

Alkermes, Inc.

A Strong, Well-Diversified Portfolio

Seven different drugs covering six different diseases are expected to reach the market by 2013

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ALKS (\$6.37) Rating: BUY

We are initiating coverage on Alkermes with a Buy rating, and a price target of \$9.05. With a diversified portfolio of drugs, both in the market and at different stages of development, covering a variety of diseases, we are confident of the company's upside potential.

Better than expected sales of Risperdal Consta for schizophrenia strengthen the potential for the drug to be expanded to treat bi-polar disorder. Consta sales were \$338M this quarter and show no signs of a weakening outlook. Moreover, we believe that approval for bi-polar treatment could provide further upside.

The commercial threat to Consta posed by JNJ's paliperidone palmitate has decreased considerably after the FDA announced that they want additional data. Under current FDA regulations, following a non-approvable letter, the review period is extended indefinitely until re-filing.

The risk from failure of the Exenatide LAR program presents minimal impact on Alkermes. With the FDA not convinced that versions of the drug used in clinical trials and produced at Alkermes' manufacturing facility were equal to versions made at Amylin's facility, approval of the drug has been pushed to 2011. Alkermes receives only 7-7.5% royalty revenues on sales from LAR.

We remain optimistic about the continuing development of ALKS 27 and 29, currently in Phase 2 trials.

Company Data: ALKS	November 21, 2008
52-Week Price Range	\$5.55 - \$17.05
52-Week Avg. Daily Volume	1,311,000 shares
Shares Outstanding	94.9 million
Market Capitalization	\$604.72 million
Total Debt	\$91.89 million
Cash and Cash Equivalents	\$68.53 million
Debt-to-Equity Ratio	15.20%

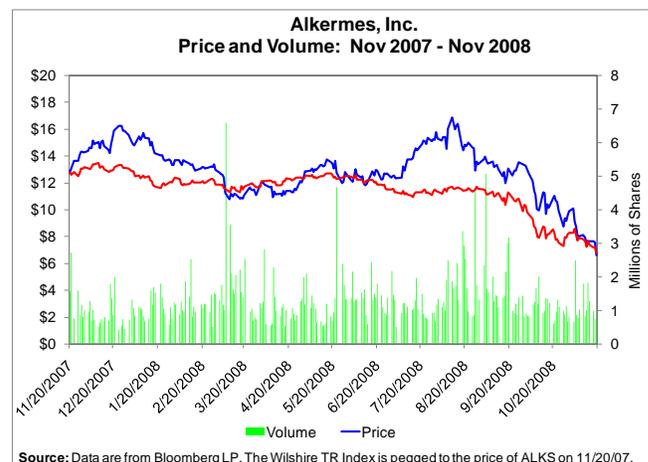
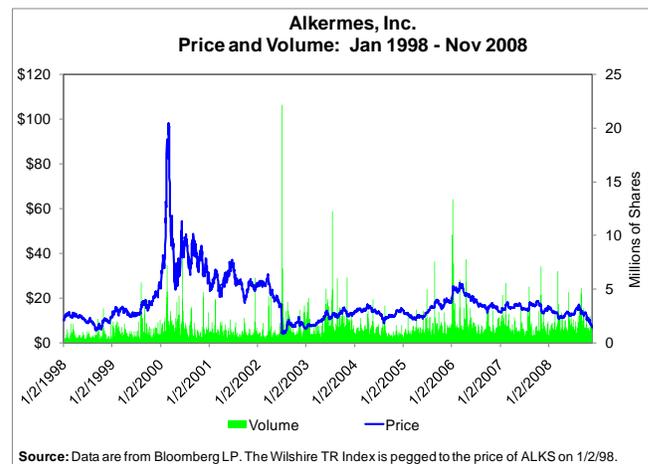


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Company Overview

Alkermes Corporation is a biopharmaceutical company that discovers, develops, manufactures and commercializes drugs for the treatment of diabetes, central nervous system disorders and addictions. The company develops new drugs using its proprietary AIR Pulmonary and Injectable Extended-Release technologies. The firm collaborates with industry titans Johnson & Johnson, Eli Lilly, and Genentech for the development of its pipeline drugs. Alkermes has two products in the market including its flagship drug, Risperdal Consta, which is the only long-acting injectable drug for schizophrenia in the market. The company's revenues for fiscal year 2007 stood at \$240.7 million.

