BONNEY MARK J
Form 4/A
August 23, 2018

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
BONNEY MARK J

(Last) (First) (Middle)

2711 N. HASKELL
AVENUE, SUITE 2200

(Street)

DALLAS, TX 75204

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ZIX CORP [ZIXI]

3. Date of Earliest Transaction (Month/Day/Year)
02/26/2018

4. If Amendment, Date Original Filed(Month/Day/Year)
02/28/2018

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Pr Deri Secu

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)	Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)							(Inst
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Deferred Stock Units	(1)	02/26/2018	A		16,337		(2)	(2)	Common Stock	16,337	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BONNEY MARK J 2711 N. HASKELL AVENUE SUITE 2200 DALLAS, TX 75204	X			

Signatures

/s/ Noah F. Webster, Attorney-in-Fact	08/23/2018
**Signature of Reporting Person	Date

Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Each deferred stock unit represents a contingent right to receive one share of ZIXI common stock.

(2) Grant under the Amended and Restated 2012 Incentive Plan (as amended, the "Plan"). The deferred stock units will vest pro-rata and quarterly over one year, and subject to acceleration under conditions described in the Plan. Delivery of the underlying shares in respect of vesting will occur pursuant to the underlying award agreement.

(3) This Form 4/A amends the Form 4 filed by the Reporting Person on February 28, 2018. The amount of securities directly beneficially owned by the Reporting Person has been historically reported incorrectly and should have been reported as 95,231 shares of common stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Name	Age	Position
James M. Frates	36	Vice President, Chief Financial Officer and Treasurer
Michael J. Landine	49	Vice President, Corporate Development

Ms. Biberstein, age 44, has been Vice President and General Counsel of Alkermes since February 2003. She was employed by Serono S.A. and was General Counsel from 1993 to March 2000 and a member of the Executive Committee from 1998 to March 2000. She also held a

position at Crowell & Moring LLC as Of Counsel from February 2002 to February 2003 and performed legal consulting services for various clients from March 2001 to February 2002. Ms. Biberstein holds a B.S. in Mechanical-Electrical Engineering, Business Minor from General Motors Institute and a J.D. from the University of Michigan.

Dr. Bloom, age 67, is a founder of Alkermes and has been a director of Alkermes since 1987. Dr. Bloom has been active in neuropharmacology for more than 35 years, holding positions at Yale University, the National Institute of Mental Health and The Salk Institute. Since 1983, he has been at The Scripps Research Institute where he is currently Chairman, Department of Neuropharmacology. Dr. Bloom served as Chief Executive Officer of Neurome, Inc., a biotechnology company, from 2000 to 2002 while on sabbatical from The Scripps Research Institute. Dr. Bloom served as Editor-in-Chief of Science from 1995 to May 2000. He holds an A.B. (Phi Beta Kappa) from Southern Methodist University and an M.D. (Alpha Omega Alpha) from Washington University School of Medicine in St. Louis. He is a member of the National Academy of Science, the Institute of Medicine and the Royal Swedish Academy of Science.

Mr. Breyer, age 60, has been a director of Alkermes since July 1994. He served as the President of Alkermes from July 1994 until his retirement in December 2001 and Chief Operating Officer from July 1994 to February 2001. From August 1991 to December 1993, Mr. Breyer was President and General Manager of Eli Lilly Italy, a subsidiary of Eli Lilly and Company. From September 1987 to August 1991, he was Senior Vice President, Marketing and Sales of IVAC Corporation, a medical device company and a subsidiary of Eli Lilly and Company.

Mr. Broecker, age 42, has been President since January 2002 and Chief Operating Officer of Alkermes since February 2001. From August 1985 to January 2001, he was employed at Eli Lilly and Company. During his tenure at Eli Lilly, Mr. Broecker managed Eli Lilly s largest pharmaceutical manufacturing facility outside of the U.S., located in Kinsale, Ireland, where as General Manager he led manufacturing operations for products accounting for 50% of worldwide Eli Lilly sales. He also worked as a General Manager in Eli Lilly s packaging and distribution operations in Germany, and Director of Marketing for Advanced Cardiovascular Systems, now a part of Guidant Corporation. Mr. Broecker holds a B.A. in Chemistry from Wabash College, an M.S. in Chemical Engineering from M.I.T. and an M.B.A. in Marketing and Finance from the University of Chicago.

Mr. Frates, age 36, has been Vice President, Chief Financial Officer and Treasurer of Alkermes since July 1998. From June 1996 to July 1998, he was employed at Robertson, Stephens & Company, most recently as a Vice President in Investment Banking. Prior to that time he was employed at Robertson, Stephens & Company and at Morgan Stanley & Co. In June 1996, he obtained his M.B.A. from Harvard University.

Dr. Henwood, age 51, has been a director of Alkermes since April 2003. She is the President and Chief Executive Officer of Auxilium Pharmaceuticals, a pharmaceutical company co-founded by Dr. Henwood

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and specializing in urologic and male health. Auxilium has raised a total of $56 million in equity and developed its first product from IND to NDA approval in less than two years. Prior to founding Auxilium, Dr. Henwood founded, in 1985, a contract research organization (CRO), IBAH, Inc., that became a public company and was eventually sold to a large healthcare company. Prior to founding IBAH, Dr. Henwood was employed by SmithKline Beecham in various capacities including senior medical and regulatory positions.

Mr. Landine, age 49, has been Vice President, Corporate Development of Alkermes since March 1999. From March 1988 until June 1998, he was Chief Financial Officer and Treasurer of Alkermes. Mr. Landine is a director of Kopin Corporation, a manufacturer of high definition imaging products. Mr. Landine is also currently an advisor to Walker Magnetics Group, an international manufacturer of industrial equipment.

Mr. Mitchell, age 51, has been a director of Alkermes since April 2003. He has served as the Chief Financial Officer and Treasurer of Kenet, Inc., a company engaged in the development and manufacture of analog and mixed signal integrated circuits, since April 2002. Prior to joining Kenet, Mr. Mitchell was the Chief Financial Officer and Treasurer of Kopin Corporation from April 1985 through September 1998. From September 1998 through June 2001, Mr. Mitchell served in a consulting role at Kopin as Director of Strategic Planning. Prior to joining Kopin, Mr. Mitchell worked for the international accounting firm of Touche Ross & Co. from 1975 to 1984. Mr. Mitchell is also President of Mitchell Financial Group, an investment and consulting firm with activities in the technology, healthcare and financial services industries, and a member of the board of directors of several private companies. Mr. Mitchell, a graduate of College of the Holy Cross (B.A. Economics) and Northeastern University (M.S. Accounting) is a Certified Public Accountant.

Mr. Pops, age 41, has been a director and the Chief Executive Officer of Alkermes since February 1991. Mr. Pops currently serves on the Board of Directors of Neurocrine Biosciences, Inc., a biotechnology company, the Biotechnology Industry Organization (BIO), serving as Chairman of the Board, and the Massachusetts Biotechnology Council (MBC). He serves as Chair for the Harvard Medical School Advisory Council for Biological Chemistry & Molecular Pharmacology (BCMP) and is a member of the Harvard Medical School Board of Fellows.

Dr. Rich, age 78, is a founder of Alkermes and has been a director of Alkermes since 1987. Dr. Rich has been a professor at the Massachusetts Institute of Technology since 1958, and is the William Thompson Sedgwick Professor of Biophysics and Biochemistry. Dr. Rich earned both an A.B. (magna cum laude) and an M.D. (cum laude) from Harvard University. Dr. Rich is a member of the National Academy of Sciences, the American Academy of Arts and Sciences and the Institute of Medicine. Dr. Rich is Co-Chairman of the Board of Directors of Repligen Corporation, a biopharmaceutical company, and is a member of the Scientific Advisory Board of U.S. Genomics.

Dr. Schimmel, age 63, is a founder of Alkermes and has been a director of Alkermes since 1987. Dr. Schimmel is the Ernest and Jean Hahn Professor of Molecular Biology and Chemistry and a member of the Skaggs Institute for Chemical Biology at The Scripps Research Institute. Dr. Schimmel was the John D. and Catherine T. MacArthur Professor of Biophysics and Biochemistry at the Massachusetts Institute of Technology, where he was employed from 1967 through 1997. A member of the National Academy of Sciences and the American Academy of Arts and Sciences, Dr. Schimmel graduated from Ohio Wesleyan University, completed his doctorate at Cornell University and the Massachusetts Institute of Technology and did post doctoral work at Stanford University. Dr. Schimmel is Co-Chairman of the

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Board of Directors of Repligen Corporation and is a member of the Scientific Advisory Board of Illumina, Inc., a biotechnology company.

Mr. Wall, age 75, is a founder of Alkermes and has been Chairman of the Board of Alkermes since 1987. From April 1992 until June 1993, he was a director and Chairman of the Executive Committee of Centocor, Inc. (Centocor), a biopharmaceutical company. From November 1987 to June 1993, he was Chairman Emeritus of Centocor. Mr. Wall is a director of Kopin Corporation, a manufacturer of high definition imaging products.

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EXECUTIVE COMPENSATION AND OTHER INFORMATION

Summary Compensation Table

The following table sets forth a summary of the compensation paid by us during the last three fiscal years to our Chief Executive Officer and to each of the four other most highly compensated executive officers whose total annual salary and bonus exceeded $100,000 during the fiscal year ended March 31, 2003 (collectively, the Named Executive Officers).

		Annual Compensation		Long-Term Compensation		
Name and Principal Position	Fiscal Year	Salary($)	Bonus($)	Securities Underlying Options (#)	Restricted Stock Awards ($)(1)	All Other Compensation($)
Richard F. Pops	2003	480,298	100,000	475,000	195,653 (2)	5,719 (3)
Chief Executive Officer	2002	438,665	200,000	250,000	1,801,100 (4)	5,100 (3)
	2001	406,462	175,000	500,000	0	275,100 (3)(5)
David A. Broecker	2003	328,625	50,000	350,000	117,396 (2)	112,335 (3)(7)
President and Chief	2002	286,346	100,000	150,000	257,300 (4)	126,174 (3)(8)
Operating Officer (6)	2001	24,327	194,791	400,000	0	0
James L. Wright	2003	260,524	37,500	75,000	73,375 (2)	6,000 (3)
Senior Vice President,	2002	237,766	75,000	75,500	257,300 (4)	5,100 (3)
Pharmaceutical Research	2001	211,335	70,000	70,500	0	113,100 (3)(5)
and Development (9)						
James M. Frates	2003	289,696	37,500	100,000	78,264 (2)	5,708 (3)
Vice President, Chief	2002	275,948	75,000	60,000	257,300 (4)	5,100 (3)
Financial Officer and	2001	259,119	60,000	100,000	0	5,100 (3)
Treasurer						
Michael J. Landine	2003	258,413	27,500	100,000	93,917 (2)	5,620 (3)
Vice President, Corporate	2002	244,564	55,000	50,000	128,650 (4)	5,100 (3)
Development	2001	232,654	35,000	70,000	0	5,100 (3)

(1) At March 31, 2003, the number and value of the aggregate restricted stock holdings of the named executive officers are set forth below. The value was calculated based on the closing price of common stock on the Nasdaq National Market on March 31, 2003, which was $9.07. Holders of restricted shares are not entitled to receive any dividends declared on such shares.

Name	Number of Shares Held	Value ($)
Richard F. Pops	62,174	563,918
David A. Broecker	21,305	193,236
James L. Wright	15,191	137,782
James M. Frates	15,870	143,941
Michael J. Landine	15,544	140,984

(2) Restricted stock award of common stock. The closing price of common stock on the Nasdaq National Market on December 12, 2002, the date of the award, was $7.20. The award vests in equal installments annually over two years and none of the award is vested.

(3) Includes 401(k) match.

(4) Restricted stock award of common stock. The closing price of common stock on the Nasdaq National Market on November 15, 2001, the date of the award, was $25.73. The award vests in equal installments annually over two years and one-half of the award is vested.

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(5) Includes compensation as a result of Alkermes forgiveness of one-half of an incentive loan made on October 16, 1998, pursuant to Alkermes Incentive Loan Program.

(6) Mr. Broecker became Chief Operating Officer of Alkermes in February 2001 (and received a sign-on bonus and reimbursement for related taxes at that time) and President on January 1, 2002.

(7) Includes $106,719 as a result of Alkermes forgiveness of one-fifth of a loan made on June 13, 2001, pursuant to the employment letter to Mr. Broecker and related taxes.

(8) Includes $121,618 for reimbursement of moving expenses and related taxes.

(9) Dr. Wright left Alkermes on April 30, 2003.

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Option Grants in Last Fiscal Year

The following table sets forth information concerning stock options granted during the fiscal year ended March 31, 2003 to each of the Named Executive Officers.

	Individual Grants					
Name	Number of Securities Underlying Options Granted (#)(1)	Percent of Total Options Granted to Employees in Fiscal Year (%)	Exercise or Base Price ($/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5% ($)	10% ($)
Richard F. Pops	125,000	3.17	4.77	7/18/12	374,978	950,269
	350,000	8.87	7.36	12/12/12	1,620,033	4,105,481
David A. Broecker	75,000	1.90	4.77	7/18/12	224,987	570,161
	275,000	6.97	7.36	12/12/12	1,272,883	3,225,735
James L. Wright	37,500	*	4.77	7/18/12	112,494	285,081
	37,500	*	7.36	12/12/12	173,575	439,873
James M. Frates	30,000	*	4.77	7/18/12	89,995	228,065
	70,000	1.77	7.36	12/12/12	324,007	821,096
Michael J. Landine	25,000	*	4.77	7/18/12	74,996	190,054
	75,000	1.90	7.36	12/12/12	347,150	879,746

(1) Each option granted vests ratably over a four year period.
* Represents less than one percent (1%)

Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

The following table sets forth the number of shares acquired upon exercise of options exercised by the Named Executive Officers during the fiscal year ended March 31, 2003, the value realized upon exercise of such options, the number of shares issuable on exercise of options held by such persons at the end of the last fiscal year and the value of such unexercised options as of such date.

Name	Shares Acquired on Exercise (#)	Value Realized($)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-the-Money Options/SARs at FY-End($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Richard F. Pops	0	0	1,062,354	1,037,500	1,186,092	1,136,000

David A. Broecker	0	0	237,500	662,500	0	792,750
James L. Wright	0	0	203,859	186,875	266,218	225,375
James M. Frates	0	0	279,583	220,000	82,925	248,700
Michael J. Landine	0	0	168,000	192,500	68,365	235,750

(1) Value is measured by the difference between the closing price of common stock on the Nasdaq National Market on March 31, 2003, $9.07, and the exercise price of the options.

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Employment Contracts and Termination of Employment and Change-in-Control Agreements

Under agreements between us and Messrs. Pops, Broecker and Frates in the event their employment with us is terminated for any reason other than as a result of their taking certain actions against, or that have a significant deleterious effect on, us, Mr. Pops shall be entitled to receive a payment equal to two-thirds of his then-current annual base salary and Messrs. Broecker and Frates shall each be entitled to receive payments at the monthly rate of his then current annual base salary for up to nine months or until he finds other employment, whichever occurs first. Under an agreement between us and Mr. Landine, in the event his employment with us is terminated for any reason other than as a result of his taking certain actions against, or that have a significant deleterious effect on, us, Mr. Landine shall be entitled to receive a payment equal to his then-current base salary for a period of six months.

Mr. Pops has been granted LSARs in connection with a portion of the stock options previously granted to him. Each LSAR provides that after the occurrence of one of several triggering events, including a reorganization or merger of a sale of our assets or the acquisition by a person or group of more than 51% of the common stock, Mr. Pops will receive an amount in cash equal to the amount by which the fair market value per share of common stock issuable upon exercise of the option on the date such a triggering event occurs exceeds the exercise price per share of the option to which the LSAR relates. A triggering event shall be deemed to have occurred only when the fair market value of the shares subject to the underlying option exceeds the exercise price of such option. When a triggering event occurs, the related option will cease to be exercisable.

We have entered into change-in-control agreements with each of Messrs. Pops, Broecker, Frates and Landine. Under the terms of these agreements, each of the aforementioned executives are entitled to receive certain compensation and benefits in the event of a change-in-control , which, in summary, is defined as: the acquisition by a person, entity or group (with certain exceptions) of beneficial ownership of 50% or more of the common stock; a change in a majority of the incumbent directors on the Board of Directors; a reorganization, merger or consolidation of Alkermes; or a liquidation, dissolution or sale of all or substantially all of our assets.

In the event of a change-in-control, each of Messrs. Pops, Broecker, Frates and Landine will be entitled to continue their employment with us for a period of two years following the change-in-control at a monthly base salary at least equal to the highest monthly base salary paid to him by the Company in the twelve-month period immediately preceding the change-in-control, an annual cash bonus at least equal to the annual bonus paid to him for the last calendar year prior to the change-in-control and continued participation in our welfare and benefit plans.

In the event we terminate any of these executives without cause during such two-year period or if any of these executives terminates his employment for good reason (e.g., material diminution in the executive s responsibilities, assignment to the executive of responsibilities not consistent with his position or transfer of the executive to a location more than 40 miles from his then current place of employment) each is entitled to receive a prorated bonus (based upon the prior year s annual bonus) for the year in which the date of termination occurs. Additionally, each of Messrs. Broecker, Frates and Landine will receive a lump sum payment equal to the executive s base salary plus his annual bonus for the last calendar year before the date of termination and continued participation in the our welfare and benefit plans (or reimbursement therefor) for one year following the date of termination; Mr. Pops will receive a lump sum payment equal to two times his base salary plus his annual bonus for the last calendar year before the date of termination and continued participation in the our welfare and benefit plans (or reimbursement therefor) for two years following the date of termination. Each executive is also entitled to a gross-up payment equal to the excise tax imposed upon the severance payments under the change-in-control agreement in the event any payment or benefit to the executive, whether pursuant to the change-in-control agreement or otherwise, is considered an excess parachute payment and subject to an

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excise tax under the Internal Revenue Code. Alkermes and Dr. Wright had a similar change-in-control agreement which terminated when he left Alkermes on April 30, 2003.

Compensation of Directors

Each year on the date of our annual meeting of shareholders, each non-employee director, consisting of Floyd E. Bloom, Gerri Henwood, Paul J. Mitchell, Alexander Rich, Paul Schimmel and Michael A. Wall, as well as Mr. Breyer, a part-time employee, receives:

- an annual retainer fee of $15,000;
- an option to purchase 20,000 shares of common stock;
- an attendance fee of $1,500 per Board of Directors meeting and $750 for each telephonic Board of Directors meeting;
- an attendance fee of $500 for each committee meeting, if such meeting is held on a date other than a date on which a Board of Directors meeting is held and $250 for each telephonic committee meeting; and
- reimbursement for all reasonable travel expenses incurred in connection with Board of Directors meetings and meetings of committees of the Board of Directors.

The 20,000 share option is granted automatically under the Alkermes Stock Option Plan for Non-Employee Directors each year on the date of the our annual meeting of shareholders. Such options are exercisable at the fair market value of the common stock on the date such options are granted and vest in full six (6) months following their grant. Non-employee directors do not receive any options to purchase shares of common stock except for the yearly grant of options to purchase 20,000 shares of our common stock and a one-time grant of an option to purchase 20,000 shares of our common stock upon joining the Board of Directors. During the fiscal year ended March 31, 2003, Alkermes paid consulting fees to Mr. Wall aggregating $80,000. Mr. Wall will continue to receive $6,667 per month for work that he performs for us outside of his capacity as a director. Alkermes believes that the terms of this consulting arrangement are no less favorable to us than those they could have received from an independent third party. Since Mr. Breyer s retirement as President, he has received and will continue to receive compensation of $13,000 per year as a part-time employee. Upon their initial election to the Board of Directors in April 2003, Dr. Henwood and Mr. Mitchell each received $6,016 as the pro-rated portion of the cash compensation for non-employee directors outlined above and were granted options to purchase 28,000 shares of common stock, consisting of an initial grant of an option to purchase 20,000 shares of common stock and a pro-rated portion of the annual grant for non-employee directors outlined above.

