

ALKERMES INC
Form 10-Q
November 09, 2006

Table of Contents

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

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to**

Commission file number 1-14131

ALKERMES, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

*(State or other jurisdiction of
incorporation or organization)*

23-2472830

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

88 Sidney Street, Cambridge, MA

(Address of principal executive offices)

02139-4234

(Zip Code)

Registrant's telephone number including area code:

(617) 494-0171

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of each of the issuer's classes of common stock was:

Class	As of November 2, 2006
Common Stock, \$.01 par value	100,472,626
Non-Voting Common Stock, \$.01 par value	382,632

ALKERMES, INC. AND SUBSIDIARIES

INDEX

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Condensed Consolidated Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets September 30, 2006 and March 31, 2006</u>	3
<u>Condensed Consolidated Statements of Operations For the Three and Six Months Ended September 30, 2006 and 2005</u>	4
<u>Condensed Consolidated Statements of Cash Flows For the Six Months Ended September 30, 2006 and 2005</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
<u>Item 4.</u>	
<u>Controls and Procedures</u>	30
<u>PART II OTHER INFORMATION</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	32
<u>Item 1A.</u>	
<u>Risk Factors</u>	32
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 4.</u>	
<u>Submission of Matters to a Vote of Security Holders</u>	34
<u>Item 6.</u>	
<u>Exhibits</u>	35
<u>Signatures</u>	36
<u>Exhibit Index:</u>	37
<u>EX-10.2 Employment Agreement with Gordon G. Pugh</u>	
<u>EX-10.3 Employment Agreement with Elliot W. Ehrich, M.D.</u>	
<u>EX-10.4 2006 Stock Option Plan for Non-Employee Directors</u>	
<u>EX-10.5 2002 Restricted Stock Award Plan</u>	
<u>EX-10.6 1999 Stock Option Plan</u>	
<u>EX-10.7 1998 Equity Incentive Plan</u>	
<u>EX-31.1 Section 302 Certification of CEO</u>	
<u>EX-31.2 Section 302 Certification of CFO</u>	
<u>EX-32.1 Section 906 Certification of CEO and CFO</u>	

Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements:****ALKERMES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)**

	September 30, 2006	March 31, 2006
	(In thousands, except share and per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 57,055	\$ 33,578
Investments short-term	263,442	264,389
Receivables	64,284	39,802
Inventory, net	14,514	7,341
Prepaid expenses and other current assets	8,676	2,782
Total current assets	407,971	347,892
PROPERTY, PLANT AND EQUIPMENT:		
Land	301	301
Building and improvements	23,930	20,966
Furniture, fixtures and equipment	66,702	61,086
Equipment under capital lease	464	464
Leasehold improvements	46,370	45,842
Construction in progress	29,544	23,555
	167,311	152,214
Less: accumulated depreciation and amortization	(45,452)	(39,297)
Property, plant and equipment net	121,859	112,917
RESTRICTED INVESTMENTS long-term	5,144	5,145
OTHER ASSETS	9,133	11,209
TOTAL ASSETS	\$ 544,107	\$ 477,163
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 30,672	\$ 36,141

Edgar Filing: ALKERMES INC - Form 10-Q

Accrued interest	2,977	3,239
Accrued restructuring costs	858	852
Unearned milestone revenue – current portion	59,861	83,338
Deferred revenue – current portion	200	200
Convertible subordinated notes – current portion	676	676
Long-term debt – current portion	1,261	1,214
Total current liabilities	96,505	125,660
NON-RECOURSE RISPERDAL CONSTA SECURED 7% NOTES	155,218	153,653
CONVERTIBLE SUBORDINATED NOTES – LONG-TERM PORTION		124,346
LONG-TERM DEBT	884	1,519
UNEARNED MILESTONE REVENUE – LONG-TERM PORTION	102,751	16,198
DEFERRED REVENUE – LONG-TERM PORTION	650	750
OTHER LONG-TERM LIABILITIES	6,606	6,821
TOTAL LIABILITIES	362,614	428,947
REDEEMABLE CONVERTIBLE PREFERRED STOCK, par value, \$0.01 per share; authorized and issued, 1,500 shares at September 30, 2006 and March 31, 2006 (at liquidation preference)	15,000	15,000
COMMITMENTS AND CONTINGENCIES:		
SHAREHOLDERS' EQUITY:		
Capital stock, par value, \$0.01 per share; authorized, 4,550,000 shares (includes 2,997,000 shares of preferred stock); issued, none		
Common stock, par value, \$0.01 per share; authorized, 160,000,000 shares; 101,229,825 and 91,744,680 shares issued, 100,406,148 and 91,744,680 shares outstanding at September 30, 2006 and March 31, 2006, respectively	1,012	917
Nonvoting common stock, par value, \$0.01 per share; authorized 450,000 shares; issued and outstanding, 382,632 shares at September 30, 2006 and March 31, 2006	4	4
Treasury stock, at cost (823,677 and 0 shares at September 30, 2006 and March 31, 2006, respectively)	(12,492)	
Additional paid-in capital	806,432	664,596
Deferred compensation		(374)
Accumulated other comprehensive income	1,517	1,064
Accumulated deficit	(629,980)	(632,991)
TOTAL SHAREHOLDERS' EQUITY	166,493	33,216
TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY	\$ 544,107	\$ 477,163