Alkermes maintains an active discovery research program focused on a variety of therapies. The company has two products in Phase 2 trials (for chronic obstructive pulmonary disease and alcoholism), two products in Phase 3 trials (for diabetes and alcoholism) and one product awaiting a final FDA decision (for Bi-polar disorder).

Approved Products

Risperdal Consta (Schizophrenia):

Risperdal Consta, a treatment for schizophrenia, is the only long acting formulation of the generic drug risperidone. This formulation uses Alkermes' proprietary Medisorb technology to provide the long acting risperidone via an injection, given once every two weeks. Schizophrenia is a severe and disabling psychiatric disorder affecting about 2 million Americans. According to the National Institute of Mental Health, 1.1% of the adult US population suffers from schizophrenia. People with this condition have disabling delusions that make them fearful of social interactions. Schizophrenia has significant impact not only on the patient's life but also on their families and the society. There are several treatments available for schizophrenia, but according to the Treatment Advocacy Center, approximately 50% of people with severe mental illness receive no treatment for their illness in a given year. Studies have also shown that about 75% of schizophrenics have difficulty managing their oral medication regimens on a regular basis often leading to worsening conditions. Risperdal Consta's twice monthly injections can help with managing treatment schedules leading to reduced remissions and decreased hospitalizations.

In 1996, Alkermes partnered with JNJ's Janssen Pharmaceutica to develop Risperdal Consta. The drug was approved by the FDA in 2003 and currently holds approvals in 85 countries. Janssen markets and sells Risperdal Consta in over 60 countries with plans to target additional countries. The current contract with Janssen gives Alkermes a 7.5% profit margin, over and above costs, for drug manufacturing and an additional 2.5% of revenue as royalty payment. In the event that the manufacturing contract is terminated, Alkermes is entitled to a flat 5% royalty payment from Janssen.

At \$26/day average wholesale price, Risperdal Consta is about 150% more expensive than Oral Risperdal. This drug also commands a premium over other oral treatments such as Zyprexa and Seroquel. However, at this time Risperdal Consta is the only long acting, twice-monthly treatment available for schizophrenia. JNJ's paliperidone palmitate (PP), which is currently under development, has the potential to directly threaten Risperdal Consta. However, PP suffered a huge blow recently when the FDA asked for additional data and delayed the approval indefinitely. Alkermes estimates that Risperdal Consta currently holds around 5% to 6% of market share and we expect that number to increase up to 8.5% by 2013.

Vivitrol (Alcoholism):

Alkermes developed Vivitrol, an extended-release Medisorb formulation of naltrexone, for the treatment of alcohol dependence in patients who are able to abstain from drinking in an outpatient setting and are not actively drinking prior to treatment initiation. Alcohol dependence is a serious and chronic brain disease characterized by cravings for alcohol, loss of control over drinking, withdrawal symptoms and an increased tolerance for alcohol. In 2006, the U.S. National Survey on Drug Use and Health estimated that 6% of Americans abuse or are dependent on alcohol but that only 12% of those seek treatment (and only 25% of those use a drug treatment). Adherence to medication is particularly challenging with this patient population. In clinical trials, when used in combination with psychosocial support, Vivitrol was shown to reduce the number of drinking days and heavy drinking days and to prolong abstinence in patients who abstained from alcohol the week prior to starting treatment. Each injection of the drug provides medication for one month and alleviates the need for patients to take daily medication.

Vivitrol was approved by the FDA in April 2006 and launched in June 2006. Cephalon is the company's partner in development, manufacturing and commercialization of Vivitrol in the U.S. All net profits and losses earned on the drug are divided in equal shares between the two partners. In March 2007, Alkermes submitted a Marketing Authorization Application (MAA) for Vivitrol to regulatory authorities in the U.K. and Germany. In December 2007, the company entered into a license agreement with Cilag to commercialize the drug in Russia. Vivitrol is expected to be available in these markets by fiscal year 2010. According to the company, manufacturing profit and license fees for Europe and Russia are estimated at 5% and 10% of sales respectively, over the expected life of Vivitrol.