Compensation Committee Interlocks and Insider Participation

During the last fiscal year, the Compensation Committee consisted of John K. Clarke, Paul Schimmel and Michael A. Wall. The Compensation Sub-Committee consisted of John K. Clarke and Paul Schimmel. Mr. Wall is a consultant to Alkermes.

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REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee (the Committee) is responsible for reviewing and establishing the cash compensation of, and the Compensation Sub-Committee (the Sub-Committee) is responsible for reviewing and establishing compensation in the form of stock options and restricted common stock awards to, Alkermes executive officers.

Executive Compensation Policies

The executive compensation program of Alkermes, Inc. (the Company) is designed to attract, retain and motivate experienced and well-qualified executive officers who will promote the Company s research and product development and commercialization efforts. In establishing executive compensation levels, the Committee is guided by a number of considerations. Because the Company is still in the process of developing its portfolio of product candidates, and because of the volatile nature of biotechnology stocks, the Committee believes that traditional performance criteria, such as revenue growth, net income, profit margins and share price are inappropriate for evaluating and rewarding the efforts of the Company s executive officers. Rather, the Committee bases executive compensation on the achievement of certain product development, corporate partnering, financial, strategic planning and other goals of the Company and the executive officers. In establishing compensation levels, the Committee also evaluates each officer s individual performance using certain subjective criteria, including an evaluation of each officer s initiative, contribution to overall corporate performance and managerial ability. No specific numerical weight is given to any of the above-noted subjective or objective performance criteria. In making its evaluations, the Committee consults on an informal basis with other members of the Board of Directors and, with respect to officers other than the Chief Executive Officer, reviews the recommendations of the Chief Executive Officer.

Another consideration which affects the Committee s decisions regarding executive compensation is the high demand for well-qualified personnel. Given such demand, the Committee strives to maintain compensation levels which are competitive with the compensation of other executives in the industry. To that end, the Committee reviews data obtained from a generally available outside survey of compensation and benefits in the biotechnology industry, an internally prepared survey based on peer biotechnology companies proxy statements and personal knowledge regarding executive compensation at comparable companies.

A third factor which affects compensation levels is the Committee s belief that stock ownership by management is beneficial in aligning management s and shareholders interests in the enhancement of shareholder value. In accordance with such belief, the Sub-Committee seeks to provide a significant portion of executive compensation in the form of stock options. The Sub-Committee has not, however, targeted a range or specific number of options for each executive position. Rather, it makes its decisions based on the above-mentioned surveys and the general experience of the Sub-Committee members.

Compensation Mix

The Company s executive compensation packages generally include three components: base salary; a discretionary annual cash bonus; and stock options and restricted common stock awards. The Committee generally reviews and establishes the base salary and bonus of each executive officer as of the end of each calendar year.

Base Salary

The Committee seeks to establish base salaries which are competitive for each position and level of responsibility with those of executive officers at various other biotechnology companies of comparable size and stage of development.

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Discretionary Cash Bonus

The Committee believes that discretionary cash bonuses are useful on a case by case basis to motivate and reward executive officers. Bonuses for executive officers are not guaranteed, but are awarded from time to time, generally annually, only in the discretion of the Committee; cash bonuses are used to bring annual cash compensation into a competitive range with comparable positions at comparable companies. Criteria for bonuses for executive officers range from success in attracting capital to success in conducting clinical trials, entering into new and expanded collaborations and establishing and expanding the Company s manufacturing capabilities.

Stock Options and Restricted Common Stock Awards

Grants of stock options and awards of restricted common stock under the Company s equity compensation plans are designed to promote the identity of the long-term interests between the Company s executives and its shareholders and to assist in the retention of executives. Since stock options granted by the Company generally become exercisable over a four-year period and forfeiture provisions with respect to restricted common stock awards lapse over a two-year period, their ultimate value is dependent upon the long-term appreciation of the Company s stock price and the executive s continued employment with the Company. In addition, grants of stock options and awards of restricted common stock may result in an increase in executive officers equity interests in the Company, thereby providing such persons with the opportunity to share in the future value they are responsible for creating.

When granting stock options and awarding restricted common stock, the Sub-Committee considers the relative performance and contributions of each officer compared to that of other officers within the Company with similar levels of responsibility. The number of options and awards granted to each executive officer is generally determined by the Sub-Committee on the basis of data obtained from a generally available outside survey of stock option grants and restricted common stock awards in the biotechnology industry, an internally prepared survey of peer biotechnology companies proxy statements and personal knowledge of the Sub-Committee members regarding executive stock options and restricted common stock awards at comparable companies.

Section 162(m) of the Code limits the deductibility of annual compensation over $1 million to the Chief Executive Officer and the other Named Executive Officers unless certain conditions are met. The Company s Chief Executive Officer and the other Named Executive Officers have not received annual compensation over $1 million, and the Company has not yet determined what measures, if any, it should take to comply with Section 162(m).

Compensation of the Chief Executive Officer

In establishing Mr. Pops compensation package, the Committee seeks to maintain a level of total current compensation that is competitive with that of chief executives of certain other companies in the biotechnology industry at comparable stages of development. In addition, in order to align Mr. Pops interests with the long-term interests of the Company s shareholders, the Committee and the Sub-Committee attempt to make a significant portion of the value of his total compensation dependent on the long-term appreciation of the Company s stock price.

At the Company s current stage of development, the Committee believes that Mr. Pops performance as Chief Executive Officer of the Company must be evaluated almost exclusively using subjective criteria, including the Committee s evaluation of the Company s progress in attracting and retaining senior management, identifying new product candidates, identifying and securing corporate collaborators for the development of product candidates, identifying and acquiring new proprietary product development and technology opportunities, identifying and acquiring companies with interesting technology and product candidates, advancing the Company s existing product candidates through the

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complex drug development and regulatory approval process, preparing for and executing on commercialization activities and raising the necessary capital to fund its research and development efforts and manufacturing capabilities.

In evaluating and establishing Mr. Pops current compensation package, the Committee first addressed the non-approvable letter received in late June 2002 from the U.S. Food and Drug Administration (FDA) regarding Risperdal Consta, the Company s product candidate under a collaboration with Janssen Pharmaceutica, an affiliate of Johnson & Johnson (Janssen). During the discussion, it was noted that the issues raised by the FDA in the letter did not relate to the portions of the New Drug Application that were prepared by Alkermes. The Committee noted that the Alkermes team was instrumental in working with Janssen to respond to the questions and issues raised by the FDA. The Committee also reviewed the proposed merger with Reliant Pharmaceuticals, LLC which was announced in March 2002, and was mutually terminated due to market conditions in August 2002. In addition to this discussion, the Committee considered the following accomplishments of the Company during calendar 2002:

In January 2002, Eli Lilly and Company (Lilly) and the Company announced the successful completion of a Phase I clinical trial for an inhaled formulation of human growth hormone.

In February 2002, Lilly and the Company signed an agreement pursuant to which Lilly would provide $10 million in funding for the new commercial-scale production facility being built for products based on AIR s inhalation technology.

In August 2002, Alkermes announced the approval of Risperdal Consta in Germany and the United Kingdom, which triggered minimum manufacturing revenues of approximately $150 million over the next ten years. Throughout the rest of the calendar year, Risperdal Consta was approved in 10 additional countries outside of the U.S. and was launched in Austria, Germany and the United Kingdom.

In August 2002, Alkermes announced a reduction in workforce and restructuring to reduce the cost structure of the Company. The reduction and restructuring was prompted by the then current expectations of the financial impact of the delay in approval of Risperdal Consta by the FDA. The Company took the opportunity to examine and prioritize the product development programs that offer the greatest commercial potential.

In November 2002, Alkermes announced the successful completion of two Phase I clinical trials for an inhaled formulation of epinephrine, a proprietary product candidate.

In December 2002, Lilly and the Company announced an expansion of their collaboration for the development of inhaled formulations of insulin. In connection therewith, Lilly purchased $30 million of Alkermes newly issued convertible preferred stock. The Company agreed to use the proceeds to fund the development of the inhaled insulin and human growth hormone in 2003 and into 2004. The royalty rate payable to Alkermes based on revenues of potential inhaled insulin products was increased. Lilly has the right to exchange the preferred shares for a reduction in this royalty rate. Furthermore, the collaboration cannot be terminated without cause before January 2005.

Also in December 2002 and pursuant to an agreement, Janssen paid to Alkermes approximately $24 million as a prepayment of the first two years of minimum manufacturing revenues owed to the Company.

Also in December 2002, Alkermes consummated the exchange of $114,589,000 principal amount of its newly issued 6.52% Convertible Senior Subordinated Notes Due December 31, 2009 (the 6.52% Notes) for substantially all of its outstanding 3.75% Convertible Subordinated Notes due 2007. In addition, the Company consummated the sale of $60 million principal amount of the 6.52% Notes.

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Therefore, along with the Lilly and Janssen transactions in December and a small equipment lease financing in November, the Company added $120 million of cash to its balance sheet, while reducing its debt.

During the year, the Company made substantial progress on its Phase III clinical trial on Vivitrex, its lead proprietary development program. In addition, the Company also advanced the development of its product candidates (proprietary and partnered) and initiated feasibility programs with partners and on internal programs that were not disclosed publicly.

Given the significant role played by Mr. Pops in each of the above-noted accomplishments, the Committee increased Mr. Pops annual base salary effective January 1, 2003 from $475,000 to $498,750 and granted Mr. Pops a cash bonus of $100,000. As additional recognition of Mr. Pops efforts in calendar 2002, and in furtherance of the Sub-Committee s belief that a significant portion of Mr. Pops total compensation should be dependent on the long-term appreciation of the Company s stock price, in July and December 2002, the Sub-Committee granted Mr. Pops options to purchase 125,000 and 350,000 shares, respectively, of Common Stock and, in December 2002, the Sub-Committee awarded Mr. Pops 27,174 shares of restricted Common Stock, which award vests annually over a two-year period. The Committee and Sub-Committee believe that each of these actions was particularly appropriate given Mr. Pops performance during calendar 2002 and in order to maintain his compensation at a competitive level compared to that of the chief executive officers of other similarly sized and positioned biotechnology companies.

Compensation Committee

John K. Clarke Paul Schimmel
Michael A. Wall

Compensation Sub-Committee

John K. Clarke Paul Schimmel

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PERFORMANCE GRAPH

The following graph compares the yearly percentage change in the cumulative total shareholder return on the common stock for the last five fiscal years, with the cumulative total return on the Nasdaq Stock Market (U.S.) Index and the Nasdaq Pharmaceutical Index, which includes biotechnology companies. The comparison assumes $100 was invested on March 31, 1998, in the common stock and in each of the foregoing indices and further assumes reinvestment of any dividends. We did not declare or pay any dividends on its common stock during the comparison period.

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EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	(a) NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS, AND RIGHTS	(b) WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS, AND RIGHTS	(c) NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a))
Equity compensation plans approved by security holders	13,069,778	$ 15.94	4,220,859
Equity compensation plans not approved by security holders	954,045	$ 15.34	34,397
Total	14,023,823	$ 15.90	4,255,256

The above share and share price information is as of September 24, 2003. For a description of the material features of the 1998 Equity Incentive Plan, which was adopted by Advanced Inhalation Research, Inc. prior to its acquisition by Alkermes and is the only equity compensation plan not approved by Alkermes shareholders, please see Note 14 to Alkermes Consolidated Financial Statements for the year ended March 31, 2003, contained elsewhere in this prospectus.

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MANAGEMENT AND PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the ownership of common stock as of September 24, 2003 by: (i) each person who is known by Alkermes to be the owner of 5% or more of the outstanding shares of common stock; (ii) each director of Alkermes; (iii) each of the Named Executive Officers; and (iv) all the directors and executive officers of Alkermes as a group.

	Number of Shares Beneficially Owned	Percentage Beneficially Owned (1)
Citigroup Inc. (2) 399 Park Avenue New York, NY 10043	12,058,451	13.56%
FMR Corporation (3) 82 Devonshire Street Boston, MA 02109	11,047,624	12.42
T. Rowe Price Associates, Inc. (4) 100 E. Pratt Street Baltimore, MD 21202	8,070,040	9.08
Floyd E. Bloom (5)	305,375	*
Robert A. Breyer (6)	531,025	*
Gerri Henwood (7)	38,000	*
Paul J. Mitchell (8)	36,000	*
Richard F. Pops (9)	1,683,120	1.86
Alexander Rich (10)	443,400	*
Paul Schimmel (10)	457,600	*
Michael A. Wall (10)	834,450	*
David A. Broecker (11)	303,750	*
James L. Wright (12)	110,370	*
James M. Frates (13)	386,500	*
Michael J. Landine (14)	333,050	*
All directors and executive officers as a group (13 persons) (15)	5,562,640	5.93

* Represents less than one percent (1%) of the outstanding shares of common stock.

(1) As of September 24, 2003, there were 88,915,880 shares of common stock outstanding.

(2) Represents shares over which Salomon Smith Barney Inc., Salomon Brothers Holding Company Inc., Salomon Smith Barney Holdings Inc. and/or Citigroup Inc. have shared voting and dispositive power. The holdings are as of August 31, 2003.

(3) FMR Corporation holds these shares in its capacity as investment manager or advisor for various investment companies or institutional accounts. Includes shares of common stock that may be received upon conversion of Alkermes 2 1/2% Convertible Subordinated Notes due 2023. The holdings are as of September 30, 2003.

(4) These securities are owned by various individual and institutional investors for which T. Rowe Price Associates, Inc. (Price Associates) serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the securities laws, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities. The holdings are as of December 31, 2002.

(5) Includes 210,375 shares of common stock held by The Corey Bloom Family Trust, of which Dr. Bloom is a Trustee. Also includes, 95,000 shares of common stock subject to options which are exercisable.

(6) Includes 429,743 shares of common stock subject to options which are exercisable or will become exercisable within 60 days of September 24, 2003.

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(7) Consists of 38,000 shares of common stock subject to options which are exercisable.

(8) Includes 28,000 shares of common stock subject to options which are exercisable.

(9) Includes 1,406,104 shares of common stock subject to restricted stock awards that will vest or options which are exercisable or which will become exercisable within 60 days of September 24, 2003.

(10) Includes 95,000 shares of common stock subject to options which are exercisable.

(11) Includes 293,750 shares of common stock subject to restricted stock awards that will vest or options which are exercisable or which will become exercisable within 60 days of September 24, 2003.

(12) Dr. Wright left the Company on April 30, 2003.

(13) Includes 352,083 shares of common stock subject to restricted stock awards that will vest or options which will become exercisable within 60 days of September 24, 2003.

(14) Includes 224,250 shares of common stock subject to restricted stock awards that will vest or options which will become exercisable within 60 days of September 24, 2003.

(15) Includes 3,151,930 shares of common stock subject to restricted stock awards that will vest or options which are exercisable or which will become exercisable within 60 days of September 24, 2003. Also includes 210,375 shares of common stock held in trust.

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CERTAIN TRANSACTIONS

Stock Options and Consulting Fees

During the last fiscal year, executive officers and non-employee directors were granted common stock awards and options to purchase shares of common stock pursuant to Alkermes 2002 Restricted Common Stock Award Plan, 1999 Stock Option Plan, 1998 Equity Incentive Plan and Stock Option Plan for Non-Employee Directors. In addition, as discussed in Executive Compensation and Other Information Compensation of Directors, during the fiscal year ended March 31, 2003, Alkermes paid consulting fees to Mr. Wall aggregating $80,000.

Executive Officer Loans

In the calendar year 2001, Alkermes made two loans to David A. Broecker in connection with hiring him as its new Chief Operating Officer. The first loan, made in February 2001 in the principal amount of $300,000, was amended to extend its maturity date to May 31, 2003 or, if earlier, upon termination of Mr. Broecker s employment. The first loan did not bear interest and was paid in full in May 2003. The second loan, made in June 2001 in the principal amount of $300,000, bears interest at the prime rate. Twenty percent of the principal of and accrued interest on the second loan will be forgiven annually on Mr. Broecker s employment anniversary, or in full upon a change-in-control of Alkermes, so long as he continues to be employed by Alkermes. Any balance of the second loan remaining upon the termination of Mr. Broecker s employment must be paid in full.

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon for Alkermes by Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania. Morris Cheston, Jr., Secretary of Alkermes and of Alkermes Controlled Therapeutics, Inc., Alkermes Controlled Therapeutics Inc. II, and ADC II, all of which are wholly owned subsidiaries of Alkermes, and Jennifer L. Miller, Secretary of Alkermes Investments, Inc., a wholly owned subsidiary of Alkermes, are partners in the law firm of Ballard Spahr Andrews & Ingersoll, LLP.

EXPERTS

The consolidated financial statements of Alkermes, Inc. and subsidiaries as of March 31, 2003 and 2002 and for each of the three years in the period ended March 31, 2003, included in this prospectus, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of Reliant Pharmaceuticals, LLC as of and for the year ended December 31, 2002, appearing in this Registration Statement and Prospectus, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of Reliant as of December 31, 2001 and 2000 and for each of the two years in the period ended December 31, 2001, included in this prospectus, have been audited by Arthur Andersen LLP, independent auditors. Because Arthur Andersen LLP has ceased conducting business, we have been unable to obtain Arthur Andersen LLP s written consent to use their report on such financial statements in this offering memorandum. Accordingly, we have omitted Arthur Andersen LLP s consent in reliance upon Rule 437a under the Securities Act, which permits us to dispense with the requirement to file the written consent of Arthur Andersen LLP under the circumstances. Since Arthur Andersen LLP has not consented to the use of their report in this offering memorandum, you will not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statements of a material fact contained in the financial statements of Reliant audited by Arthur Andersen LLP or for any omission to state a material fact required to be stated in those financial statements.

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ALKERMES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2003	March 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 39,432,369	$ 72,478,675
Short-term investments	65,247,112	63,615,497
Receivables from collaborative arrangements	3,150,319	7,300,923
Prepaid expenses and other current assets	2,140,671	2,166,238
Inventory	3,431,100	2,576,082
Total current assets	113,401,571	148,137,415
Property, Plant and Equipment:		
Land	235,000	235,000
Building	15,505,909	5,093,815
Furniture, fixtures and equipment	61,455,827	56,005,820
Leasehold improvements	31,762,505	31,603,290
Construction in progress	29,010,861	39,500,993
	137,970,102	132,438,918
Less accumulated depreciation and amortization	(43,220,406)	(40,964,851)
	94,749,696	91,474,067
Investments	8,950,042	8,945,908
Other Assets	9,211,386	7,141,780
Total Assets	$ 226,312,695	$ 255,699,170
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current Liabilities:		
Accounts payable and accrued expenses	$ 14,535,837	$ 14,252,083
Accrued interest	481,058	2,901,984
Accrued restructuring costs	3,001,341	3,537,010
Deferred revenue	14,600,956	12,253,338
Derivative liability related to convertible senior subordinated notes	17,064,437	13,300,000
Long-term obligations current portion	6,825,000	7,800,000
Total current liabilities	56,508,629	54,044,415
Deferred Revenue	6,741,426	10,114,032
Convertible Senior Subordinated Notes	166,130,997	165,910,429
Convertible Subordinated Notes	676,000	676,000
	30,000,000	30,000,000

Convertible Preferred Stock, par value $.01 per share: authorized and issued, 3,000 shares at June 30, 2003 and March 31, 2003, respectively (at liquidation preference)		
Shareholders Deficit:		
Capital stock, par value $.01 per share: authorized, 4,550,000 shares; none issued; includes 2,997,000 shares of preferred stock		
Common stock, par value $.01 per share: authorized, 160,000,000 shares; issued, 64,776,830 and 64,692,848 shares at June 30, 2003 and March 31, 2003, respectively	647,769	646,929
Non-voting common stock, par value $.01 per share: authorized, 450,000 shares; issued, 382,632 at June 30, 2003 and March 31, 2003	3,826	3,826
Additional paid-in capital	447,663,033	447,103,721
Deferred compensation	(1,304,109)	(1,864,281)
Accumulated other comprehensive income (loss)	580,292	(173,104)
Accumulated deficit	(481,335,168)	(450,762,797)
Total shareholders deficit	(33,744,357)	(5,045,706)
Total Liabilities and Shareholders Deficit	$ 226,312,695	$ 255,699,170

See notes to condensed consolidated financial statements.

