2001 is as follows:

| | Three Months Ended June 30, 2002 | Three Months Ended June 30, 2001 |
|--|--|--|
| Net loss | (\$45,252,420) | (\$8,342,546) |
| Foreign currency translation adjustments 49,908 (10,575) | | |
| Unrealized (loss) gain on marketable securities (977,251) 9,182 | | |
| <hr/> | | |
| <hr/> | | |
| Comprehensive loss | | |
| (\$46,179,763) (\$8,343,939) | | |
| <hr/> | | |
| <hr/> | | |

Table of Contents**3. 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 and the 3 3/4% Convertible Subordinated Notes due 2007 (the 3 3/4% 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 computations of diluted net loss per share for the three months ended June 30, 2002 and 2001 because they would have an antidilutive effect due to net losses for such periods. These securities include (i) outstanding stock options and awards with respect to 11,368,201 and 9,455,725 shares of common stock in the three months ended June 30, 2002 and 2001 and (ii) 2,952,030 shares of common stock issuable upon conversion of the 3 3/4% Notes in the three months ended June 30, 2002 and 2001.

4. INVESTMENT IN RELIANT PHARMACEUTICALS, LLC

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

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. Reliant is a privately held company over which the Company does not exercise control and it relies on the unaudited financial statements prepared by Reliant and provided to the Company to calculate its share of Reliant's losses in the Company's consolidated statements of operations. 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 related to Reliant for the three-month period ended March 31, 2002 is as follows:

| <u>(In thousands)</u> | |
|-----------------------|-----------|
| Revenues | \$ 58,609 |
| Costs and expenses | 88,461 |
| Net loss | (29,644) |

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 Statement of Financial Accounting Standards (SFAS) No. 141. The Company took a \$2.7 million noncash charge for in-process research and development through the income statement under the caption Equity in losses of Reliant Pharmaceuticals, LLC in fiscal 2002. 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 of in-process research and development is subject to future adjustment.

Table of Contents

Termination of Proposed Merger Transaction with Reliant

On March 20, 2002, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Reliant. On August 14, 2002, the Company and Reliant announced the mutual termination of the Merger Agreement. The companies agreed to terminate due to general market conditions. There will be no payments triggered by the mutual termination and each company will bear its own legal and transaction fees.

5. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not believe that the adoption of SFAS No. 146 will have a material impact on its financial statements and result of operations.

6. SUBSEQUENT EVENT

In August, the Company announced the regulatory approval and expected commercial launch of Risperdal Consta in Germany and the United Kingdom. Under the Company s agreements with Janssen and based on the foregoing, certain minimum revenues are to be paid to the Company in minimum annual amounts for up to ten years beginning in calendar 2003. The actual amount of such minimum revenues will be determined by a formula and are currently estimated to aggregate approximately \$150 million. The minimum revenue obligation will be satisfied upon receipt by the Company of revenues equalling such aggregate amount of minimum revenues.

Table of Contents

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

| Number | Exhibit |
|--------|---|
| 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 Company'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 Company'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 Company'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 Company'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
Company's
Registration
Statement on
Form S-3, as
amended (File
No. 333-31354)).
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.

- (b) During the quarter ended June 30, 2002, the Company filed a Current Report on Form 8-K, dated April 2, 2002, under Items 7 and 9 and a Current Report on Form 8-K, dated June 28, 2002, under Item 5.

(9)

Table of Contents

SIGNATURES

Pursuant to the requirements 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.
(Registrant)

Date: November 14, 2002 By: /s/ James M. Frates

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

CERTIFICATIONS

I, Richard F. Pops, certify that:

1. I have reviewed this amendment no. 1 to the quarterly report on Form 10-Q/A of Alkermes, Inc.;
2. Based on my knowledge, this Amendment No. 1 to the quarterly 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 quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1 to the quarterly 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 quarterly report.

Date: November 14, 2002

/s/ Richard F. Pops

Richard F. Pops
Chief Executive Officer

CERTIFICATIONS

I, James M. Frates, certify that:

1. I have reviewed this amendment no. 1 to quarterly report on Form 10-Q/A of Alkermes, Inc.;
2. Based on my knowledge, this Amendment No. 1 to the quarterly 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 quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1 to the quarterly 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 quarterly report.

Date: November 14, 2002

/s/ James M. Frates

James M. Frates
Chief Financial Officer

(10)

Table of Contents**Exhibit Index**

| Exhibit Number | Description |
|-------------------|---|
| 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 Company'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 Company'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 Company'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 Company's Report on Form 10-K for the fiscal year ended March 31, 1999). |
| 5.3 | 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
Company's
Registration
Statement on
Form S-3, as
amended (File
No. 333-31354)).

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.

(11)