Vivitrol competes with Campral by Forest Laboratories and Antabuse by Odyssey Pharmaceuticals as well as currently marketed drugs formulated from naltrexone, such as Revia by Duramed Pharmaceuticals, Narolex by Bristol-Myers and Depade by Mallinckrodt. Vivitrol also competes with alcohol rehab and treatment facilities and alcoholism support groups.

Vivitrol was launched with a monthly price of \$695, nearly seven times the price of current prescription pills for treating alcoholism. The company justified this price premium based on the product's favorable clinical trials and a comparative advantage because it is the only drug to offer a once-a-month injection. However, sales of Vivitrol since its launch have been very weak. We

estimate that only around 840 and 2,100 patients took the drug in the US in FY2007 and FY2008 respectively.

Pipeline Analysis

Risperdal Consta (Bipolar Disease):

In April 2008, JNJ submitted a Supplemental New Drug Application (sNDA) with the FDA to treat patients with frequently relapsing bipolar disorder with Risperdal Consta. Twenty seven million people worldwide suffer from bipolar disorder. Based on statistics provided by the National Institutes of Mental Health and Risperdal Consta (for schizophrenia) sales numbers, we estimate the bipolar market for Risperdal Consta to start at 3% and gradually grow to 6% by 2013. With Risperdal Consta already being marketed in about 60 countries, we believe that this drug can also gain a 3% share in the European bipolar market by 2011. We assume profits will be shared similarly to Risperdal Consta for schizophrenia between Alkermes and JNJ.

Exenatide LAR (Diabetes):

Exenatide LAR is the once weekly formulation of Amylin's Byetta, a type 2 anti-diabetic drug. We believe the product has the potential to become a best-in-class drug and could dominate the type 2 diabetes market if approved by 2011. LAR significantly reduces the dosing frequency in relation to Byetta and any other competitor in the market, and therefore increases the potential for the product line. Amylin is currently developing LAR with the support of Alkermes and Eli Lilly and expected to file an NDA with the FDA in 2010.

Diabetes is currently the seventh leading cause of death in the United States. About 8% of the US population – 24 million people – has diabetes. Lifetime risk of developing diabetes for US residents is estimated at 35%. In adults, type 2 diabetes accounts for about 90% to 95% of all diagnosed cases of diabetes. The Center for Disease Control and Prevention (CDC) estimates that diabetes costs the US about \$174 billion annually, with \$116 billion attributed to direct medical costs.

It is important to note that Exenatide LAR and Byetta are very closely related. In recent months, the increasing concerns over pancreatitis in Byetta patients have raised issues around possible delays in the overall timeline of LAR's development as the FDA might require additional studies. In addition, in early November 2008, Amylin announced that FDA was not convinced that versions of the drug used in clinical trials and produced at Alkermes' manufacturing facility were equal to versions made at Amylin's larger Ohio facility, most likely pushing the full approval of the drug to late 2011, which we adjusted for in our model. Since Alkermes only receives between 7 to 7.5%¹ of LAR's sales as royalty revenues we believe that even if the drug is not approved, it will not have a material impact on the overall company.

Vivitrol (Opioid dependency):

¹ JP Morgan uses 7.5% royalties in their August 26, 2008 Alkermes report. Cowen & Co. uses 7% in their August 27, 2008 Alkermes report.

Alkermes is currently testing Vivitrol for the treatment of opioid dependency. On July 2008, the company announced the initiation of phase 3 clinical trials designed to assess the efficacy and safety of the drug in approximately 200 patients. Opioid dependence is a serious disease affecting millions of people yet there are few approved medications available for these patients and no approved long-acting antagonist therapies. Naltrexone, the active ingredient in Vivitrol, has been shown to effectively block the effects of opiates but patients have difficulty complying with a daily medication regimen. Therefore, Vivitrol would be the first and only non-narcotic, non-addictive, long-acting medication for the treatment of opioid dependence.