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

Table of Contents**ALKERMES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	(In thousands, except per share amounts)			
REVENUES:				
Manufacturing revenues	\$ 26,122	\$ 13,526	\$ 48,315	\$ 27,509
Royalty revenues	5,813	4,035	10,952	7,639
Research and development revenue under collaborative arrangements	17,624	16,733	32,088	23,984
Net collaborative profit	11,611	12,394	21,353	12,394
Total revenues	61,170	46,688	112,708	71,526
EXPENSES:				
Cost of goods manufactured	11,822	4,360	21,160	8,877
Research and development	29,817	19,370	55,680	40,992
Selling, general and administrative	15,677	9,109	32,207	18,061
Total expenses	57,316	32,839	109,047	67,930
OPERATING INCOME	3,854	13,849	3,661	3,596
OTHER INCOME (EXPENSE):				
Interest income	4,734	3,019	9,069	4,650
Interest expense	(4,034)	(5,212)	(9,507)	(10,381)
Derivative loss related to convertible subordinated notes		(503)		(769)
Other (expense) income, net	(664)	599	123	919
Total other income (expense)	36	(2,097)	(315)	(5,581)
INCOME (LOSS) BEFORE INCOME TAXES	3,890	11,752	3,346	(1,985)
INCOME TAXES	164		335	
NET INCOME (LOSS)	\$ 3,726	\$ 11,752	\$ 3,011	\$ (1,985)
EARNINGS (LOSS) PER COMMON SHARE:				
BASIC	\$ 0.04	\$ 0.13	\$ 0.03	\$ (0.02)
DILUTED	\$ 0.04	\$ 0.12	\$ 0.03	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				

Edgar Filing: ALKERMES INC - Form 10-Q

BASIC	101,331	90,558	97,581	90,475
DILUTED	105,543	96,599	102,536	90,475

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

Table of Contents**ALKERMES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	Six Months Ended	
	September 30,	
	2006	2005
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 3,011	\$ (1,985)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Share-based compensation	14,718	115
Depreciation and amortization	5,767	5,183
Other non-cash charges	2,228	2,585
Derivative loss related to convertible subordinated notes		769
Gain on investments	(153)	(868)
Gain on sale of equipment	(9)	
Changes in assets and liabilities:		
Receivables	(24,482)	(5,036)
Inventory, prepaid expenses and other current assets	(12,483)	(5,095)
Accounts payable, accrued expenses and accrued interest	(5,683)	1,623
Accrued restructuring costs	(280)	(671)
Unearned milestone revenue	63,076	146,412
Deferred revenue	(100)	
Other long-term liabilities	71	214
Net cash provided by operating activities	45,681	143,246
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(14,715)	(10,910)
Proceeds from the sale of equipment	15	92
Purchases of short and long-term investments	(189,668)	(514,080)
Sales and maturities of short and long-term investments	190,922	376,703
Decrease in other assets	18	53
Net cash used in investing activities	(13,428)	(148,142)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	4,304	1,796
Payment of debt	(588)	(552)
Purchase of treasury stock	(12,492)	
Net cash (used in) provided by financing activities	(8,776)	1,244

Edgar Filing: ALKERMES INC - Form 10-Q

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,477	(3,652)
CASH AND CASH EQUIVALENTS Beginning of period	33,578	47,485
CASH AND CASH EQUIVALENTS End of period	\$ 57,055	