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ALKERMES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
Revenues:		
Manufacturing and royalty revenues	$ 1,544,754	$
Research and development revenue under collaborative arrangements	2,756,706	10,291,391
Total revenues	4,301,460	10,291,391
Expenses:		
Cost of goods manufactured	2,560,670	
Research and development	21,672,964	24,599,673
General and administrative	5,780,598	6,016,040
Total expenses	30,014,232	30,615,713
Net operating loss	(25,712,772)	(20,324,322)
Other income (expense):		
Interest income	975,161	1,365,936
Other income, net	1,409,478	
Derivative loss related to convertible senior subordinated notes	(3,764,437)	
Interest expense	(3,479,801)	(2,081,134)
Total other (expense) income	(4,859,599)	(715,198)
Equity in losses of Reliant Pharmaceuticals, LLC		(24,212,900)
Net loss	($30,572,371)	($45,252,420)
Basic and diluted loss per common share	($0.47)	($0.70)
Weighted average number of common shares outstanding	64,736,097	64,260,903

See notes to condensed consolidated financial statements.

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ALKERMES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
Cash flows from operating activities:		
Net loss	($30,572,371)	($45,252,420)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	2,426,522	2,315,760
Other noncash charges	1,046,228	755,275
Equity in losses of Reliant Pharmaceuticals, LLC		24,212,900
Other noncash income	(1,409,478)	
Derivative loss related to convertible senior subordinated notes	3,764,437	
Changes in assets and liabilities:		
Receivables from collaborative arrangements	4,150,604	(462,201)
Prepaid expenses and other current assets	(829,988)	(400,779)
Accounts payable, accrued expenses and accrued interest	(2,127,162)	3,823,187
Accrued restructuring costs	(535,669)	
Deferred revenue	(1,024,988)	(276,341)
Net cash used by operating activities	(25,111,865)	(15,284,619)
Cash flows from investing activities:		
Additions to property, plant and equipment	(5,531,184)	(16,626,892)
Purchases of available-for-sale short-term investments	(39,514,266)	(35,290,276)
Sales of available-for-sale short-term investments	37,797,890	71,241,888
Increase in other assets	(150,022)	
Net cash (used by) provided by investing activities	(7,397,582)	19,324,720
Cash flows from financing activities:		
Proceeds from issuance of common stock	455,591	480,681
Payment of long-term obligations	(975,000)	(1,100,000)
Repayment of loan		(10,000,000)
Net cash used by financing activities	(519,409)	(10,619,319)
Effect of exchange rate changes on cash	(17,450)	44,939
Net decrease in cash and cash equivalents	(33,046,306)	(6,534,279)
Cash and cash equivalents, beginning of period	72,478,675	16,023,074
Cash and cash equivalents, end of period	$ 39,432,369	$ 9,488,795
Supplementary information:		
Cash paid for interest	$ 5,418,375	$ 213,428
Cash paid for income taxes	$ 37,534	$

Conversion of 6.52% Convertible Senior Subordinated Notes into common stock	$ 100,861	$

See notes to condensed consolidated financial statements.

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ALKERMES, INC. AND SUBSIDIARIES

CONDENSED 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, 2003 and 2002 are unaudited and include all adjustments which, in the opinion of management, are necessary to present fairly the results of operations for the periods then ended. Such adjustments, consisting of normal recurring items, included approximately $3.8 million in non-recurring expenses in the three months ended June 30, 2003 related to the embedded derivative in the Company s 6.52% Convertible Senior Subordinated Notes due December 31, 2009 (the 6.52% Senior Notes). These financial statements should be read in conjunction with the Company s consolidated financial statements and notes thereto for the years ended March 31, 2003, 2002 and 2001, which are contained in Company s Annual Report for the year ended March 31, 2003 filed on Form 10-K. 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 (GAAP) 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 LOSS

Comprehensive loss is comprised of net 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 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.

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2. COMPREHENSIVE LOSS (Continued)

Comprehensive loss for the three months ended June 30, 2003 and 2002 is as follows:

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
Net loss	$(30,572,371)	$(45,252,420)
Foreign currency translation adjustments	(7,977)	49,908
Unrealized gain (loss) on marketable securities	761,373	(977,251)
Comprehensive loss	$(29,818,975)	$(46,179,763)

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 awards, convertible preferred stock, convertible senior subordinated notes and convertible subordinated notes. Certain common shares potentially issuable were not included in the computation of diluted net loss per share for the three months ended June 30, 2003 and 2002 because they would have an antidilutive effect due to net losses for such periods.

Common shares potentially issuable but excluded from the calculation of net loss per share consist of the following as of June 30:

	2003	2002
Stock options and awards	14,618,925	11,368,201
Shares issuable on conversion of 3.75% Convertible Subordinated Notes	9,978	2,952,030
Shares issuable on conversion of 6.52% Convertible Senior Subordinated Notes	22,713,226	
Shares issuable on conversion of Convertible Preferred Stock	2,824,859	
	40,166,988	14,320,231

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4. INVENTORY

Inventory is stated at the lower of cost or market and consists of currently marketed products. Cost is determined in a manner that approximates the first-in, first-out method. Inventory consists of the following at June 30, 2003 and March 31, 2003:

	June 30, 2003	March 31, 2003
Raw materials	$ 675,705	$ 620,653
Work in process	1,900,368	1,955,429
Finished goods	855,027	
	$3,431,100	$2,576,082

5. DERIVATIVES

The Company has recorded a derivative liability related to the 6.52% Senior Notes. Pursuant to the terms of the 6.52% Senior Notes, the Company will pay additional interest equal to two full years of interest on the 6.52% Senior Notes (the Two-Year Interest Make-Whole) if the 6.52% Senior Notes are automatically converted on or prior to December 30, 2004 or if the holders voluntarily convert prior to December 30, 2004. The Two-Year Interest Make-Whole represents an embedded derivative which is required to be accounted for apart from the underlying 6.52% Senior Notes. On June 18, 2003, the Company announced that it exercised its automatic conversion right for the 6.52% Senior Notes. The embedded derivative was adjusted to the value of the remaining balance of the Two-Year Interest Make-Whole payment, or approximately $17.1 million, at June 30, 2003 and is accounted for as a liability on the consolidated balance sheets. A $3.8 million noncash charge to Derivative loss related to convertible senior subordinated notes has been recorded in the consolidated statements of operations in the quarter ended June 30, 2003 to account for the increase of this derivative liability. On July 18, 2003, upon conversion of the then outstanding 6.52% Senior Notes and payment of the Two-Year Interest Make-Whole, the embedded derivative was settled in full and the balance was reduced to zero.

The Company has recorded a gain of approximately $1.4 million in other income in the consolidated statements of operations in connection with the changes in the fair value of warrants held by the Company in connection with licensing arrangements. The recorded value of such warrants can fluctuate significantly based on fluctuations in the market value of the underlying securities of the issuer of the warrants.

6. INVESTMENT IN RELIANT PHARMACEUTICALS, LLC

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 $100,000,000. The investment has been accounted for under the equity method of accounting because Reliant is organized as a limited liability company, which is

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6. INVESTMENT IN RELIANT PHARMACEUTICALS, LLC (Continued)

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 Company s investment has been recognized in proportion to the Company s percentage participation in the Series C financing, and not in proportion to the Company s percentage ownership interest in Reliant. The Company recorded its equity in the income or losses of Reliant three months in arrears. For the three months ended June 30, 2003 and 2002, this charge amounted to $0 and approximately $24,213,000, respectively, and is recorded in the Company s consolidated statements of operations under the caption Equity in losses of Reliant Pharmaceuticals, LLC.

Reliant is a privately held company over which the Company does not exercise control and the Company has relied on the unaudited and audited financial statements prepared by Reliant s management and provided to the Company to calculate the Company s share of Reliant s losses. The Company s $100,000,000 investment was reduced to $0 during the fiscal year ended March 31, 2003. Since the Company has no further funding commitments to Reliant, it will not record any further share of losses of Reliant in its consolidated statements of operations. To the extent Reliant has net income in the future, the Company would record its proportional share of Reliant s net income.

Summarized unaudited financial information of Reliant for the three months ended March 31, 2003 and 2002 is as follows:

(In thousands)	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Revenues	$ 47,476	$ 58,609
Costs and expenses	59,070	88,461
Net Loss	(12,475)	(29,644)

7. RESTRUCTURING OF OPERATIONS

In August 2002, the Company announced a restructuring program to reduce the Company s cost structure as a result of the Company s expectations regarding the financial impact of a delay in the U.S. launch of Risperdal Consta by the Company s collaborative partner, Janssen. The restructuring program reduced the Company s workforce by 122 employees, representing 23% of the Company s total workforce, and includes consolidation and closure of certain leased facilities in Cambridge, Massachusetts, closure of the Company s medical affairs office in Cambridge, England, write-off of leasehold improvements at leased facilities being vacated and reductions of other expenses. The workforce reductions were made across all functions of the Company. Under the restructuring plan, the Company is focusing development activities on those programs that are in the later stages of clinical development and those programs that involve the most productive collaborations.

In connection with the restructuring program, the Company recorded charges of approximately $6,500,000 in the consolidated statements of operations and comprehensive loss for the year ended March 31, 2003, which consisted of approximately $1,500,000 in employee separation costs, including severance and related benefits, and approximately $5,000,000 in facility consolidation and

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7. RESTRUCTURING OF OPERATIONS (Continued)

closure costs, including significant estimates relating to a lease cancellation fee, the length of time it will take to sublease certain of the Company s facilities and the lease rates at which the Company may negotiate sublease agreements with third parties. As of June 30, 2003, the Company had paid an aggregate of approximately $1,500,000 in employee separation costs and $2,000,000 in facility closure costs under the restructuring program.

The amounts in the accrual are expected to be paid through fiscal 2006. Pursuant to the restructuring plan, the following charges and payments have been recorded during the three months ended June 2003:

Type of Liability	Balance, April 1, 2003	Charge for the Period	Payments for the Period	Balance, June 30, 2003
Employee separation costs	$ 16,547	$	$ (1,000)	$ 15,547
Facility closure costs	3,520,463		(534,669)	2,985,794
Total	$3,537,010	$	$(535,669)	$3,001,341

The Company substantially completed its restructuring program during fiscal 2003. However, the Company s remaining restructuring accrual is an estimate of costs associated with leases of closed facilities and may require adjustment in the future.

8. STOCK BASED COMPENSATION

The Company uses the intrinsic value method to measure compensation expense associated with the grants of stock options and awards to employees. The Company accounts for stock options and awards to nonemployees using the fair-value method.

Under the intrinsic value method, compensation associated with stock awards to employees is determined as the difference, if any, between the current fair value of the underlying common stock on the date compensation is measured and the price an employee must pay to exercise the award. The measurement date for employee awards is generally the grant date. Under the fair-value method, compensation associated with stock awards to nonemployees is determined based on the estimated fair value of the award itself, measured using either current market data or an established option pricing model. The measurement date for nonemployee awards is generally the date performance of certain services is complete. Pro forma information regarding net loss and basic and diluted loss per common share for the three months ended June 30, 2003 and 2002 has been determined as if the Company had accounted for its employee stock options under the fair-value method. 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, as options vest over several years and the Company expects to grant varying levels of stock options in future periods at exercise prices equal to the fair market value of the Company s common stock at the date of grant, which can fluctuate significantly.

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8. STOCK BASED COMPENSATION (Continued)

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 of 2.46% and 3.07% for the three months ended June 30, 2003 and 2002, respectively; dividend yields of 0% for the three months ended June 30, 2003 and 2002; volatility factors for the expected market price of the Company s common stock of 73% and 74% for the three months ended June 30, 2003 and 2002, respectively; and a weighted average expected life of four years in the three months ended June 30, 2003 and 2002. Using the Black-Scholes option-pricing model, the weighted average fair value of options granted in the three months ended June 30, 2003 and 2002 was $5.48 and $10.14, 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 three months ended June 30, 2003 and 2002 is as follows:

	2003	2002
Net loss as reported	$(30,572,371)	$(45,252,420)
Add: Stock-based compensation as reported in the consolidated statements of operations and comprehensive loss	563,872	521,138
Deduct: Total stock-based employee compensation expense determined under fair-value method for all options and awards	(5,019,799)	(8,349,953)
Pro forma net loss	$(35,028,298)	$(53,081,235)
Basic and diluted loss per common share as reported	$ (0.47)	$ (0.70)
Basic and diluted loss per common share pro forma	$ (0.54)	$ (0.83)

9. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2000, the Emerging Issues Task Force (EITF) released EITF Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, for comment which addresses revenue recognition for arrangements with multiple deliverables. EITF Issue No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The adoption of EITF Issue No. 00-21 did not have a material impact on the Company s financial position and results of operations.

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim

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9. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of FASB 150 is not expected to have a material impact on the Company s financial position and results of operations.

10. SUBSEQUENT EVENTS

Conversion of 6.52% Senior Notes On June 18, 2003, the Company announced that it had exercised its right to automatically convert all of its outstanding 6.52% Senior Notes into shares of the Company s common stock, par value $0.01 per share. The Company set the automatic conversion date at July 18, 2003. The Company had the right to elect to automatically convert the 6.52% Senior Notes because the closing price of the Company s common stock exceeded 150% of the conversion price of the 6.52% Senior Notes ($7.682) for 20 trading days during the 30-day trading period that ended on June 18, 2003.

Prior to June 30, 2003, certain holders of the 6.52% Senior Notes elected to convert $106,000 principal amount of the 6.52% Senior Notes into 13,798 shares of the Company s common stock at the ratio of 130.1744 shares of the Company s common stock per $1,000 principal amount of the 6.52% Senior Notes. Pursuant to the terms of the 6.52% Senior Notes, the Company also made a cash payment of approximately $14,000 to satisfy the Two-Year Interest Make-Whole payment.

During July 2003, $150,707,000 principal amount of 6.52% Senior Notes were exchanged for shares of the Company s common stock. The Company issued an aggregate of 20,934,514 shares of common stock in exchange for such 6.52% Senior Notes, reflecting the value of both principal and interest.

On July 18, 2003, upon conversion of the remaining $23,776,000 principal amount of the 6.52% Senior Notes, the Company issued an aggregate of 3,095,017 shares of common stock and paid an aggregate of approximately $2,300,000 in cash to satisfy the Two-Year Interest Make-Whole payment. The Company converted each $1,000 principal amount of such 6.52% Senior Notes into 130.1744 shares of common stock and paid the holder thereof an interest payment of $97.80 in cash, representing the remaining 1.5 years of interest due on the 6.52% Senior Notes.

Issuance of 2½% Convertible Subordinated Notes due 2023 (the 2½% Subordinated Notes) In August and September 2003, the Company issued $100 million and $25 million, respectively, principal amount of 2½% Subordinated Notes. The 2½% Subordinated Notes will be convertible into shares of the Company s common stock at a conversion price of $13.85 per share. The 2½% Subordinated Notes will bear interest at 2½% per year, which will be paid on March 1 and September 1 each year beginning on March 1, 2004. The 2½% Subordinated Notes are subordinated to existing and future subordinated indebtedness of Alkermes. The Company may elect to automatically convert the 2½% Subordinated Notes anytime the closing price of the Company s common stock has exceeded 150% of the conversion price for at least 20 trading days during any 30-day trading period. The Company may redeem some or all of the notes on or after September 6, 2006. Holders of the 2½% Subordinated Notes will have the right to require the Company to repurchase some or all of their notes on September 1, 2008, 2013, and 2018 and upon certain events, including a change in control.

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INDEPENDENT AUDITORS REPORT

The Board of Directors of Alkermes, Inc.
Cambridge, Massachusetts

We have audited the accompanying consolidated balance sheets of Alkermes, Inc. and subsidiaries (the Company) as of March 31, 2003 and 2002 and the related consolidated statements of operations and comprehensive loss, shareholders (deficit) equity and cash flows for each of the three years in the period ended March 31, 2003. 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, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
May 23, 2003 (June 18, 2003 as to Note 15)

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ALKERMES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2003 AND 2002

	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 72,478,675	$ 16,023,074
Short-term investments	63,615,497	136,323,768
Receivables from collaborative arrangements	7,300,923	19,039,706
Prepaid expenses and other current assets	2,166,238	5,249,797
Inventory	2,576,082	
Total current assets	148,137,415	176,636,345
PROPERTY, PLANT AND EQUIPMENT:		
Land	235,000	235,000
Building	5,093,815	5,058,936
Furniture, fixtures and equipment	56,005,820	49,558,745
Leasehold improvements	31,603,290	15,016,553
Construction in progress	39,500,993	26,497,064
	132,438,918	96,366,298
Less accumulated depreciation and amortization	(40,964,851)	(34,530,467)
Property, plant and equipment, net	91,474,067	61,835,831
INVESTMENTS	8,945,908	9,126,093
INVESTMENT IN RELIANT PHARMACEUTICALS, LLC		94,596,536
OTHER ASSETS	7,141,780	8,155,472
TOTAL ASSETS	$ 255,699,170	$ 350,350,277
LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 14,252,083	$ 20,764,375
Accrued interest	2,901,984	1,013,521
Accrued restructuring costs	3,537,010	
Deferred revenue	12,253,338	7,083,516
Derivative liability related to convertible senior subordinated notes	13,300,000	
Long-term obligations current portion	7,800,000	14,025,000
Total current liabilities	54,044,415	42,886,412
DEFERRED REVENUE	10,114,032	
LONG-TERM OBLIGATIONS		7,800,000
CONVERTIBLE SENIOR SUBORDINATED NOTES	165,910,429	

CONVERTIBLE SUBORDINATED NOTES	676,000	200,000,000
CONVERTIBLE PREFERRED STOCK, par value $.01 per share; authorized and issued 3,000 shares at March 31, 2003 (at liquidation preference)	30,000,000	
COMMITMENTS (Note 13)		
SHAREHOLDERS (DEFICIT) EQUITY:		
Capital stock, par value $.01 per share; authorized, 4,550,000 shares; none issued; includes 2,997,000 shares of preferred stock		
Common stock, par value $.01 per share; authorized, 160,000,000 shares; issued and outstanding, 64,692,848 and 64,225,395 shares at March 31, 2003 and 2002, respectively	646,929	642,254
Non-voting common stock, par value $.01 per share; authorized, 450,000 shares; issued and outstanding, 382,632 shares at March 31, 2003 and 2002	3,826	3,826
Additional paid-in capital	447,103,721	444,425,742
Deferred compensation	(1,864,281)	(3,162,448)
Accumulated other comprehensive (loss) income	(173,104)	1,619,541
Accumulated deficit	(450,762,797)	(343,865,050)
Total shareholders (deficit) equity	(5,045,706)	99,663,865
TOTAL LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY	$ 255,699,170	$ 350,350,277

See notes to consolidated financial statements.