In addition to the use of heroin, an illegal opioid, opioid abuse and addiction includes the non-medical use of approved opioid analgesics, including prescription pain relievers, and represents a growing public health problem. According to the 2006 U.S. National Survey on Drug Use and Health, an estimated 1.9 million people aged 12 or older were dependent on or abused pain relievers or heroin. In 2005, the European Monitoring Centre for Drugs and Drug Addiction estimated the prevalence of problem opioid use in Europe to be in the range of 1.3 to 1.7 million people. We believe that Vivitrol for opioid dependency, if approved, will be priced at a much lower point than Vivitrol for alcoholism to capture a larger percentage of the market share in the U.S., U.K., Germany and Russia.

ALKS 27 (COPD):

Alkermes is developing an inhaled trospium product, ALKS 27, for the treatment of chronic obstructive pulmonary disease (COPD) with their AIR pulmonary technology. COPD is a serious, chronic disease characterized by a gradual loss of lung function. In September 2007, the company announced positive preliminary results from a randomized, double-blind, placebo-controlled, phase 2 clinical study of ALKS 27 in patients with COPD. In the study, single doses of ALKS 27 demonstrated a rapid onset of action and produced a significant improvement in lung function over 24 hours compared to placebo. Based on these positive results, Alkermes is moving forward with additional development and to identify a partner for the future development and commercialization of ALKS 27.

COPD is a progressive disease that makes it hard to breathe. COPD is a major cause of disability, and it is the fourth leading cause of death in the United States. According to the National Heart Lung and Blood Institute more than 12 million people are currently diagnosed with COPD and an additional 12 million likely have the disease and do not know it. COPD has no cure yet, and doctors do not know how to reverse the damage to the airways and lungs. However, there are several treatments available to decrease symptoms and complications including β_2 -agonists, anticholinergics and inhaled steroids.

We believe that if approved, ALKS 27 will be able to penetrate COPD markets in the U.S. and EU and obtain a market share of at least 1% by 2013. We estimate that the drug will be priced similarly to competing inhaled steroids (Figure 1) and profits will be shared equally with a future partner.

Treatments for COPD	
Inhaled Steroids	Price
Beclomethasone Inhaler (Qvar)	\$ 73.57
Budesonide Inhaler (Pulmicort Turbuhaler)	152.56
Budesonide Suspension (Pulmicort Respules)	298.70
Flunisolide Inhaler (Aerobid)	77.55
Fluticasone Inhaler (Flovent HFA)	97.48
Triamcinolone Inhaler (Azmacort)	105.99
Average	\$ 134.31
Notes: Data are from WHO's global initiative for Chronic Lung Disease for 2006. Prices are based on a 30-day supply.	

Figure 1

ALKS 29 (Alcoholism):

ALKS 29 is an oral compound for the treatment of alcohol dependence. In July 2007, the company announced positive preliminary results from a phase 1/2 multi-center, randomized, double-blind, placebo-controlled, eight-week study that was designed to assess the efficacy and safety of ALKS 29 in approximately 150 alcohol dependent patients. In the study, the drug was well tolerated and led to both a statistically significant increase in the percent of days abstinent and a decrease in drinking compared to placebo when combined with psychosocial therapy. Alkermes plans to initiate additional clinical studies to support the development of the product during the 2008 calendar year.

We expect ALKS 29, if approved, will make it into the target markets of the U.S., U.K., Germany and Russia, similar to Vivitrol, by 2013 with a future partner. We estimate the price of ALKS 29 will be comparable to current alternatives (one seventh of Vivitrol's price) since it is a more traditional daily oral product and will be able to obtain 5% of the total market share for alcoholism drug treatments.

Investment Risks

Sales and marketing partnership:

Alkermes does not have sales and marketing expertise to launch large-scale distribution for any product. The company has not signed collaborative agreements with major pharmaceuticals with an established distribution channels and a seasoned sales force for many of its pipeline products. The inability to establish a sales and marketing partner could hamper the adoption of these drugs, and consequently lead to poor sales and growth.

Uncertainty of managed payor coverage and co-payments:

It is unclear whether managed payors would cover certain of the company's therapies and if covered, the level of co-payments associated with these new treatments.

Uncertainty in the future of the FDA:

Now that the election is over there has been much speculation on who will run the FDA and which direction the agency will pursue. Based on the promises made by President-Elect Obama, many believe greater government regulation will extend beyond the financial arena and into all government agencies including the FDA. Perhaps for this the reason the agency might take longer in approving any new drugs.

Approvability Analysis

Post NDA filing:

To determine the probability of a drug being approved after filing a New Drug Approval form (NDA) we analyzed data on all 4,158 NDAs submitted to the FDA in the past nine years, shown in Figure 2. The results indicated that on average 60% of drugs receive an approved letter, 6% receive an approvable letter and eventually get approved, 25% receive an approvable letter and are never approved, and 9% receive a not approvable letter.² These results have been relatively consistent since 2000 except for the years before and after the Vioxx scandal of 2003.

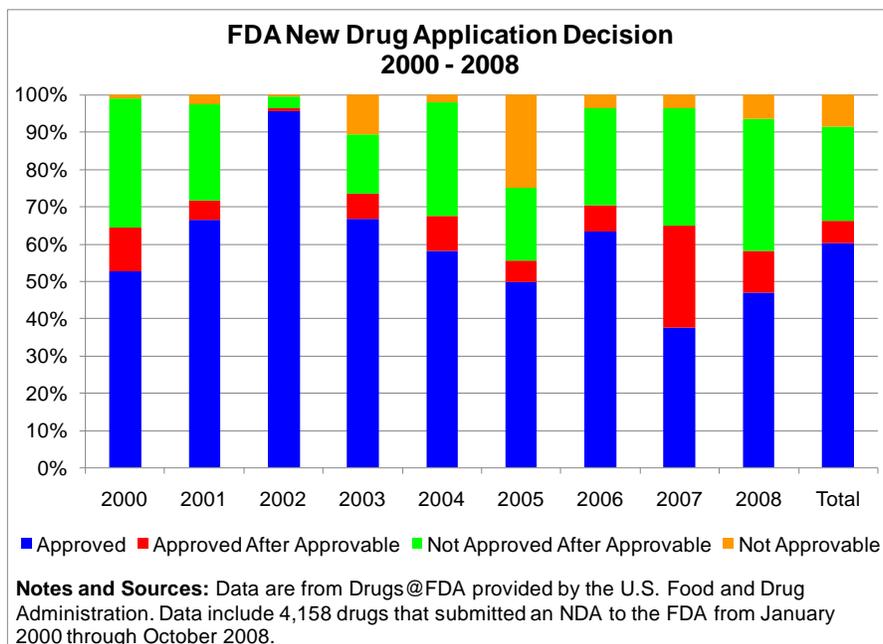


Figure 2

² The results exclude supplemental NDAs, which are used by companies to change a label, market a new dosage or strength of a drug, or change the way it manufactures a drug.

Phase 1 through 3:

To determine the probability of a drug being approved by the FDA during the different stages of development we looked at Dr. Joseph DiMasi's analysis published in 2001 by the Tufts Center for the Study of Drug Development titled *Risks in New Drug Development*. In the study, Dr. DiMasi concludes that program terminations for drugs during the three different clinical phases for the period between 1987 through 1992 were 39.8% for Phase 1, 52.2% for Phase 2 and 8% for Phase 3 as depicted in Figure 3.

The termination rates allow us to estimate a probability of approval for a new drug at each stage of development. For example, if 100 drugs enter Phase 1 trials, 39.8% will be terminated before they reach Phase 2 or only about 60 drugs will continue the approval process. Out of those 60 drugs in Phase 2 only 47.8% (100-52.2%) or 29 drugs will make it to the final stage of development. During Phase 3 only 8% of programs are terminated, so 26 out of the 29 drugs will file an NDA with the FDA. Finally, we make one more adjustment to consider the probability of the FDA giving an approval letter after an NDA has been filed of 66%. Finally we obtain a result in which only 17 out of the 100 drugs that began the process are ultimately approved.