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ALKERMES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
YEARS ENDED MARCH 31, 2003, 2002 AND 2001

	2003	2002	2001
REVENUES:			
Manufacturing and royalty revenues	$ 15,482,071	$	$
Research and development revenue under collaborative arrangements	31,784,154	54,101,513	56,029,865
Total revenues	47,266,225	54,101,513	56,029,865
EXPENSES:			
Cost of goods manufactured	10,910,172		
Research and development	85,387,510	92,092,381	68,773,691
General and administrative	26,695,111	24,386,425	19,611,284
Restructuring costs	6,496,624		
Noncash compensation income attributed to research and development			(2,447,663)
Total expenses	129,489,417	116,478,806	85,937,312
NET OPERATING LOSS	(82,223,192)	(62,377,293)	(29,907,447)
OTHER INCOME (EXPENSE):			
Interest and other income	3,776,074	15,301,885	22,436,856
Gain on exchange of notes	80,849,437		
Derivative loss related to convertible senior subordinated notes	(4,300,000)		
Interest expense	(10,403,530)	(8,876,097)	(9,398,724)
Total other income	69,921,981	6,425,788	13,038,132
EQUITY IN LOSSES OF RELIANT PHARMACEUTICALS, LLC	(94,596,536)	(5,403,464)	
NET LOSS	(106,897,747)	(61,354,969)	(16,869,315)
PREFERRED STOCK DIVIDENDS			(7,267,331)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(106,897,747)	$ (61,354,969)	$(24,136,646)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (1.66)	$ (0.96)	$ (0.43)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	64,367,987	63,668,596	55,746,462
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS			
NET LOSS	$(106,897,747)	$ (61,354,969)	$(16,869,315)
Foreign currency translation adjustments	55,281	(27,952)	(72,876)
Unrealized loss on marketable securities	(1,847,926)	(2,532,445)	(2,489,250)

COMPREHENSIVE LOSS	$(108,690,392)	$ (63,915,366)	$(19,431,441)

See notes to consolidated financial statements.

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ALKERMES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS (DEFICIT) EQUITY
YEARS ENDED MARCH 31, 2003, 2002 AND 2001

	$3.25 Convertible Exchangeable Preferred Stock		Common Stock		Non-Voting Common Stock		Additional
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital
BALANCE, APRIL 1, 2000	2,299,000	$ 22,990	53,953,996	$539,540	382,632	$3,826	$427,577,936
Issuance of common stock upon exercise of options or vesting of restricted stock awards			1,251,334	12,513			4,601,681
Issuance of common stock to collaborative partner			160,030	1,600			4,998,378
Conversion and redemption of $3.25 convertible exchangeable preferred stock	(2,299,000)	(22,990)	7,758,888	77,590			(79,483)
Noncash compensation							(9,969,286)
Amortization of noncash compensation							
Cumulative foreign currency translation adjustments							
Unrealized loss on marketable securities							
Net loss for year							
Preferred stock dividends							
BALANCE, MARCH 31, 2001			63,124,248	631,243	382,632	3,826	427,129,226
Issuance of common stock upon exercise of options or vesting of restricted stock awards			772,502	7,725			5,711,634
Conversion of note payable to corporate partner			328,645	3,286			7,503,044
Options and restricted stock awards canceled							(198,783)
Noncash compensation							3,631,656
Amortization of noncash compensation							648,965
Cumulative foreign currency translation adjustments							
Unrealized loss on marketable securities							
Net loss for year							
BALANCE, MARCH 31, 2002			64,225,395	642,254	382,632	3,826	444,425,742
Issuance of common stock upon exercise of options or vesting of restricted stock awards			467,453	4,675			1,895,081
Options and restricted stock awards canceled							(17,026)
Noncash compensation							799,924
Amortization of noncash compensation							
Cumulative foreign currency translation adjustments							
Unrealized loss on marketable securities							

Net loss for year							
BALANCE, MARCH 31, 2003		$	64,692,848	$646,929	382,632	$3,826	$447,103,721

[Additional columns below]

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

	Deferred Compensation	Other Comprehensive Income (Loss): Foreign Currency Translation Adjustments	Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Marketable Securities	Accumulated Deficit	Total
BALANCE, APRIL 1, 2000	$(8,545,926)	$ (64,686)	$ 6,806,750	$(258,373,435)	$ 167,966,995
Issuance of common stock upon exercise of options or vesting of restricted stock awards					4,614,194
Issuance of common stock to collaborative partner					4,999,978
Conversion and redemption of $3.25 convertible exchangeable preferred stock					(24,883)
Noncash compensation	9,969,286				
Amortization of noncash compensation	(2,447,663)				(2,447,663)
Cumulative foreign currency translation adjustments		(72,876)			(72,876)
Unrealized loss 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)
BALANCE, MARCH 31, 2001	(1,024,303)	(137,562)	4,317,500	(282,510,081)	148,409,849
Issuance of common stock upon exercise of options or vesting of restricted stock awards					5,719,359
Conversion of note payable to corporate partner					7,506,330
Options and restricted stock awards canceled	198,783				
Noncash compensation	(3,631,656)				
Amortization of noncash compensation	1,294,728				1,943,693
Cumulative foreign currency translation adjustments		(27,952)			(27,952)
Unrealized loss on marketable securities			(2,532,445)		(2,532,445)
Net loss for year				(61,354,969)	(61,354,969)
BALANCE, MARCH 31, 2002	(3,162,448)	(165,514)	1,785,055	(343,865,050)	99,663,865
Issuance of common stock upon exercise of options or vesting of restricted stock awards					1,899,756
Options and restricted stock awards canceled	17,026				
Noncash compensation	(799,924)				
Amortization of noncash compensation	2,081,065				2,081,065
Cumulative foreign currency translation adjustments		55,281			55,281
Unrealized loss on marketable securities			(1,847,926)		(1,847,926)
Net loss for year				(106,897,747)	(106,897,747)

BALANCE, MARCH 31, 2003	$(1,864,281)	$(110,233)	$ (62,871)	$(450,762,797)	$ (5,045,706)

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ALKERMES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2003, 2002 AND 2001

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(106,897,747)	$ (61,354,969)	$ (16,869,315)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	9,322,344	7,621,060	7,697,662
Other noncash charges (income)	3,267,666	3,208,869	(1,938,434)
Equity in losses of Reliant Pharmaceuticals, LLC	94,596,536	5,403,464	
Gain on exchange of notes	(80,849,437)		
Derivative loss related to convertible senior subordinated notes	4,300,000		
Adjustments to other assets		89,536	270,064
Changes in assets and liabilities:			
Receivables from collaborative arrangements	11,738,783	(8,087,943)	(7,804,381)
Prepaid expenses and other current assets	1,250,591	476,309	(1,331,415)
Accounts payable, accrued expenses and accrued interest	(4,595,162)	11,402,018	3,343,572
Accrued restructuring costs	3,835,069		
Deferred revenue	15,283,854	(1,439,810)	(131,736)
Other long-term liabilities			(1,224,258)
Net cash used by operating activities	(48,747,503)	(42,681,466)	(17,988,241)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	(46,271,574)	(33,384,402)	(10,019,024)
Proceeds from the sale of equipment	60,000	371,385	
Proceeds from equipment sale-leaseback	6,000,174		
Purchases of available-for-sale short-term investments	(142,544,263)	(180,541,438)	(158,203,910)
Sales of available-for-sale short-term investments	214,675,793	306,549,599	103,348,135
(Purchases) maturities of held-to-maturity short-term investments, net		(14,901,024)	139,909,645
Maturities (purchases) of held-to-maturity long-term investments, net		64,290,159	(53,321,814)
Increase in other assets	(118,942)	(310,000)	(521,456)
Investment in Reliant Pharmaceuticals, LLC		(100,000,000)	
Net cash provided by investing activities	31,801,188	42,074,279	21,191,576
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock, net	1,899,756	5,719,359	4,614,194
Proceeds from issuance of convertible senior subordinated notes	60,000,000		
Proceeds from issuance of convertible preferred stock	30,000,000		
Proceeds from loans		35,000,000	
Repayment of loan	(10,000,000)	(25,000,000)	
Payment of long-term obligations	(4,025,000)	(4,983,334)	(5,625,000)
Payment of financing costs in connection with convertible senior subordinated notes	(4,505,952)		
Proceeds from issuance of common stock to collaborative partner			4,999,978
Payment of preferred stock dividends			(7,267,331)

Payment for redemption of $3.25 convertible exchangeable preferred stock			(24,883)
Net cash provided by (used in) financing activities	73,368,804	10,736,025	(3,303,042)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	33,112	(29,046)	(77,655)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	56,455,601	10,099,792	(177,362)
CASH AND CASH EQUIVALENTS, Beginning of year	16,023,074	5,923,282	6,100,644
CASH AND CASH EQUIVALENTS, End of year	$ 72,478,675	$ 16,023,074	$ 5,923,282
SUPPLEMENTARY INFORMATION:			
Cash paid for interest	$ 7,328,588	$ 7,792,031	$ 8,396,088
Cash paid for income taxes	$ 68,754	$	$
Noncash activities:			
Note payable and accrued interest converted to common stock	$	$ 7,506,330	$
Conversion of $3.25 convertible exchangeable preferred stock to common stock	$	$	$ 110,459,074

See notes to consolidated financial statements.

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ALKERMES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2003, 2002 AND 2001

1. THE COMPANY

Alkermes, Inc. (the Company) is an emerging pharmaceutical company developing products based on its proprietary 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 several of the world s finest pharmaceutical companies and also develops novel, proprietary drug candidates for its own account. In addition to its Cambridge, Massachusetts headquarters, research and manufacturing facilities, it operates research and manufacturing facilities in Ohio.

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 which was engaged in a research and development project with the Company (see Note 11). ADC II s investment in Clinical Partners is accounted for under the equity method of accounting, for which the carrying value was $0 at March 31, 2003 and 2002 (see Note 11). 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments The carrying amounts of cash and cash equivalents, accounts receivable, 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 (loss) income, included in shareholders (deficit) equity.

The following table sets forth the carrying values and estimated fair values of the Company s debt instruments at March 31, 2003 and 2002.

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
6.52% Convertible Senior Subordinated Notes, including embedded derivative liability	$179,210,429	$242,242,000	$	$
3.75% Convertible Subordinated Notes	676,000	507,000	200,000,000	211,107,000
Convertible Preferred Stock	30,000,000	30,000,000		
Notes payable to a bank	7,800,000	7,632,000	11,825,000	11,479,000
Other			10,000,000	10,000,000

The estimated fair values of the 6.52% Convertible Senior Subordinated Notes and the 3.75% Convertible Subordinated Notes were based on quoted market prices. The estimated fair values of Convertible Preferred Stock, notes payable to a bank and other were based on prevailing interest rates on similar borrowings.

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, convertible preferred stock, convertible senior subordinated notes and convertible subordinated notes. Certain common shares potentially issuable were not included in the computation of diluted net loss per share for the years ended March 31, 2003, 2002 and 2001 because they would have an antidilutive effect due to net losses for such periods.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Loss Per Share (continued) Common shares potentially issuable but excluded from the calculation of net loss per share consist of the following for the years ended March 31:

	2003	2002	2001
Stock options and awards	13,876,740	11,644,972	9,674,703
Shares issuable on conversion of 3.75% Convertible Subordinated Notes	9,978	2,952,030	2,952,030
Shares issuable on conversion of 6.52% Convertible Senior Subordinated Notes	22,727,024		
Shares issuable on conversion of Convertible Preferred Stock	3,307,607		
Shares issuable on conversion of $3.25 Convertible Exchangeable Preferred Stock			7,760,504
Total	39,921,349	14,597,002	20,387,237

Revenue Recognition Manufacturing and royalty revenues consist of revenue earned under certain manufacturing and supply and license agreements for the Company s two commercial products, Risperdal Consta and Nutropin Depot®. Manufacturing revenues are earned when product is shipped to the Company s collaborative partners. Royalty revenues are earned on product sales made by the Company s collaborative partners and are recorded in the period the product is sold by the Company s collaborative partners. Manufacturing revenues recognized by the Company are based on information supplied to the Company by the Company s collaborative partners and may require estimates to be made.

Research and development revenue consists of nonrefundable 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 technology or intellectual property 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the Company s 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 for the Company under contract by external companies, hospitals or medical centers. All such costs are charged to research and development expenses as incurred.

Stock Options and Awards The Company uses the intrinsic value method to measure compensation expense associated with the grants of stock options and awards to employees. The Company accounts for stock options and awards to nonemployees using the fair-value method.

Under the intrinsic value method, compensation associated with stock awards to employees is determined as the difference, if any, between the current fair value of the underlying common stock on the date compensation is measured and the price an employee must pay to exercise the award. The measurement date for employee awards is generally the grant date. Under the fair-value method, compensation associated with stock awards to nonemployees is determined based on the estimated fair value of the award itself, measured using either current market data or an established option pricing model. The measurement date for nonemployee awards is generally the date performance of certain services is complete.

In fiscal 2003 and 2002, recorded stock-based compensation expense was primarily related to restricted stock awards made during those years and is included in research and development expense or general and administrative expense, as appropriate. In 2001, stock-based compensation primarily related to equity transactions at the Company s subsidiary, AIR. The cost associated with awards is amortized to expense over the awards vesting periods.

Pro forma information regarding net loss and basic and diluted loss per common share in fiscal 2003, 2002 and 2001 has been determined as if the Company had accounted for its employee stock options under the fair-value method. 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, as options vest over several years and the Company expects to grant varying levels of stock options in future periods at exercise prices equal to the fair market value of the Company s common stock, which can fluctuate significantly.

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 2.63% 4.09% in fiscal 2003, 3.93% 4.97% in fiscal 2002 and 4.64% 6.30% in fiscal 2001; dividend yields of 0% in fiscal 2003, 2002 and 2001; volatility factors for the expected market price of the Company s common stock of 74% in fiscal 2003 and 70% in fiscal 2002 and fiscal 2001; and a weighted average expected life of four years in fiscal 2003, 2002 and 2001. Using the Black-Scholes option pricing model, the weighted average fair value of options granted in fiscal 2003, 2002 and 2001 was $3.73, $11.29 and $16.99, 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock Options and Awards (continued) Pro forma information for the years ended March 31 is as follows:

	2003	2002	2001
Net loss as reported	$(106,897,747)	$(61,354,969)	$(24,136,646)
Add: Stock-based compensation as reported in the consolidated statements of operations and comprehensive loss	2,081,065	1,943,693	(2,447,663)
Deduct: Total stock-based employee compensation expense determined under fair-value method for all options and awards	(25,168,374)	(38,633,970)	(22,762,409)
Pro forma net loss	$(129,985,056)	$(98,045,246)	$(49,346,718)
Basic and diluted loss per common share as reported	$ (1.66)	$ (0.96)	$ (0.43)
Basic and diluted loss per common share pro forma	$ (2.02)	$ (1.54)	$ (0.89)

Income Taxes Deferred income taxes are recognized at rates expected to be in effect when temporary differences between the financial reporting and income tax bases of assets and liabilities reverse.

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, 2003 and 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 portion of its investment portfolio formerly classified as held-to-maturity as available-for-sale.

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, 2003 and 2002 include securities totaling $8,945,908 and $9,126,093, respectively, held as collateral under certain letters of credit, lease and loan agreements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued) Investments consist of the following:

	Amortized Cost			Gross Unrealized		
	Due Under One Year	Due After One Year	Amortized Cost	Gains	Losses	Aggregate Fair Value
March 31, 2003						
Available-for-sale securities:						
Investments long-term U.S. government obligations	$ 8,944,641	$	$ 8,944,641	$ 1,267	$	$ 8,945,908
Short-term investments:						
U.S. government obligations		4,294,022	4,294,022	299,370		4,593,392
Corporate debt securities	8,966,180	49,894,166	58,860,346	209,617	(47,858)	59,022,105
	8,966,180	54,188,188	63,154,368	508,987	(47,858)	63,615,497
Total	$17,910,821	$54,188,188	$ 72,099,009	$ 510,254	$(47,858)	$ 72,561,405
March 31, 2002						
Available-for-sale securities:						
Investments long-term U.S. government obligations	$ 9,126,093	$	$ 9,126,093	$	$	$ 9,126,093
Short-term investments:						
U.S. government obligations	25,973,400	10,549,046	36,522,446	735,428	(2,884)	37,254,990
Corporate debt securities	53,408,802	45,174,465	98,583,267	491,579	(6,068)	99,068,778
	79,382,202	55,723,511	135,105,713	1,227,007	(8,952)	136,323,768
Total	$88,508,295	$55,723,511	$144,231,806	$1,227,007	$ (8,952)	$145,449,861

The Company also has investments in marketable equity securities (approximately $338,000 and $1,429,000 at March 31, 2003 and 2002, respectively) that are currently classified as available-for-sale securities under the caption other assets in the consolidated balance sheets. This caption also includes certain non-marketable warrants to purchase securities. The warrants are carried at estimated fair value.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory Inventory is stated at the lower of cost or market and consists of currently marketed products. Cost is determined in a manner that approximates the first-in, first-out method. Inventory consists of the following at March 31, 2003:

Raw materials	$ 620,653
Work in process	1,955,429
	$2,576,082

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.

Amounts recorded under the caption construction in progress in the consolidated balance sheets represent costs incurred through March 31, 2003 and 2002 for the expansion of the Company s manufacturing and research and development facilities in Massachusetts and Ohio. These facility expansions are expected to be completed during fiscal 2004.

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). At March 31, 2003, other assets also include a deferred loss related to the Company s sale-leaseback transaction with General Electric Capital Corporation (GECC) completed in November 2002, which is being charged to rent expense over the term of the lease agreement (see Note 13).

Deferred Revenue During fiscal 2003, the Company received an up-front payment of approximately $23,900,000 from Janssen Pharmaceutica, Inc. (Janssen) as an advance of minimum manufacturing revenue amounts due under a manufacturing agreement based on the approval and launch of Risperdal Consta in Germany and the United Kingdom (see Note 12). The portion of the prepayment amount received that is expected to be earned by the Company beyond fiscal 2004 has been classified as long-term deferred revenue in the consolidated balance sheets at March 31, 2003. In addition, the Company received prepayments for research and development costs under collaborative research projects with other corporate collaborative 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 revenue at March 31, 2002 also included amounts received by the Company as an upfront payment from ALZA Corporation (ALZA) to fund clinical development of Cereport. This amount was recognized as revenue during fiscal 2003 as a result of the mutual termination of the collaboration between the Company and ALZA.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2003, 2002 and 2001, the Company contributed approximately $793,000, $863,000 and $632,000, respectively, to match employee deferrals under the 401(k) Plan.

Comprehensive Loss Comprehensive loss is composed of net loss and unrealized gains and losses on the Company s available-for-sale securities and foreign currency translation adjustments.

Segments The Company s operations currently consist of one operating segment.

Reclassifications Certain reclassifications have been made in fiscal 2002 and 2001 to conform to the presentation used in fiscal 2003.

New Accounting Pronouncements In August 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (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 (EITF) 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 will have a material impact on the Company s financial statements and results of operations. The restructuring charge recorded in the consolidated statements of operations and comprehensive loss in the year ended March 31, 2003 was, and any future charges or credits related to the restructuring program undertaken in August 2002 will also be, accounted for under the guidance set forth in EITF No. 94-3.

In July 2000, the EITF released EITF No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, for comment which addresses revenue recognition for arrangements with multiple deliverables. EITF No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003, with early adoption permitted. The impact of EITF No. 00-21 on the Company s financial statements has not yet been determined.

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3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2003	2002
Accounts payable	$ 7,552,282	$14,829,096
Accrued compensation	2,587,064	2,603,413
Accrued other	4,112,737	3,331,866
	$14,252,083	$20,764,375

4. RESTRUCTURING OF OPERATIONS

In August 2002, the Company announced a restructuring program to reduce the Company s cost structure as a result of the Company s expectations regarding the financial impact of a delay in the U.S. launch of Risperdal Consta by the Company s collaborative partner, Janssen. The restructuring program reduced the Company s workforce by 122 employees, representing 23% of the Company s total workforce, and includes consolidation and closure of certain leased facilities in Cambridge, Massachusetts, closure of the Company s medical affairs office in Cambridge, England, write-off of leasehold improvements at leased facilities being vacated and reductions of other expenses. The workforce reductions were made across all functions of the Company. Under the restructuring plan, the Company is focusing development activities on those programs that are in the later stages of clinical development and those programs that involve the most productive collaborations.

In connection with the restructuring program, the Company recorded charges of approximately $6,500,000 in the consolidated statements of operations and comprehensive loss for the year ended March 31, 2003, which consisted of approximately $1,500,000 in employee separation costs, including severance and related benefits, and approximately $5,000,000 in facility consolidation and closure costs, including significant estimates relating to a lease cancellation fee, the length of time it will take to sublease certain of the Company s facilities and the lease rates at which the Company may negotiate sublease agreements with third parties. As of March 31, 2003, the Company had paid an aggregate of approximately $1,500,000 in employee separation costs and $1,500,000 in facility closure costs.

The amounts in the accrual are expected to be paid through fiscal 2006. Pursuant to the restructuring plan, the following charges and payments have been recorded during the year ended March 31, 2003:

Type of Liability	Balance, April 1, 2002	Charge for the Year	Payments for the Year	Balance March 31, 2003
Employee separation costs	$	$1,480,025	$(1,463,478)	$ 16,547
Facility closure costs		5,016,599	(1,496,136)	3,520,463
Total	$	$6,496,624	$(2,959,614)	$3,537,010

The Company substantially completed its restructuring program during fiscal 2003. However, the Company s remaining restructuring accrual is an estimate of costs associated with leases of closed facilities and may require adjustment in the future.

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5. SHAREHOLDERS (DEFICIT) EQUITY

$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, aggregating approximately $25,000. Prior to February 2001, holders of 530,800 shares of the $3.25 Preferred Stock had converted their shares into 1,791,764 shares of the Company s common stock.

Non-voting Common 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 $5,000,000. The milestone payment for past research expenditures was earned in June 2000 when Genentech launched Nutropin Depot for sale in the U.S.

The terms of the collaboration included the purchase by Genentech of $35,000,000 (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.

Conversion of Note Payable into Common Stock In October 1998, the Company converted a prepayment of royalties from a former collaborative partner, plus accrued interest, to a convertible promissory note in the principal amount of $5,983,292 as a result of the discontinuation of the 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.

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5. SHAREHOLDERS (DEFICIT) EQUITY (CONTINUED)

Shareholder Rights Plan In February 2003, the Board of Directors of the Company adopted a shareholder rights plan (the Rights Plan) under which all common shareholders of record as of February 20, 2003 received rights to purchase shares of a new series of Preferred Stock. The Rights Plan is designed to enable all Alkermes shareholders to realize the full value of their investment and to provide for fair and equal treatment for all shareholders in the event that an unsolicited attempt is made to acquire Alkermes. The adoption of the Rights Plan is intended as a means to guard against coercive takeover tactics and is not in response to any particular proposal. The rights will be distributed as a non-taxable dividend and will expire 10 years from the record date. Each right will initially entitle common shareholders to purchase a fractional share of the Preferred Stock for $80. Subject to certain exceptions, the rights will be exercisable only if a person or group acquires 15% or more of the Company s common stock or announces a tender or exchange offer upon the consummation of which such person or group would own 15% or more of the Company s common stock. Subject to certain exceptions, if any person or group acquires 15% or more of the Company s common stock, all rightsholders, except the acquiring person or group, will be entitled to acquire the Company s common stock (and in certain instances, the stock of the acquiror) at a discount. The rights will trade with the Company s common stock, unless and until they are separated upon the occurrence of certain future events. Generally, the Company s Board of Directors may amend the Rights Plan or redeem the rights prior to 10 days (subject to extension) following a public announcement that a person or group has acquired 15% or more of the Company s common stock.

6. LONG-TERM OBLIGATIONS

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

	2003	2002
Notes payable to a bank, bearing interest at fixed rates (6.97%-7.69%), payable in monthly or quarterly installments, maturing in fiscal 2004	$7,800,000	$11,825,000
Other		10,000,000
	7,800,000	21,825,000
Less current portion	7,800,000	14,025,000
	$	$ 7,800,000

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 investments at March 31, 2003) 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 March 2002, the Company borrowed $10,000,000 from one of its investment managers under a loan agreement that was collateralized by a portion of its short-term investments. The balance of the loan was $10,000,000 at March 31, 2002 and was included in long-term obligations current portion. Interest was at the federal funds rate plus 75 basis points (2.5% at March 31, 2002). The loan was repaid in April 2002.

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7. CONVERTIBLE NOTES

In February 2000, the Company issued $200,000,000 principal amount of its 3.75% Subordinated Notes which are due in 2007. The 3.75% Subordinated Notes are convertible into the Company s common stock, at the option of the holder, at a price of $67.75 per share, subject to adjustment upon certain events. The 3.75% Subordinated Notes bear interest at 3.75% payable semiannually, which commenced on August 15, 2000. The 3.75% Subordinated Notes were redeemable by the Company in cash at any time prior to February 19, 2003 if the Company s stock price exceeded $135.50 per share for at least 20 of the 30 trading days immediately prior to the Company s delivery of the redemption notice. The 3.75% Subordinated Notes are also redeemable at any time on or after February 19, 2003 at certain declining redemption prices. In certain circumstances, at the option of the holders, the Company may be required to repurchase the 3.75% Subordinated Notes. The required repurchase may be in cash or, at the option of the Company, in common stock, at 105% of the principal amount of the 3.75% Subordinated Notes, plus accrued and unpaid interest. As a part of the sale of the 3.75% Subordinated Notes, during fiscal 2000, the Company incurred approximately $6,530,000 of offering costs which were recorded as other assets and were being amortized over seven years, the term of the 3.75% Subordinated Notes. The net proceeds to the Company after offering costs were approximately $193,470,000. The Company had reserved 2,952,030 shares of its common stock for issuance upon conversion of the 3.75% Subordinated Notes.

On December 31, 2002, Alkermes consummated an exchange offer with, and cash offer to, participating holders of its 3.75% Subordinated Notes. The Company issued approximately $174,600,000 aggregate principal amount of its new 6.52% Convertible Senior Subordinated Notes due December 31, 2009 (the 6.52% Senior Notes), including approximately $114,600,000 of 6.52% Senior Notes issued in exchange for 3.75% Subordinated Notes tendered in the exchange offer, and $60,000,000 of 6.52% Senior Notes sold for cash to holders of the 3.75% Subordinated Notes who participated in the exchange offer. In accordance with EITF Issue No. 96-19, Debtor s Accounting for a Modification or Exchange of Debt Instruments, the Company recorded a realized gain on exchange of debt amounting to approximately $80,800,000 in the three months ended December 31, 2002.

The 6.52% Senior Notes are convertible into the Company s common stock, at the option of the holder, at a price of $7.682 per share, subject to adjustment upon certain events. The 6.52% Senior Notes bear interest at 6.52% payable semiannually, which will commence on June 30, 2003. The 6.52% Senior Notes are automatically convertible by the Company if the closing price of the Company s common stock exceeds $11.523 for at least 20 trading days during any 30-day trading period, ending within five trading days prior to the notice of automatic conversion. If the automatic conversion occurs on or prior to December 30, 2004 or if the holders voluntarily convert prior to December 30, 2004, the Company will pay additional interest in cash or, at the Company s option, in common stock, equal to two full years of interest on the converted 6.52% Senior Notes (the Two-Year Interest Make-Whole), less any interest paid or provided for on the 6.52% Senior Notes prior to conversion.

The Two-Year Interest Make-Whole meets the definition of a derivative contained in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and its interpretations, and the Company is required to account for this feature separately from the host instrument, the 6.52% Senior Notes. At issuance of the 6.52% Senior Notes, the Two-Year Interest Make-Whole feature was estimated to have a fair value of $9,000,000 and the initial recorded value of the 6.52% Senior Notes was reduced by this allocation. The estimated value of the Two-Year Interest Make-Whole feature is carried in the consolidated balance sheets under the caption, derivative liability related to convertible senior subordinated notes, and is being adjusted quarterly through other income or expense for changes in the estimated market value of the feature. During the year ended March 31, 2003, $4,300,000 in charges were recorded in the consolidated statements of operations and comprehensive loss for changes in the estimated value of the feature after issuance.

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7. CONVERTIBLE NOTES (CONTINUED)

The $9,000,000 initially allocated to the Two-Year Interest Make-Whole feature has been treated as a discount on the 6.52% Senior Notes and is being accreted to interest expense over the term of the 6.52% Senior Notes.

The Company has the option to pay both the interest and any payments under the Two-Year Interest Make-Whole feature in either cash or stock. If the Company elects to pay the interest in common stock, the shares of common stock will be valued at 90% of the average closing price of the Company s common stock for the five days immediately preceding the second trading day prior to the conversion date.

The 6.52% Senior Notes are redeemable at any time on or after January 4, 2005 at declining redemption prices plus accrued and unpaid interest. In certain circumstances, at the option of the holders, the Company may be required to repurchase the 6.52% Senior Notes. The required repurchase may be in cash or, at the option of the Company, in common stock, at 105% of the principal amount of the 6.52% Senior Notes, plus accrued and unpaid interest. As part of the exchange offer and the issuance of the 6.52% Senior Notes, the Company incurred approximately $4,500,000 of offering costs, which are recorded as other assets and will be charged to interest expense. The offering costs are being amortized over seven years, the term of the 6.52% Senior Notes. In addition, during the three months ended December 31, 2002, approximately $3,900,000 of unamortized offering costs relating to the 3.75% Subordinated Notes have been written off against the gain on the exchange of notes in the Company s consolidated statements of operations and comprehensive loss. The net proceeds to the Company after offering costs were approximately $55,500,000. The Company has reserved approximately 22,700,000 shares of its common stock for issuance upon conversion of the 6.52% Senior Notes.

The 6.52% Senior Notes are subordinated to the Company s senior indebtedness but rank senior in right of payment to the 3.75% Subordinated Notes. The Company is not limited in its ability to incur additional indebtedness by the terms of the 6.52% Senior Notes.

8. CONVERTIBLE PREFERRED STOCK

In December 2002, the Company and Eli Lilly and Company (Lilly) expanded the collaboration for the development of inhaled formulations of insulin and hGH based on the Company s AIR pulmonary drug delivery technology and Lilly purchased $30,000,000 of the Company s newly issued Convertible Preferred Stock pursuant to a stock purchase agreement. The Company agreed to use the proceeds from the Convertible Preferred Stock primarily to fund the development of inhaled insulin during calendar year 2003 and into calendar year 2004. The Company also agreed to use a portion of the proceeds to fund the hGH development program during calendar year 2003 and potentially into calendar year 2004. The Company will not record any research and development revenue for these programs while the $30,000,000 in proceeds from the Convertible Preferred Stock are used to fund this development. To the extent that the $30,000,000 is not used for the purposes specified in the agreement, Lilly will be entitled to credits for additional research services in the future. In addition, the royalty rate payable to the Company based on revenues of potential inhaled insulin products has been increased. Lilly has the right to return the Convertible Preferred Stock in exchange for a reduction in this royalty rate. The Convertible Preferred Stock is convertible into the Company s common stock at the market price at the time of conversion at the Company s option or upon the filing of a new drug application with the U.S. Food and Drug Administration for a pulmonary insulin product. The collaboration cannot terminate without cause until January 2005. The Company will register for resale all of its shares of common stock issued upon conversion of the Convertible Preferred Stock. The Convertible Preferred Stock has a liquidation preference of $10,000 per share and no dividends are payable by the Company on these securities.

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9. INCOME TAXES

At March 31, 2003, the Company has approximately $364,000,000 of net operating loss (NOL) carryforwards for U.S. federal income tax purposes available to offset future taxable income and approximately $21,000,000 of research and development tax credits available to offset future federal income tax, subject to limitations for alternative minimum tax. The NOL and research and development credit carryforwards are subject to examination by the tax authorities and expire in various years from 2004 through 2024.

The components of the net deferred income tax assets at March 31 are as follows:

	2003	2002
NOL carryforwards, federal and state	$ 106,692,000	$ 70,680,000
Tax benefit from stock option exercises	34,358,000	32,770,000
Tax credit carryforwards	28,480,000	24,920,000
Capitalized research and development expenses, net of amortization	3,040,000	8,010,000
Alkermes Europe NOL carryforward	8,230,000	7,500,000
Investment in Reliant	9,711,000	1,393,000
Deferred revenue	8,947,000	2,833,000
Other	3,836,000	2,004,000
Less valuation allowance	(203,294,000)	(150,110,000)
	$	$

Tax benefits from stock option exercises will be credited to additional paid-in capital when realized.

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 $31,880,000 from March 31, 2001 to March 31, 2002.

10. INVESTMENT IN RELIANT PHARMACEUTICALS, LLC

In December 2001, the Company purchased approximately 63% of an offering by Reliant Pharmaceuticals, LLC (Reliant) of its Series C Convertible Preferred Units, representing approximately 19% of the equity interest in Reliant, for a purchase price of $100,000,000. 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 Company s investment is being recognized in proportion to the Company s percentage participation in the Series C financing, and not in proportion to the Company s percentage ownership interest in Reliant. The Company records its equity in the income or losses of Reliant three months in arrears. For the fiscal years ended in 2003 and 2002, this charge amounted to approximately $94,600,000 and $5,400,000, respectively, and is recorded in the Company s consolidated statements of operations and comprehensive loss under the caption equity in losses of Reliant Pharmaceuticals, LLC.

Reliant is a privately held company over which the Company does not exercise control and the Company has relied on the unaudited and audited financial statements prepared by Reliant s management and provided to the Company to calculate the Company s share of Reliant s losses. The Company s $100,000,000 investment was reduced to $0 during the fiscal year ended March 31, 2003. Since the Company has no further funding commitments to Reliant, it will not record any further share of losses of Reliant in its consolidated statements of operations and comprehensive loss.

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10. INVESTMENT IN RELIANT PHARMACEUTICALS, LLC (CONTINUED)

To the extent Reliant has net income in the future, the Company would record its proportional share of Reliant s net income.

In connection with the Company s $100,000,000 equity investment in Reliant, the Company allocated its proportionate share of the assets acquired and liabilities assumed in accordance with the guidance set forth in SFAS No. 141, Business Combinations. In the quarter ended December 31, 2001, the Company recorded a $2,700,000 noncash charge for in-process research and development in the consolidated statements of operations and comprehensive loss under the caption equity in losses of Reliant Pharmaceuticals, LLC.

Summarized financial information with regard to Reliant as of December 31, 2002 and 2001 and for the years then ended is as follows (in thousands):

	2002	2001
Current assets	$ 68,595	$ 155,993
Noncurrent assets	40,900	52,333
Current liabilities	92,081	164,687
Noncurrent liabilities	84,521	
Redeemable preferred units	331,728	286,018
Members deficit	(398,835)	(242,379)
Revenues	177,355	276,665
Costs and expenses	297,870	472,713
Net loss	(120,719)	(198,021)

In March 2002, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Reliant. In August 2002, the Company and Reliant announced the mutual termination of the Merger Agreement. The companies agreed to terminate due to general market conditions. There were no payments triggered by the mutual termination and each company was responsible for its own legal and transaction fees. As a result of the termination of the Merger Agreement, the Company expensed approximately $2,600,000 in fiscal 2003 of deferred merger costs, which are included in general and administrative expenses in the consolidated statements of operations and comprehensive loss.

11. 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) and Cereport®. Research and development of RMPs had been conducted by the Company on behalf of Clinical Partners. As a result of the difficulties encountered in the development of Cereport including the clinical trial results and the termination of the agreement with ALZA, the Company determined that development of Cereport is not economically feasible and, therefore, the Company would not commit additional funds to the development of Cereport. As a consequence of this decision, the development program and obligations will cease, the purchase option will terminate and Cereport and the RMP technology will revert to Clinical Partners in the U.S. and Canada. Amounts expended to, or on behalf of, Clinical Partners by the Company were $53,117, $31,068 and $32,158 for fiscal 2003, 2002 and 2001, respectively. Clinical Partners had no assets or liabilities or substantive operations at either March 31, 2003 or 2002.

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12. COLLABORATIVE ARRANGEMENTS

The Company has entered into several arrangements with collaborative 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 generally receives reimbursement of research and development expenses for the projects, certain payments upon the achievement of certain milestones and royalties on sales of products developed, if any. Additionally, the Company has, or may obtain, the right to manufacture and supply products developed under certain of these arrangements.

In August 2002, 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, manufacturing revenues relating to the Company s sales of Risperdal Consta under a manufacturing and supply agreement are to be paid by Janssen to the Company in minimum annual amounts for up to 10 years beginning in calendar 2003. The actual amount of such minimum revenues will be determined by a formula and is currently estimated to aggregate approximately $150,000,000. The minimum revenue obligation will be satisfied upon receipt by the Company of revenues relating to the sales of Risperdal Consta equaling such aggregate amount of minimum revenues. In December 2002, Janssen prepaid the first two years of minimum revenues to Alkermes, totaling approximately $23,900,000. These amounts have been included in deferred revenue until earned.

Pursuant to the terms of an agreement with Lilly, Lilly has provided funding of certain amounts for the design and construction of a portion of AIR s manufacturing facility in Chelsea, Massachusetts. Lilly s investment has been used to fund pulmonary insulin production and packaging capabilities. This funding is secured by Lilly s ownership of specific equipment 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 the years ended March 31, 2003, 2002 and 2001, certain significant Partners provided the following portions of the Company s revenues:

	2003	2002	2001
Johnson & Johnson	40%	22%	21%
Lilly	27	25	5
Genentech	13	9	51
Amylin	12	8	7
Serono	3	13	3
GlaxoSmithKline	2	19	7

At March 31, 2003 and 2002, amounts receivable from these Partners totaled approximately $7,251,000 and $17,105,000, respectively.

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13. 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 2004 and 2022. Several of the leases contain provisions for extensions of up to 10 years. These lease commitments are mainly related to the Company s new corporate headquarters and manufacturing facilities in Massachusetts. Total annual future minimum lease payments are as follows:

Fiscal Years Ending:	
2004	$ 14,751,000
2005	13,777,000
2006	11,519,000
2007	9,998,000
2008	10,443,000
Thereafter	158,459,000
Total	218,947,000
Less estimated sublease income	(2,886,000)
	$216,061,000

In November 2002, Alkermes and GECC entered into a Master Lease Agreement to provide the Company with sale-leaseback equipment financing under which Alkermes received approximately $6,000,000 in equipment financing from GECC under the Master Lease Agreement. Under the terms of the Master Lease Agreement, Alkermes will make lease payments to GECC over a 36-month period that began in December 2002. The sale-leaseback qualified for accounting as an operating lease and resulted in a loss of approximately $1,338,000, which has been deferred and will be recognized as an adjustment to rent expense over the term of the lease agreement.

Rent expense charged to operations was approximately $14,704,000, $8,044,000 and $6,213,000 for the years ended March 31, 2003, 2002 and 2001, 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 $143,000, $261,000 and $124,000 for the years ended March 31, 2003, 2002 and 2001, respectively, and are included in research and development expenses.