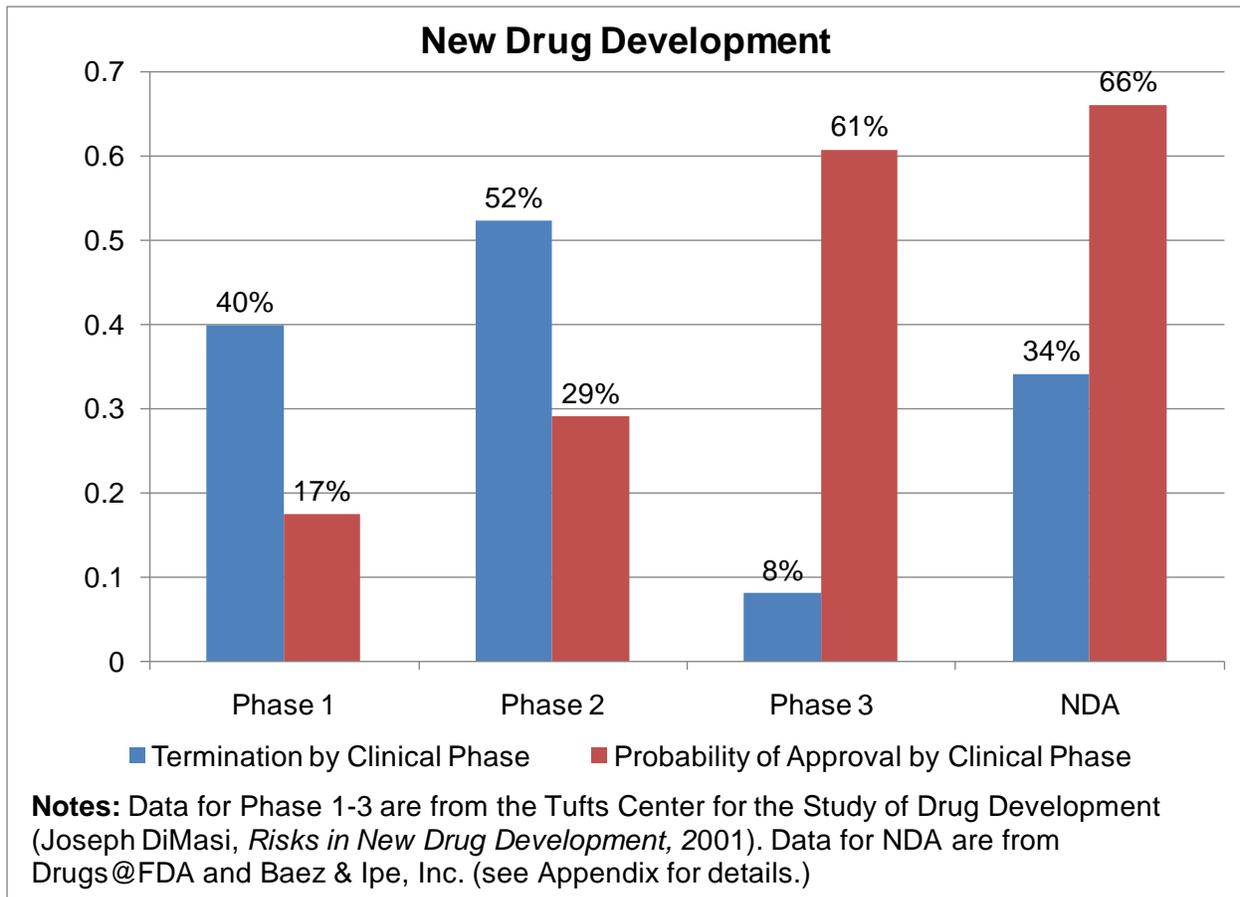


Figure 3

Valuation

We are initiating coverage on Alkermes with a Buy rating and a price target of \$9.05. The target price represents an upside of 42% from the closing price of \$6.37 on 11/21/08. Our price target is based on the company's approved products and pipeline adjusted for the probability of approval of the different products at different stages of development. Alkermes' value is well distributed among all of its offerings and by 2013 we expect the company to have revenues from seven different products. Additionally, by 2013 the largest product in terms of gross profits will represent only 32% of total gross profits.