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14. STOCK OPTIONS AND AWARDS

The Company s stock option plans (the Plans) provide for the granting of stock options designated as either non-qualified or incentive stock options to employees, officers and directors of and consultants to, the Company. Stock options generally expire ten years from the date they are granted and generally vest over a four-year period, except for grants to nonemployee directors, which vest over six months. The exercise price of stock options granted under the majority of the Plans may not be less than 100% of the fair market value of the common stock on the date of grant. Under the terms of one 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 Company has reserved a total of 15,592,857 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.

Certain of the Plans had provided that Limited Stock Appreciation Rights (LSARs) could be granted with respect to all or any portion of the shares covered by stock options granted to directors and executive officers. LSARs could be granted with the grant of a non-qualified stock option or at any time during the term of such option but could only be granted at the time of the grant in the case of an incentive stock option. The grants of LSARs were not 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, 2003, there were 65,000 LSARs outstanding which have been granted under the 1990 Plan. No LSARs were granted during fiscal 2003, 2002 or 2001.

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14. STOCK OPTIONS AND AWARDS (CONTINUED)

The Company has also adopted restricted stock award plans (the Award Plans) which provide for the award to certain eligible employees, officers and directors of, and consultants to, the Company of up to a maximum of 1,000,000 shares of common stock. Awards generally vest over two years. During fiscal 2003, 2002 and 2001, 120,866, 135,000 and 2,500 shares of common stock, respectively, were awarded under the Award Plans and 77,150, 1,250 and 0 shares, respectively, ceased to be subject to forfeiture and were issued. At March 31, 2003, 2002 and 2001, there were awards for 239,566, 195,850 and 62,100 shares outstanding under the Award Plans, respectively.

Noncash compensation expense (income) of $2,081,065, $1,943,693 and ($2,447,663) in fiscal 2003, 2002 and 2001, respectively, primarily resulted from the award of restricted stock to certain employees and has been charged to research and development and general and administrative expenses, as appropriate. Included in the consolidated statements of shareholders (deficit) equity is deferred compensation of $799,924 and $3,631,656 related to option grants and restricted stock awards in fiscal 2003 and 2002, respectively, which will be amortized over the vesting periods.

A combined summary of option activity under the Plans is as follows:

	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Balance, April 1, 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	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
Granted	3,947,102	4.02 - 23.17	6.72
Exercised	(390,303)	0.30 - 16.69	4.87
Canceled	(1,368,747)	4.77 - 67.78	19.30
Balance, March 31, 2003	13,637,174	$ 0.30 - $96.88	$16.49

Options granted generally vest ratably over four years, except options granted to non-employee directors which vest after six months.

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14. STOCK OPTIONS AND AWARDS (CONTINUED)

The following table summarizes information concerning outstanding and exercisable options at March 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Weighted-Average Number Exercisable	Weighted Average Exercise Price
$0.30 $4.77	1,373,508	7.87	$ 4.22	293,470	$ 2.22
5.00 7.19	1,106,931	5.75	6.18	1,087,031	6.18
7.32 10.66	3,071,763	8.71	7.72	622,099	8.43
10.78 16.69	2,472,327	6.51	16.19	1,893,479	16.15
16.94 25.65	2,131,409	8.34	19.81	668,855	19.92
25.84 37.81	3,119,471	7.81	29.02	1,568,329	29.10
39.06 96.88	361,765	7.25	43.52	242,542	43.11
$0.30 $96.88	13,637,174	7.69	$ 16.49	6,375,805	$ 17.66

At March 31, 2002 and 2001, options to purchase 4,431,847 and 2,869,518 shares were exercisable at weighted average exercise prices of $15.62 and $10.43, respectively.

15. SUBSEQUENT EVENT

On June 18, 2003 the Company announced that it had the right to automatically convert all of its outstanding 6.52% Senior Notes into the Company s common stock. There is approximately $174,500,000 principal amount of the 6.52% Senior Notes currently outstanding. The Company had the right to elect to automatically convert the 6.52% Senior Notes because the closing price of the Company s common stock, par value $0.01 per share, exceeded 150% of the conversion price of the 6.52% Senior Notes ($7.682) for 20 trading days during the 30-day trading period that ended on June 18, 2003.

On Friday, July 18, 2003, the 6.52% Senior Notes will be converted at a rate of 130.1744 shares of the Company s common stock per $1,000 principal amount of the outstanding 6.52% Senior Notes. This conversion will result in the issuance of approximately 22,700,000 shares of the Company s common stock. Upon conversion, cash will be paid in lieu of any fractional shares of the Company s common stock. In addition, pursuant to the terms of the 6.52% Senior Notes, because the 6.52% Senior Notes are being converted prior to December 31, 2004, the Company will also make a payment of approximately $17,100,000, equal to 1.5 years of interest on the 6.52% Senior Notes outstanding on the conversion date. Such interest payment will be made in cash.

* * * * * *

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Report of Independent Auditors

To the Board of Managers of
Reliant Pharmaceuticals, LLC

We have audited the accompanying balance sheet of Reliant Pharmaceuticals, LLC (a Delaware limited liability company) (the Company) as of December 31, 2002, and the related statement of operations, changes in members deficit and cash flows for the year then ended. 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 audit.

We conducted our audit 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 audit provides 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, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Ernst & Young LLP
MetroPark, New Jersey

February 19, 2003

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Reliant Pharmaceuticals, LLC

Balance Sheet

December 31, 2002
($000 s except for liquidation preference amounts)

Assets	
Current assets:	
Cash and cash equivalents	$ 32,219
Accounts receivable, net of allowance for doubtful accounts of $35	1,059
Inventory, net of inventory reserves of $5,311	3,495
Other current assets	31,822
Total current assets	68,595
Fixed assets, net of accumulated depreciation of $1,068	3,485
Intangible assets, net of accumulated amortization of $61,272	22,882
Other long-term assets	14,533
Total assets	$ 109,495
Liabilities, redeemable preferred units and members deficit	
Current liabilities:	
Accounts payable	$ 16,281
Accrued expenses	53,300
Other current liabilities	22,500
Total current liabilities	92,081
Long-term debt	60,200
Other long-term liabilities	24,321
Commitments and contingencies	
Redeemable preferred units:	
Series A redeemable preferred units; 425,000 units issued (liquidation preference $16,030,893)	4,921
Series B redeemable preferred units; 13,500,000 units issued (liquidation preference $489,350,517)	154,318
Series C redeemable preferred units; 7,964,627 units issued (liquidation preference $173,730,022)	172,489
Members deficit:	
Common units; 4,211,009 units issued at December 31, 2002	3,832
Subscriptions and loans receivables	(4,303)
Accumulated deficit	(398,364)
Total members deficit	(398,835)
Total liabilities, redeemable preferred units and members deficit	$ 109,495

See accompanying notes.

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Reliant Pharmaceuticals, LLC

Statement of Operations

Year ended December 31, 2002
($000 s)

Revenues:	
Net product sales	$ 105,890
Promotion revenues	71,465
Total revenues	177,355
Costs and expenses:	
Cost of products sold	75,408
Cost of promotion revenues	104,660
Selling, general and administrative	91,758
Research and development	26,044
Total costs and expenses	297,870
Loss from operations	(120,515)
Interest expense, net:	
Interest income	860
Interest expense	(1,064)
Total interest expense, net	(204)
Net loss	$(120,719)

See accompanying notes.

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Reliant Pharmaceuticals, LLC

Statement of Changes in Members Deficit

Year ended December 31, 2002
($000 s)

	Common		Subscriptions and Loans Receivables	Accumulated Deficit	Members' Deficit
	Units	Amount			
Balance, December 31, 2001	4,219,359	$ 3,915	$ (5,138)	$ (241,156)	$ (242,379)
Exercise of employee options	5,125	51	(25)		26
Forfeiture of unvested employee units	(13,475)	(134)	134		
Proceeds from subscriptions and loans receivables			597		597
Series A, B and C preferred dividends				(36,489)	(36,489)
Interest on subscriptions and loans receivables, net			129		129
Net loss				(120,719)	(120,719)
Balance, December 31, 2002	4,211,009	$ 3,832	$ (4,303)	$ (398,364)	$ (398,835)

See accompanying notes.

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Reliant Pharmaceuticals, LLC

Statement of Cash Flows

Year ended December 31, 2002
($000 s)

Cash flows from operating activities	
Net loss	$(120,719)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	632
Amortization of intangible assets	25,526
Net provision for doubtful accounts and other receivables	166
Changes in operating assets and liabilities:	
Decrease in accounts receivable	9,544
Decrease in inventory	41,329
Decrease in other current assets	2,469
Increase in other assets	(12,576)
Decrease in accounts payable and accrued expenses	(94,807)
Increase in other current liabilities	22,201
Increase in other long-term liabilities	24,321
Net cash used in operating activities	(101,914)
Cash flows from investing activities	
Capital expenditures	(2,149)
Net cash used in investing activities	(2,149)
Cash flows from financing activities	
Net borrowings of long-term debt	60,200
Additional Proceeds from sale of Series C redeemable preferred units, net	9,221
Proceeds from subscriptions and loans receivables	726
Proceeds from exercise of employee options	26
Net cash provided by financing activities	70,173
Net decrease in cash and cash equivalents	(33,890)
Cash and cash equivalents, beginning of year	66,109
Cash and cash equivalents, end of year	$ 32,219
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 450

See accompanying notes.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements

December 31, 2002

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 Note 13). 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.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

1. The Company (continued)

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 13) 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.

In July 2000, 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 13). 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). Pursuant to a rights offering to existing members, the Company accepted additional subscriptions for approximately $9.3 million of additional Series C Preferred Units in February 2002 (see Note 13).

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

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

1. The Company (continued)

of seeking regulatory approvals, (vi) uncertainties regarding government reforms and product pricing and reimbursement levels, (vii) technological change and competition, (viii) manufacturing uncertainties, (ix) dependence on collaborative partners and other third parties and (x) concentration of revenue sources within a small number of products.

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 finished goods only at December 31, 2002.

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. At December 31, 2002, Eli Lilly and Company (Lilly) and Novartis Pharmaceuticals Corporation, an indirect subsidiary of Novartis AG (collectively Novartis), had a security interest in the Company s Axid® and DynaCirc® inventories, respectively. Axid® is a registered trademark of the Company in the U.S. 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 provisions for rebates, discounts and returns, which are established at the time of sale. Sales terms are FOB shipping point.

Promotion revenues are recognized by the Company once contractual sales performance measures have been met.

Fixed Assets

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

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 software, computer, office and distribution equipment, furniture and 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, 2002, intangible assets are comprised primarily of gross product licenses of $84.2 million, net of accumulated amortization of $61.3 million.

The Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) on January 1, 2002. In accordance with SFAS 144, the Company first considers whether indicators of impairment of long-lived assets are present. If indicators of impairment are present, the Company determines whether the sum of the expected undiscounted future cash flows is less than the assets carrying value. If the sum of the expected undiscounted future cash flows is less than the assets carrying value, an impairment loss would be recognized based on the excess of the carrying amount of the assets over their respective fair values. The adoption of this pronouncement did not have an impact on the Company s results of operations, cash flows, or financial position for the year ended December 31, 2002.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and cash equivalents, accounts receivable and long-term debt. The Company maintains cash balances and cash equivalents in financial institutions with

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

strong credit ratings. At times, amounts invested with financial institutions may be in excess of FDIC insurance limits. As of December 31, 2002, 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 and companies from whom the Company has borrowed funds in the normal course of business. Bad debts have been minimal. The Company does not normally require collateral or any other security to support credit sales.

Stock-Based Compensation

Employee stock-based compensation is recognized using the intrinsic value method. For disclosure purposes, pro forma net loss is provided as if the fair value method had been applied.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and long-term debt approximate fair value.

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 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 by

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 was required to be adopted in the first quarter of 2002. Adoption of SFAS 141 and 142 did not have an 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.

Use of Estimates

The financial statements are prepared in conformity with accounting principles generally accepted in the United States and, accordingly, include amounts that are based on management s best estimates and judgments. Estimates are used in determining such items as provisions for rebates, returns and allowances, depreciable/amortization lives and amounts recorded for other reserves. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates. The Company is not aware of reasonably likely events or circumstances which would result in different amounts being reported that would have a material impact on results of operations, cash flows, or financial position.

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 for $47.6 million (see Note 20). Under this agreement, the Company is required to purchase, at predetermined prices, all of its requirements for DynaCirc® brand products and product samples from Novartis during the license term. The Company earns favorable, volume-based purchase price adjustments on

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

3. Product Licenses/Promotion Agreements (continued)

these purchases upon reaching specified minimum purchases (see Note 2). The Company capitalized the present value of the license payments as an intangible asset that was amortized over the life of the license (2.5 years) through December 31, 2002.

In July 2000, the Company was also granted an exclusive, irrevocable option to purchase all of the United States assets related to the DynaCirc® brands prior to December 2002. In December 2001, the Company gave written notice of its exercise of this option. In August 2002, Novartis delivered certifications required under the Novartis agreement. As such, the Company recorded an other long-term asset and an other current liability for $12.5 million related to the purchase of these assets in 2002 (see Notes 9 and 20). In January 2003, Reliant paid Novartis $10.0 million of the $12.5 million liability and will pay the remaining $2.5 million in March 2003.

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 (see Note 20). Under this agreement, subject to specified minimums, the Company was 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 12). The Company earned favorable, volume-based purchase price adjustments on these purchases upon reaching specified minimum purchases (see Note 2). The Company capitalized the above license payment as an intangible asset, which was being amortized through April 2002, the remaining life of the underlying patent (see paragraph below). Prior to patent expiry in April 2002, the Company filed an application for pediatric exclusivity, which, if granted by the FDA, would provide an additional six months of market exclusivity for the product. The request for pediatric exclusivity was denied by the FDA on July 3, 2002. As a result of the loss of market exclusivity, Axid® net product sales declined from approximately $201.9 million for the year ended December 31, 2001 to $64.7 million for the year ended December 31, 2002 and are not expected to be significant in the future.

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. 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.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

3. Product Licenses/Promotion Agreements (continued)

Based on expected future cash flows, the Company accrued $30.0 million as a loss contract reserve via a charge to cost of products sold 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 in the fourth quarter of 2001.

In 2002, the Company took delivery and paid for $13.7 million of product that it was contractually required to purchase, leaving a commitment balance of $16.3 million reflected as a loss contract reserve as of December 31, 2002 (see Notes 8 and 20).

The Company projects future prescriptions of Axid® based upon the actual erosion rates of a product in the same market that lost market exclusivity in 2001. Based upon these projections, the Company increased its product return reserve for Axid® to $29.4 million as of December 31, 2002 ($1.6 million as of December 31, 2001) (see Notes 8 and 11).

Lescol®

In November 2000, the Company entered into a promotion agreement with Novartis to acquire the U.S. marketing rights through December 2005 for the Lescol® and Lescol® XL cholesterol-controlling agents for $40.0 million. Lescol® is a registered trademark of Novartis. 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. 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 contractually specified minimum level of sales. Effective January 1, 2002, the agreement with Novartis was amended to provide for quarterly sales minimums instead of annual minimums, and to reduce the contractual percentage of net sales owed to the Company. Of the promotion revenues received under the terms of this agreement, $10.0 million was deferred (see Note 9) and the remainder was included in promotion revenues in the accompanying statement of operations.

Commencing on January 1, 2003 and annually thereafter during the term of the agreement, Novartis is entitled to terminate the agreement if certain annual net sales targets are not met. The promotion agreement may be extended up to an additional three years provided certain future minimum annual sales levels are achieved.

The Company is required to provide promotional, selling and marketing support over the period of the agreement (see Note 12). 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 statement of operations.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

3. Product Licenses/Promotion Agreements (continued)

Fenofibrate

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, is required to be purchased at predetermined prices from Ethypharm during the license term. The Company is required to make certain payments to Ethypharm based on the achievement of predetermined milestones and to pay a royalty on all future net sales of this product. Through December 31, 2002, the Company has paid $500,000 in license and milestone payments, which have been expensed as incurred. No other milestones have been achieved and, accordingly, no additional amounts were accrued or paid (see Note 12).

RP-606

In February 2002, Reliant entered into a license agreement with Medivir AB, a pharmaceutical research company with operations in Huddinge, Sweden and Cambridge, England. Pursuant to that agreement, Reliant acquired the rights to develop, market and distribute RP-606 (then known as MIV-606) in the U.S. and Canada. RP-606 is a broad spectrum, oral antiviral that is being developed for the treatment of herpes zoster (shingles). Under the terms of the agreement, Reliant is responsible for financing and conducting Phase III clinical studies, applying for regulatory approval and, in the event approval is granted, marketing the product in the U.S. and Canada. Medivir has retained marketing rights to the product in Denmark, Finland, Iceland, Norway and Sweden. Reliant and Medivir share the right to license and receive certain fees and royalties for the product in countries other than those in which Reliant or Medivir maintain exclusive rights. The term of the agreement is the longer of ten years following the first commercial sale of the product, the expiration of Medivir s RP-606 patent in 2017, or the loss of marketing exclusivity. Reliant is required to make payments to Medivir based on the achievement of certain predetermined milestones, $5.0 million in license fees and a royalty on future net sales of the product in the U.S. and Canada during the term of this agreement. Through December 31, 2002, Reliant has paid $5.0 million in license fees, which were expensed as incurred. Through December 31, 2002, no milestones were achieved and, accordingly, no amounts related to milestones were accrued or paid (see Note 12).

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

3. Product Licenses/Promotion Agreements (continued)

Cedax®, Rondec®, Teveten®, Teveten® HCT, Zovirax® and Cardizem® LA

On November 13, 2002, Reliant entered into a co-promotion agreement with Biovail Pharmaceuticals, Inc. (Biovail) that expires on December 31, 2008. Pursuant to that agreement, Biovail granted to Reliant a royalty-free, fully paid, non-exclusive, limited, non-transferable license to all rights of Biovail as may be necessary to co-promote the following Biovail products through December 31, 2005: Cedax®, Rondec®, Teveten®, Teveten® HCT and Zovirax®. Reliant will also assist Biovail with the launch and promotion of Cardizem® LA (which was approved by the FDA in February 2003). As compensation for Reliant s co-promotion activities, effective October 1, 2002, Biovail began paying to Reliant royalties on quarterly net sales of these products. Royalties received under the terms of this agreement have been included in promotion revenues in the accompanying statement of operations.

Reliant s direct costs associated with the promotion of the Biovail products are expensed as incurred and have been included in the cost of promotion revenues in the accompanying statement of operations. The Company is responsible for up to $13.0 million in funding commitments through 2005 (see Note 12).

Commencing June 30, 2003, each of Biovail and Reliant have the right to terminate the agreement for any reason. Following termination, Biovail may elect either to pay Reliant a termination fee, as defined in the agreement, or continue to pay Reliant royalties on sales of the products through December 31, 2008. In the event that Biovail elects to continue royalty payments, Biovail may upon written notice to Reliant, and Reliant may, upon the market withdrawal or sale by Biovail of any royalty products elect to terminate such royalty payments, in which case Biovail shall pay a termination fee to Reliant calculated as if the termination had occurred on the date of payment.

4. Accounts Receivable

Trade receivables were primarily comprised of amounts billed to pharmaceutical wholesalers.

The Company s top three wholesalers accounted for 71% of gross product sales for the year ended December 31, 2002 and 60% of the gross accounts receivable balance at December 31, 2002. The Company s largest customer accounted for 33% of gross product sales for the year ended December 31, 2002 and 3% of the gross accounts receivable balance as of December 31, 2002.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

5. Other Current Assets

Other current assets were comprised of the following:

	(in $000's)
Due from Novartis	$24,275
Product samples	3,915
Other	3,632
Total	$31,822

6. Fixed Assets

Fixed assets consisted of the following:

	(in $000's)
Computer, office and distribution equipment	$ 1,809
Software	1,617
Furniture and fixtures	1,094
Vehicles	33
Gross fixed assets	4,553
Less accumulated depreciation	(1,068)
Fixed assets, net	$ 3,485

7. Accounts Payable

As of December 31, 2002, the accounts payable balance consisted primarily of amounts payable to Novartis for the purchase of finished product and product samples.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

8. Accrued Expenses

Accrued expenses were comprised of the following:

	(in $000's)
Loss contract reserve (see Note 3)	$16,310
Managed care and Medicaid rebates	11,919
Product returns Axid (see Note 3)	5,942
Brand marketing expenses	4,271
Sales force expenses	3,993
Research and development expenses	3,313
Other	7,552
Total	$53,300

9. Other Current Liabilities

As of December 31, 2002, other current liabilities included $12.5 million for the purchase of the DynaCirc® brand assets and $10.0 million of deferred revenue for the Lescol® brands (see Note 3).

10. Notes Payable and Long-Term Debt

Revolver

On June 29, 2001, the Company obtained a two-year revolving line of credit (the Revolver) commencing August 17, 2001 with a credit limit of $20.0 million. The lending formula of the Revolver was 85% of eligible trade receivables. On November 1, 2002, the Company amended this agreement such that the lending formula now includes 85% of eligible trade receivables and 85% of the Lescol® promotional fee receivable from Novartis, subject to certain limitations. On February 19, 2003, the Company extended this agreement through August 17, 2004, with a credit limit of $10.0 million for the additional year and the same lending formula. At December 31, 2002, there were no outstanding balances under the Revolver. Interest on amounts outstanding under the Revolver accrues 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 trade receivable and amounts due from Novartis under the Lescol® brand

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

10. Notes Payable and Long-Term Debt (continued)

promotion agreements. Interest expense, which includes the unutilized loan fee, the amortization of the origination fee and other monthly fees on the Revolver for the year ended December 31, 2002 was $218,000.

Bridge Loan

On July 30, 2001, the Company obtained from certain existing members and related entities (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). 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 the then outstanding $50.0 million 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 adjust the Bridge Loan interest rate to 2% above the prime-lending rate (the prime lending rate was 4.25% as of December 31, 2002) (see Note 13). The original Bridge Loan assessed interest at 10% per annum, which increased 2% every three months following the initial draw. 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.

In September 2002, the Company borrowed the $30.0 million of available capacity under the Bridge Loan. On September 30, 2002, the Company paid all accrued interest then outstanding of $106,000. On November 13, 2002, the Company paid accrued interest from October 1 through November 12, 2002 of $236,000. Total interest expense on the Bridge Loan was $342,000 for the year ended December 31, 2002.

Credit Facility

On November 13, 2002 (the Closing Date), Reliant entered into a credit agreement (Credit Agreement) with the Lenders and Biovail, establishing a credit facility of $85.0 million. On the Closing Date, the $30.0 million that was outstanding under the Bridge Loan was converted into an advance under the Credit Agreement by the Lenders and an additional $200,000 was advanced by the Lenders. On November 15, 2002, Biovail advanced Reliant $30.0 million. As of December 31, 2002, the Company had available credit of $24.8 million under the credit facility of which $10.0 million is with Biovail and the remaining $14.8 million is with the original Lenders.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

10. Notes Payable and Long-Term Debt (continued)

The aggregate principal amount of advances outstanding under the credit facility shall not exceed $45.0 million with respect to the Lenders. With respect to Biovail, the aggregate principal amount shall not exceed $30.0 million between the Closing Date and December 31, 2002, $35.0 million between January 1, 2003 and June 30, 2003 and $40.0 million following June 30, 2003.

Amounts borrowed under the credit facility are secured by a blanket first priority security interest in substantially all of Reliant s assets (subject to certain exclusions).

Reliant is required to repay Biovail and the Lenders the outstanding principal amount and any accrued but unpaid interest in eight equal quarterly installments with the first payment due on March 31, 2005, and the final payment due on December 31, 2006. Commencing on January 31, 2003, and the last day of the first month of each fiscal quarter thereafter, to the extent the Company has excess cash as defined in the Credit Agreement, the excess cash shall be used to repay amounts borrowed under the credit facility and these repayments will permanently reduce the amounts available under the credit facility. The Company does not expect to have any such excess cash through December 31, 2003. Interest accrues at 2% per annum above the prime rate as determined by a major bank.

Interest expense on the credit facility for the period from the Closing Date to December 31, 2002 was approximately $490,000 (see Note 11). Reliant is required to pay interest in arrears on the first day of each calendar quarter commencing March 31, 2005, but may elect to pay it earlier. Prior to March 31, 2005, Reliant may elect to accrue, rather than make cash payments of, interest under the credit facility, which accrued interest will be added to the outstanding principal on March 31, 2005.

Covenants under the Credit Agreement prohibit Reliant from, among other things, entering into a merger, amalgamation or reorganization, disposing of any of its material assets, or incurring indebtedness for borrowed money secured by the collateral securing Reliant s obligations under the credit facility, which is not expressly subordinated by its terms to the credit facility.

11. Other Long-Term Liabilities

Other long-term liabilities consisted of the long-term portion of the product return reserve for Axid® of $23.5 million (see Notes 3 and 8), accrued interest under the credit facility of $490,000 (see Note 10) and deferred rent expense of $384,000 (see Note 12).

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

12. Commitments and Contingencies

Operating Leases

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 agreement provides for an escalation in the rent payment in 2006. As such, the Company has straight-lined the aggregate rental payments over the term of the lease (see Note 11). 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, LLC (a related party, formerly known as Diversified Capital, L.P.) on behalf of the Company. As such, Diversified Capital, LLC is responsible to Bank One, NA for reimbursement obligations. In connection with the foregoing, the Company has agreed to (i) reimburse Diversified Capital, LLC for any amounts that Diversified Capital, LLC is required to pay over to Bank One, NA and (ii) pay Diversified Capital, LLC customary fees. The Company s payment obligations to Diversified Capital, LLC 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 of December 31, 2002. In the first quarter of 2003, Reliant terminated the Bank One letter of credit with Diversified Capital, LLC and received back its deposit from Diversified Capital, LLC. Simultaneously, Reliant entered into a new letter of credit arrangement with Fleet National Bank pursuant to which Fleet National Bank issued the required letter of credit in favor of Reliant s landlord. In connection with the issuance by Fleet National Bank of such letter of credit, Reliant provided a security deposit of approximately $2.0 million to Fleet National Bank.

The Company leases vehicles, office equipment and other assets used in the operation of the business under operating leases. Each vehicle is leased for an initial term of twelve months, and thereafter for successive twelve-month renewal terms. Reliant has the right to cancel any vehicle at any time after the end of the first twelve months upon written notice of such cancellation to the lessor. Pursuant to its vehicle leases, the Company is committed to pay approximately $1.7 million in 2003.

Certain leases provide that the Company pays for taxes, maintenance, insurance and other expenses.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

12. Commitments and Contingencies (continued)

The approximate minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2002, are:

	(in $000's)
2003	$ 1,932
2004	1,842
2005	1,796
2006	1,944
2007	1,815
Thereafter	6,386
Total	$ 15,715

Rental expense on all operating leases amounted to approximately $5.8 million for the year ended December 31, 2002.

Other Commitments

Pursuant to various agreements, including the DynaCirc® and Axid® agreements referred to in Note 20, the Company has purchase commitments of $10.3 million for Axid® trade product ($16.3 million of the $26.6 million in committed purchases was accrued as of December 31, 2002) (see Notes 3 and 20) and $7.0 million for DynaCirc® trade products and samples (see Note 20), a guaranteed royalty of $3.2 million in respect of Axid® new formulations and an obligation to provide at least $115.0 million of promotional, selling and marketing support for the Lescol® brands through 2005 (see Note 3).

Pursuant to the co-promotion agreement with Biovail, the Company has funding commitments totaling approximately $13.0 million through December 2005 (see Note 3).

The Company has contractual arrangements with pharmaceutical product development companies, clinical research organizations and other research service providers to design formulations and perform and service clinical trials with respect to both compounds under development and approved products. Pursuant to these contractual arrangements, the Company has funding commitments totaling $3.0 million in 2003.

The Company also has purchase commitments for non-Lescol® brand marketing services and premiums for various corporate insurance policies. Pursuant to these arrangements, the Company has funding commitments totaling $1.5 million in 2003.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

12. Commitments and Contingencies (continued)

The aggregate minimum commitments (excluding leases), by year, related to such contractual arrangements are as follows:

	(in $000's)
2003	$ 62,507
2004	51,247
2005	39,250
Total	$153,004

In addition to the aggregate minimum commitments noted above, the Company is contractually obligated to pay $13.9 million over time upon the achievement of specific milestones for certain clinical research and development programs (see Note 3).

Legal Proceedings

From time to time, the Company may be involved in various legal proceedings and other regulatory matters arising out of the normal course of business. At December 31, 2002, 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.

13. 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 Series A Preferred Units) upon the conversion of the Company to an LLC (see Note 1).

In July 2000, the Company accepted subscriptions for $135.0 million of its Series B Preferred Units (the Series B Preferred Units) at a price of $10 per unit pursuant to a private placement (the Series B Financing) (see Note 1). Under the subscription agreement, 50% of the Series B Preferred 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 remaining 50% in December 2000. At December 31, 2002, the Company had a subscription receivable of $1.0 million related to a note from a Founder. The interest rate on this note is the prime rate as determined by a major bank (4.25% at December 31, 2002).

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

13. Redeemable Preferred LLC Units (continued)

In December 2001, the Company accepted subscriptions for $150.0 million of its Series C Preferred Units (Series C Preferred Units) at a price of $20 per unit pursuant to a private placement (the Series C Financing) (see Note 1). The financing was comprised of the receipt of a cash payment of $100.0 million from Alkermes, Inc. and an exchange of an aggregate of $50.0 million of the then outstanding balance on the Bridge Loan (see Note 10). On February 4, 2002, the Company accepted approximately $9.3 million in additional subscriptions for additional Series C Preferred Units pursuant to a rights offering to existing members. The Company incurred costs of approximately $4.6 million related to the closing of the Series C Financing, which included $2.6 million paid to the Advisor (see Note 18). 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 Series C Preferred Units (see Note 1). The fair value of the warrants as determined by an independent valuation, was approximately $8,300 at the time of issuance. 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 10). The Series C Preferred 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, or (b) the mutual agreement of the Holder of the warrants and the Company.

The Series A, B and C Preferred 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 Operating Agreement) or (iii) upon the occurrence of certain other specified events. The initial conversion price is $10 for the Series A and B Preferred Units and $20 for the Series C Preferred Units. The conversion price is subject to adjustment pursuant to the Company s 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.

Each Series A, B and C Preferred Units has voting rights equal to the largest number of whole Common Units into which it is convertible. The Series C Preferred Units rank senior to the Series A and B Preferred Units and the Common Units. The Series A and B Preferred Units rank on par with each other and are senior to the Common Units.

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

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

13. Redeemable Preferred LLC Units (continued)

Prior to December 17, 2001, the Series A and B Preferred Units were non-redeemable. In connection with the Series C Financing, the Company s Operating Agreement was amended to provide redemption rights to the Series A, B, and C Preferred Units. At the option of the holder, 50% of the Series A, B, and C Preferred Units are redeemable on December 17, 2005 for $221.3 million and the remaining 50% are redeemable on December 17, 2006 for $236.8 million.

As defined in the Company s Operating Agreement, upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary (each, a Liquidation Event), the holders of the Series C Preferred Units shall be entitled, before any distribution or payment is made, to be paid an amount equal to $20 per unit plus all accumulated and unpaid preferred returns (the Series C Liquidation Preference). Once the Series C Preferred Unit holders have been paid, to the extent proceeds are available, the Series A and B Preferred Units shall be entitled to be paid, in accordance with their proportionate ownership of their respective units, an amount equal to three 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 other 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, in connection with a Liquidation Event, the Series A, B and C Preferred 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 Company s Operating Agreement, then holders of Series C Preferred 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 Series C Preferred Units held by such holders requesting redemption on December 17, 2003, and their remaining Series C Preferred Units on December 17, 2004.

14. 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,

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

14. Common LLC Units (continued)

434,353 were fully vested upon issuance and 1,216,190 vest over a four-year period beginning September 1, 1999. Of the restricted Common Units subject to vesting at December 31, 2002, a total of 912,143 were fully vested and 304,047 remained subject to vesting.

15. Equity Incentive and Unit Appreciation Rights Plans

The Company granted options to employees under an Equity Incentive Plan (the Equity Plan) to purchase Common Units in the Company. Options granted under the Equity 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 Equity Plan generally vest ratably over four years on the anniversary of the grant date. All options granted under the Equity Plan from inception through December 31, 2001 were at an exercise price of $10 per Common Unit. Options granted in 2002 were at an exercise price of $20.

The Company made available to certain employees, who were 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/non-recourse notes, bearing interest at the prime rate (4.25% as at December 31, 2002). The loans are full recourse with respect to interest. In 2002, $850,000 of interest and principal on these loans was repaid.

Pursuant to its unit option agreements, the Company has the right to repurchase all unvested units from employees who have previously exercised their options upon their termination. During 2002, the Company repurchased 13,475 of unvested units for $134,750 from employees who had previously exercised their options in connection with the termination of such employees employment with the Company.

The activity under the Equity Plan is as follows:

	Number of Units	Average Price (1)
Options outstanding, January 1, 2002	1,374,200	$10.00
Granted	431,100	20.00
Exercised	5,125	10.00
Cancelled	116,125	10.00
Options outstanding, December 31, 2002	1,684,050	$12.56

(1) Weighted average exercise price.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

15. Equity Incentive and Unit Appreciation Rights Plans (continued)

Summarized information about unit options outstanding and exerciseable at December 31, 2002 is as follows:

	Outstanding		Exercisable	
Exercise Price	Number of Units	Average Life (1)	Number of Units	Average Life (1)
$10	1,252,950	8.5	576,718	8.3
$20	431,100	9.9		
	1,684,050		576,718	

(1) Weighted average contractual life remaining in years.

The Company does not recognize compensation cost for the options it granted to employees. 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 year ended December 31, 2002.

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

Expected dividend	0.0%
Risk-free interest rate	3.4%
Expected volatility	0.0
Expected life (in years)	5.8

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. 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.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

15. Equity Incentive and Unit Appreciation Rights Plans (continued)

In 2002, the Company granted unit appreciation rights (UARs) to certain sales employees under a Unit Appreciation Rights Plan (the Rights Plan). UARs allow the holder to receive, upon exercise of the UAR, cash in an amount equal to the difference between a specified base price and the fair market value of a Common Unit on the exercise date. The base price per UAR may not be less than the estimated fair market value of the underlying Common Unit on the date of grant and UARs may have a maximum term of ten years. UARs granted under the Rights Plan generally vest ratably over four years on the anniversary of the grant date. All UARs granted under the Rights Plan in 2002 were granted at a base price of $20.

The activity under the Rights Plan is as follows:

	Number of Units	Average Price (1)
Unit appreciation rights outstanding, January 1, 2002		
Granted	547,350	$20.00
Exercised		
Cancelled	8,250	20.00
Unit appreciation rights outstanding, December 31, 2002	539,100	$20.00

(1) Weighted average exercise price.

At December 31, 2002, under the Rights Plan, all UARs outstanding were unvested and the weighted average remaining life of rights outstanding was 9.9 years. There was no compensation expense recognized pursuant to the Rights Plan in 2002.

16. Employee Agreements

The Company has entered into employment agreements with certain officers and employees of the Company. The agreements provide for salaries aggregating approximately $2.6 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.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

16. Employee Agreements (continued)

Reliant has also entered into agreements with certain of its key executives that provide for accelerated vesting of options and restricted units upon a change in control, as well as bonuses depending on the amount of consideration received by the members in a change of control transaction.

17. 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 fees incurred for the year ended December 31, 2002, were approximately $523,000. In addition to the base consulting fee, 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, 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% or more, the Company shall pay an additional bonus of $100,000 to each consultant. As the Company did not meet either of these targets for the year ended December 31, 2002, no bonuses were accrued or paid to the consultants related to 2002.

18. 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 provided the services for a three-year period that commenced in September 1999 for a monthly fee of $25,000 plus related business expenses.

For the year ended December 31, 2002, the Company charged $200,000 to expense for the Advisor s service fee. Additionally, the Company agreed under specified conditions to pay the Advisor a fee (the Fee) equal to two percent (2%) of the total consideration with respect to general corporate acquisition/divestiture transactions. In consideration for an advance of $1.0 million in 2001, the Advisor agreed to reduce the Fee to 0.8% of the total consideration. Such advance is nonrefundable, but is creditable against future fees that became due up to $1.0 million. Since the amount was nonrefundable, the amount was expensed in 2001. This

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

18. BCC BD Arrangements (continued)

agreement expired effective August 31, 2002, but remains applicable to qualifying transactions that with respect to which a binding agreement is entered into within the 12-month period following such expiration.

19. 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 25% 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 2002.

20. Events Subsequent to December 31, 2002

DynaCirc® Agreements

Supply Agreement - On January 10, 2003 (the Novartis Effective Date), the Company entered into a supply and manufacturing agreement whereby Novartis agreed to manufacture, supply and sell to the Company both Isradipine, the pharmaceutically active ingredient in DynaCirc®, as well as DynaCirc® in finished form. The term of this agreement is from the Novartis Effective Date through August 31, 2004.

Letter Agreement - On January 10, 2003, the Company entered into a letter agreement with Novartis to extend the then existing DynaCirc® agreements. Under the terms of this agreement, among other things, (i) Reliant agreed to pay Novartis, upon the satisfaction of certain conditions, $10.0 million of the $12.5 million payment due in respect of the purchase option exercise, and (ii) Novartis agreed to manufacture and sell to Reliant certain agreed upon quantities of DynaCirc® brands totaling approximately $7.0 million, net of contractually specified volume-based purchase price adjustments and a credit for product Reliant returned to Novartis for rework of approximately $5.9 million. The receivable for the rework product was included in other current assets as of December 31, 2002. In January 2003, Reliant paid the $10.0 million to Novartis.

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Reliant Pharmaceuticals, LLC

Notes to Financial Statements (continued)

20. Events Subsequent to December 31, 2002 (continued)

Axid® Letter Agreement

On January 31, 2003, Reliant and Lilly agreed to certain modifications of the then existing Axid® agreements. For Reliant, these modifications resulted in the following: (i) a purchase commitment for an additional $10.3 million of Axid® trade product, (ii) extended payment terms on the purchase of the $26.6 million of trade product through December 15, 2004 ($16.3 million was accrued as of December 31, 2002 and the remaining $10.3 million is the new inventory purchase commitment), (iii) the acquisition of the NDA for Axid® (subject to receipt by Lilly of certain payments which are scheduled to be completed in December 2004), (iv) a reduction in the royalty rate on the first $100.0 million in cumulative net sales of Axid® new formulations and (v) an additional guaranteed royalty of $3.2 million in respect of Axid® new formulations. As a result of executing this agreement, the Company will incur a charge in January 2003 in the amount of $7.1 million for the portion of the inventory purchase commitments for which there is no projected demand as well as the additional guaranteed royalty.

Series D Financing (unaudited)

On September 15, 2003, Reliant had an initial closing on its offering of Series D Preferred Units at a price of $20 per unit totaling approximately $115 million, including the exchange of approximately $37 million of existing secured debt under the credit facility. The Series D Preferred Units rank senior to the Series A, B and C Preferred Units and the common units. The Series D Preferred Unit holders are entitled to receive a preferred return at an annual rate of 8.5%, compounded quarterly.

In connection with the Series D financing, the Company s Operating Agreement was amended such that at the option of the holder, 50% of the then outstanding Series A, B, C and D Preferred Units are redeemable on December 31, 2008 and the remaining 50% are redeemable on December 31, 2009. Additionally, the Company s Operating Agreement was amended such that upon any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the Series A and B Preferred Unit holders shall be entitled to be paid an amount equal to one times, rather than three times, their liquidation preference, which is $10 per unit plus all accumulated and unpaid preferred returns.

Tax Election (unaudited)

On September 12, 2003, Reliant filed an election with the Internal Revenue Service to be taxed as a corporation for federal income tax purposes, effective June 29, 2003.

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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 registration statement.

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RELIANT PHARMACEUTICALS, LLC

BALANCE SHEETS
As of December 31, 2001 and 2000

	2001	2000
	(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
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	
Total assets	$208,326	$247,465

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.

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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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RELIANT PHARMACEUTICALS, LLC

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

	Series A Preferred Stock		Common Stock		Series A Preferred		Series B Preferred	
	Shares	Par Value	Shares	Par Value	Units	Amount	Units	Amount
				(Dollars in thousands)				
BALANCE, August 31, 1999 (Inception)	$	$	$	$				
Initial capitalization of the Company			100					
Net loss from Inception (August 31, 1999) to December 31, 1999								
BALANCE, December 31, 1999			100	$				
Conversion of promissory note into Series A Preferred Stock and Founders warrant to acquire common stock	425,000	4						
Termination of C Corporation								
Exchange of Series A Preferred Stock for Series A Preferred Units	(425,000)	(4)			425,000	4,250		
Exchange of Common Stock for Common Units			(100)					
Sale of Series B Preferred Units							13,500,000	135,000
Exercise of Founders Warrant								
Interest on subscriptions receivable								

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.

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RELIANT PHARMACEUTICALS, LLC

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

	Common		Additional Paid-in Capital	Subscriptions and Loans Receivables	Accumulated Deficit	Members (Deficit) Capital
	Units	Amount				
	(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)
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)

BALANCE, December 31, 2000	3,831,659	38	(1,116)	(41,776)	96,396
Exercise of employee stock options	387,700	3,877	(3,877)		
Proceeds from Subscriptions and Loans Receivables			98		98
Reclassification of Series A Preferred and Series B Preferred			(139,250)		
Series A, B and C preferred dividends			(1,367)		(1,367)
Interest on subscriptions and loans receivables			(243)		(243)
Issuance of warrants			8		8
Net loss				(198,021)	(198,021)
BALANCE, December 31, 2001	4,219,359	$3,915	$	$(5,138)	$(241,156) $(242,379)

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

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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.

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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.

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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.

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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).

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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

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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.

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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.

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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
Total	$34,643	$23,271

6. Fixed Assets

Fixed assets consisted of the following

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

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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
Total	$98,072	$25,315

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.

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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

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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
Total	$213,084

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

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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

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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.

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NOTES TO FINANCIAL STATEMENTS (Continued)

The activity under the Plan is as follows:

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

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	
	2001	2000
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.

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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.

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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.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the amounts of expenses attributed to the issuance of the securities offered pursuant to this Registration Statement which shall be borne by Alkermes, Inc. All of the expenses listed below, except the SEC registration fee and the Nasdaq Listing Fee, represent estimates only.

SEC registration fee	$ 10,113
Nasdaq listing fee	22,500
Printing and engraving expenses	20,000
Accounting fees and expenses	45,000
Blue Sky fees and expense (including legal fees)	1,000
Legal fees and expenses	50,000
Miscellaneous fees and expenses	6,387
Total	$155,000

Item 14. Indemnification of Directors and Officers.

Sections 1741 through 1750 of the Pennsylvania Business Corporation Law of 1988, as amended, permits, and in some cases requires, the indemnification of officers, directors and employees of the Registrant. Section 5.1 of the Registrant s bylaws provides that the Registrant shall indemnify any director or officer of the Registrant against expenses (including legal fees), damages, punitive damages, judgments, penalties, fines and amounts paid in settlement, actually and reasonably incurred by him or her, to the fullest extent now or hereafter permitted by law in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, brought or threatened to be brought against him or her, including actions or suits by or in the right of the Registrant, by reason of the fact that he or she is or was a director or officer of the Registrant or any of its subsidiaries or acted as a director or officer or in any other capacity on behalf of the Registrant or any of its subsidiaries or is or was serving at the request of the Registrant as a director, officer, partner, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise.

Section 5.2 of the Registrant s bylaws provides that the Registrant will pay the expenses (including attorneys fees and disbursements) actually and reasonably incurred in defending a proceeding on behalf of any officer or director entitled to indemnification in advance of the final disposition of such proceeding upon receipt of an undertaking by or on behalf of such officer or director to repay such amount if it shall ultimately be determined that such officer or director is not entitled to be indemnified by the Registrant as authorized. The financial ability of such officer or director to make such repayment shall not be prerequisite to the making of an advance.

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Item 15. Recent Sales of Unregistered Securities.

3.75% Convertible Subordinated Notes due 2007

In February 2000, we issued and sold $200 million aggregate principal amount of our 3.75% Convertible Subordinated Notes due 2007 (the 3.75% Notes) to Robertson Stephens, Adams, Harkness & Hill, Inc., ING Barings, J.P. Morgan & Co., PaineWebber Incorporated, SG Cowen and U.S. Bancorp Piper Jaffray (the 3.75% Notes Initial Purchasers). The underwriting commissions and discounts totaled $6.0 million. The 3.75% Notes were issued and sold in transactions exempt from the registration requirements of the Securities Act, to persons reasonably believed by the 3.75% Notes Initial Purchasers to be qualified institutional buyers (QIBs) as defined in Rule 144A under the Securities Act or institutional accredited investors or sophisticated investors.

Private Placement to Collaborative Partner

In August 2000, in connection with the execution of the license agreement with GlaxoSmithKline (Glaxo), we issued and sold 160,030 shares of our common stock to an affiliate of Glaxo for an aggregate purchase price of $5.0 million, in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act. We reasonably believed Glaxo was an accredited investor, based on representations made to us by Glaxo and by our review of Glaxo s filings with the SEC under the Exchange Act.

Conversion of Convertible Promissory Note

In October 2001, we converted approximately $7.5 million of principal and interest that was due under a promissory note payable to Schering Corporation (Schering), into 328,645 shares of our common stock in a transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act. We reasonably believed Schering was an accredited investor based on representations made to us by Schering and by our review of Schering s filings with the SEC under the Exchange Act.

Exchanges of 6.52% Senior Notes for Shares of Common Stock

In December 2002, we issued our 6.52% Senior Notes pursuant to an effective registration statement on Form S-1/S-4 that registered the 6.52% Senior Notes and shares of our common stock to be issued upon conversion thereof. In June 2003, pursuant to the indenture, dated December 31, 2002, between Alkermes and U.S. Bank National Association, as trustee, we provided notice of the automatic conversion of the outstanding 6.52% Senior Notes into shares of our common stock on July 18, 2003. In July 2003, we exchanged 6.52% Senior Notes for shares of our common stock in independently negotiated transactions with the holder of the 6.52% Senior Notes being exchanged. The 6.52% Senior Notes obtained in these exchange transactions were retired prior to the automatic conversion date. An aggregate of 20,934,514 newly issued shares of our common stock was issued in exchange for an aggregate $150,707,000 principal amount of the 6.52% Senior Notes. We did not pay or give directly or indirectly any commission or other remuneration for soliciting these transactions and no solicitation by us or on our behalf was made in connection with these transactions. The shares issued were exempt pursuant to Section 3(a)(9) of the Securities Act of 1933, as amended.

Private Placement to Eli Lilly and Company

In December 2002, and in connection with an expansion of a collaboration for the development of certain products with Lilly, we issued and sold 3,000 shares of our newly issued convertible preferred stock to Lilly for an aggregate purchase price of $30 million, in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) of the Securities Act and further

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pursuant to Rule 506 under Regulation D promulgated under such act. We reasonably believed Lilly was and is an accredited investor, based on representations made to us by Lilly and by our review of Lilly s filings with the SEC under the Securities Exchange Act of 1934, as amended. The Convertible Preferred Stock is convertible into shares of our common stock at any time at our option or upon certain events, including the filing of an NDA with the FDA with regard to any pulmonary insulin product developed pursuant to the collaboration, in each case at a conversion price based on the market price of the common stock at the time of conversion.

2½% Convertible Subordinated Notes due 2023

In August and September 2003, we issued and sold $100 million and $25 million, respectively, aggregate principal amount of our 2½% Convertible Subordinated Notes due 2023 (the 2½% Notes) to U.S. Bancorp Piper Jaffray Inc. (the 2½% Notes Initial Purchaser). Commissions and discounts totaled $3.75 million. The 2½% Notes were issued and sold in transactions exempt from the registration requirements of the Securities Act to the 2½% Notes Initial Purchaser who resold the 2½% Notes to persons it reasonably believed to be qualified institutional buyers as defined in Rule 144A of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules.

(a) Financial Statement Schedules:

F 38 F 67 Financial Statements of Reliant Pharmaceuticals, LLC (financial statements required by Regulation S-X).

F 68 F 88 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 or the notes thereto

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.)
3.1(a)	Amendment to Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on December 16, 2002 (2002 Preferred Stock Terms). (Incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on December 16, 2002.)
3.1(b)	Amendment to Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on May 14, 2003 (included as Exhibit A to Exhibit 4.6.)
3.2	By-Laws of Alkermes, Inc., as amended, 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	Specimen of 2002 Preferred Stock Certificate of Alkermes, Inc. (Incorporated by reference to Exhibit 4.1 to the Registrant s Report on Form 8-K filed on December 13, 2002.)
4.4	Indenture, dated as of February 18, 2000, between Alkermes, Inc. and State Street Bank and Trust Company, as Trustee. (3.75% Subordinated Notes) (Incorporated by reference to Exhibit 4.6 to the Registrant s Registration Statement on Form S-3, as amended (File No. 333-31354).)

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4.5	Form of 3.75% Subordinated Note (included in Exhibit 4.4.)
4.6	Rights Agreement, dated as of February 7, 2003, as amended, between Alkermes, Inc. and EquiServe Trust Co., N.A., as Rights Agent. (Incorporated by reference to Exhibit 4.1 to the Registrant s Report on Form 8-A filed on May 2, 2003.)
4.7»	Indenture, dated August 22, 2003, between Alkermes, Inc. and U.S. Bank National Association, as Trustee (2½% Subordinated Notes.)
4.8»	Form of 2½% Subordinated Note (included in Exhibit 4.7.)
5.1»	Opinion of Ballard Spahr Andrews & Ingersoll, LLP.
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, as amended. (Incorporated by reference to Exhibit 10.1 to the Registrant s Report on Form 10-Q for the quarter ended September 30, 2002.)
10.8	2002 Restricted Stock Award Plan. (Incorporated by reference to Exhibit 10.2 to the Registrant s Report on Form 10-Q for the quarter ended September 30, 2002.)+
10.9	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.)
10.10	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.)

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10.11	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.)
10.11(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.)
10.12	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.)
10.12(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).)
10.12(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).)
10.13	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.)*
10.14	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.)**
10.15	License Agreement, dated as of February 13, 1996, between Medisorb Technologies International L.P. and Janssen Pharmaceutica International (U.S.) (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.)***
10.16	License Agreement, dated as of February 21, 1996, between Medisorb Technologies International L.P. and Janssen Pharmaceutica International (worldwide except U.S.) (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.)***
10.17	Manufacturing and Supply Agreement, dated August 6, 1997, by and among Alkermes Controlled Therapeutics Inc. II, Janssen Pharmaceutica International and Janssen Pharmaceutica, Inc. (Incorporated by reference to Exhibit 10.19 to the Registrant s Report on Form 10-K for the fiscal year ended March 31, 2002.)§
10.17(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. (Incorporated by reference to Exhibit 10.19(a) to the Registrant s Report on Form 10-K for the fiscal year ended March 31, 2002.)§

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10.17(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. (Incorporated by reference to Exhibit 10.19(b) to the Registrant s Report on Form 10-K for the fiscal year ended March 31, 2002.)§
10.18	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.)*
10.19	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.)
10.19(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.)
10.19(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.)
10.20	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.)
10.21	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.)
10.22	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.)
10.23	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.)
10.24	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.)
10.25	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.)

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10.26	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.)
10.27	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).)+
10.28	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.)+
10.29	Change in Control Employment Agreement, of various dates, between Alkermes, Inc. and each of James M. Frates, Michael J. Landine, David A. Broecker and Kathryn Biberstein. (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.)+
10.30	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.)+
10.31	Employment Agreement, dated January 8, 2003, by and between Kathryn L. Biberstein and the Registrant.+ (Incorporated by reference to Exhibit 10.31)
10.32	Stock Purchase Agreement, dated December 13, 2002, between Alkermes and Eli Lilly and Company. (Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on December 16, 2002.)
10.33»	Registration Rights Agreement, dated August 19, 2003, between Alkermes, Inc. and U.S. Bancorp. Piper Jaffray Inc.
12.1»	Computation of Ratio of Earnings to Fixed Changes.
21.1»	Subsidiaries of the Registrant.
23.1#	Consent of Deloitte & Touche, LLP.
23.2#	Consent of Ernst & Young LLP.
23.3»	Consent of Ballard Spahr Andrews & Ingersoll, LLP (included in Exhibit 5.1).
24.1»	Power of Attorney (included in signature page).
25.1»	Form T-1 Statement of Eligibility and Qualification of Trustee.

» Previously filed

Filed herewith

* 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.

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** 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 granted for certain portions thereof pursuant to a Commission Order granted September 16, 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.

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the Securities Act) may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which any offers or sales are being made, a post-effective amendment to the registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

PROVIDED, HOWEVER, that paragraphs (1)(i) and (1)(ii) do not apply if the registration statement is on Form S-3 or Form S-8 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

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(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offering therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Post-Effective Amendment No. 1 to its Registration Statement on Form S-1 (Registration No. 333-108483) to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Cambridge, Commonwealth of Massachusetts, on October 20, 2003.

ALKERMES, INC.

By: /s/ Richard F. Pops

Richard F. Pops, Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment to the Registrant s Registration Statement on Form S-1 (Registration No. 333-108483) has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
*	Director and Chairman of the Board	October 20, 2003
Michael A. Wall		
/s/ Richard F. Pops	Director and Chief Executive Officer (Principal Executive Officer)	October 20, 2003
Richard F. Pops		
/s/ James M. Frates	Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	October 20, 2003
James M. Frates		
*	Director	October 20, 2003
Floyd E. Bloom		
*	Director	October 20, 2003
Robert A. Breyer		
*	Director	October 20, 2003
Gerri Henwood		
*	Director	October 20, 2003
Paul J. Mitchell		
*	Director	October 20, 2003
Alexander Rich		
*	Director	October 20, 2003

Paul Schimmel

*By: /s/ James M. Frates October 20, 2003

James M. Frates,
Attorney-in-Fact

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EXHIBIT INDEX

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.)
3.1(a)	Amendment to Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on December 16, 2002 (2002 Preferred Stock Terms). (Incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed on December 16, 2002.)
3.1(b)	Amendment to Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on May 14, 2003 (included as Exhibit A to Exhibit 4.6.)
3.2	By-Laws of Alkermes, Inc., as amended, 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	Specimen of 2002 Preferred Stock Certificate of Alkermes, Inc. (Incorporated by reference to Exhibit 4.1 to the Registrant s Report on Form 8-K filed on December 13, 2002.)
4.4	Indenture, dated as of February 18, 2000, between Alkermes, Inc. and State Street Bank and Trust Company, as Trustee. (3.75% Subordinated Notes) (Incorporated by reference to Exhibit 4.6 to the Registrant s Registration Statement on Form S-3, as amended (File No. 333-31354).)
4.5	Form of 3.75% Subordinated Note (included in Exhibit 4.4.)
4.6	Rights Agreement, dated as of February 7, 2003, as amended, between Alkermes, Inc. and EquiServe Trust Co., N.A., as Rights Agent. (Incorporated by reference to Exhibit 4.1 to the Registrant s Report on Form 8-A filed on May 2, 2003.)
4.7»	Indenture, dated August 22, 2003, between Alkermes, Inc. and U.S. Bank National Association, as Trustee (2½% Subordinated Notes.)
4.8»	Form of 2½% Subordinated Note (included in Exhibit 4.7.)
5.1»	Opinion of Ballard Spahr Andrews & Ingersoll, LLP.

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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, as amended. (Incorporated by reference to Exhibit 10.1 to the Registrant s Report on Form 10-Q for the quarter ended September 30, 2002.)
10.8	2002 Restricted Stock Award Plan. (Incorporated by reference to Exhibit 10.2 to the Registrant s Report on Form 10-Q for the quarter ended September 30, 2002.)+
10.9	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.)
10.10	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.)
10.11	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.)
10.11(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.)
10.12	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.)
10.12(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

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	10.22(a) to the Registrant s Registration Statement on Form S-4, as amended (File No. 33-54932).)
10.12(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).)
10.13	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.)*
10.14	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.)**
10.15	License Agreement, dated as of February 13, 1996, between Medisorb Technologies International L.P. and Janssen Pharmaceutica International (U.S.) (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.)***
10.16	License Agreement, dated as of February 21, 1996, between Medisorb Technologies International L.P. and Janssen Pharmaceutica International (worldwide except U.S.) (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.)***
10.17	Manufacturing and Supply Agreement, dated August 6, 1997, by and among Alkermes Controlled Therapeutics Inc. II, Janssen Pharmaceutica International and Janssen Pharmaceutica, Inc. (Incorporated by reference to Exhibit 10.19 to the Registrant s Report on Form 10-K for the fiscal year ended March 31, 2002.)§
10.17(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. (Incorporated by reference to Exhibit 10.19(a) to the Registrant s Report on Form 10-K for the fiscal year ended March 31, 2002.)§
10.17(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. (Incorporated by reference to Exhibit 10.19(b) to the Registrant s Report on Form 10-K for the fiscal year ended March 31, 2002.)§
10.18	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.)*
10.19	Letter Agreement, dated September 27, 1996, by and among Fleet National Bank, Alkermes Controlled Therapeutics, Inc., Alkermes Controlled Therapeutic Inc. II and

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	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.)
10.19(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.)
10.19(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.)
10.20	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.)
10.21	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.)
10.22	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.)
10.23	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.)
10.24	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.)
10.25	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.)
10.26	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.)

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10.27	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).)+
10.28	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.)+
10.29	Change in Control Employment Agreement, of various dates, between Alkermes, Inc. and each of James M. Frates, Michael J. Landine, David A. Broecker and Kathryn Biberstein. (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.)+
10.30	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.)+
10.31	Employment Agreement, dated January 8, 2003, by and between Kathryn L. Biberstein and the Registrant.+ (Incorporated by reference to Exhibit 10.31)
10.32	Stock Purchase Agreement, dated December 13, 2002, between Alkermes and Eli Lilly and Company. (Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on December 16, 2002.)
10.33»	Registration Rights Agreement, dated August 19, 2003, between Alkermes, Inc. and U.S. Bancorp. Piper Jaffray Inc.
12.1»	Computation of Ratio of Earnings to Fixed Changes.
21.1»	Subsidiaries of the Registrant.
23.1#	Consent of Deloitte & Touche, LLP.
23.2#	Consent of Ernst & Young LLP.
23.3»	Consent of Ballard Spahr Andrews & Ingersoll, LLP (included in Exhibit 5.1).
24.1»	Power of Attorney (included in signature page).
25.1»	Form T-1 Statement of Eligibility and Qualification of Trustee.

» Previously filed

Filed herewith

*	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.

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§ Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted September 16, 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.