We performed a sensitivity analysis around our assumptions. As shown in Figure 4, we varied the terminal growth from 4% to 6% and the discount rate from 12.33% to 18.49%. There was no scenario in which our valuation was below the current stock price. These results have strengthened our Buy rating.

ALKS Target Price Per Share Sensitivity Analysis				
		Terminal Growth Rate		
		4%	5%	6%
Discount Rate	12.33%	\$11.17	\$12.44	\$14.14
	15.41%	\$8.41	\$9.05	\$9.91
	18.49%	\$6.76	\$7.14	\$7.66

Figure 4

Individual Product Inputs:

Program	Stage of Development	Probability of Approval	2013 Expected		
			Price (per year)	Market Share	Gross Profits
Risperdal Consta (Schizophrenia)	Market	100%	\$5,622	8.50%	\$235.182M
Vivitrol (Alcoholism)	Market	100%	\$9,836	0.88%	\$28.520M
Risperdal Consta (Bi-Polar Disorder)	FDA	66%	\$5,622	6.00%	\$173.507
Exenatide LAR (Diabetes)	Phase 3	61%	\$1,769	6.00%	\$19.665M
Vivitrol (Opioid dependency)	Phase 3	61%	\$4,918	3.00%	\$76.860M
ALKS 27 (COPD)	Phase 2	29%	\$1,954	3.00%	\$184.102M
ALKS 29 (Alcoholism)	Phase 2	29%	\$1,405	5.00%	\$7.443M

Figure 5

Pipeline Products Value:

Please refer to the Appendix for a detail analysis of each of the products' gross profits.

R&D and SG&A:

Research and development and selling, general and administrative expenses will continue to increase as the company's products navigate through the approval process and enter the market. To model these changes we estimated the average of these expenses as a percentage of gross profits for the past three years and assumed the average ratio will remain constant into the future. R&D represented 62, 60 and 63% of gross profits and SG&A comprised 28, 34 and 30% of gross profits for the fiscal years 2006, 2007 and 2008 respectively. The relative stability of these ratios supports our modeling assumptions.

Tax Loss Carry-forwards:

Alkermes has recorded negative earnings in the past and as of March 31, 2008, had accumulated approximately \$249.0 million of federal net operating loss carry forwards, which expire on various dates through the year 2026. We modeled these loss carry forwards as available to reduce future federal taxable income according to applicable tax laws.

Debt:

As of September 30, 2008, Alkermes had \$92 million of secured 7% Notes issued to Janssen Pharmaceuticals in February 2005 and due in 2012. During the past year, the company repurchased \$75 million in original principal amount of its outstanding 7% Notes and announced no further intentions of repurchasing additional debt. We believe that the company will maintain the current constant dollar debt level of \$92 million in the foreseeable future to cover additional spending on the development and launch of new products.

Investments:

The Company invests its excess cash balances in short-term and long-term investments consisting of U.S. government obligations, investment grade corporate notes, commercial paper and student loan backed auction rate securities. As of September 30, 2008, the company had \$357 million in these investments and received \$17.8 million in interest income. Figure 6 displays the company's investments and interest income in the past four years. For our model we assumed that these investments would decrease by 25% each year to account for the company's obligations.

ALKS Investments (in thousands)				
	9/30/2008	3/31/2008	3/31/2007	3/31/2006
U.S. government and agency and municipal debt securities	250,231	216,892	90,276	20295
Corporate debt securities	89,107	122,194	185,950	249239
Asset backed debt securities	7,283	9,485		
Auction rate securities	9,272	10,000		
Strategic equity investments	1,414	1908		
Total Investments	\$ 357,307	\$ 360,479	\$ 276,226	\$ 269,534
Interest Income		\$ 17,834	\$ 17,707	\$ 11,569

Figure 6

Change in Net Working Capital:

Figure 7 depicts our calculations and assumptions in estimating changes in net working capital.

Alkermes Inc. - Working Capital Worksheet								
(In thousands)	Fiscal Year Ends March 31							
	2006	2007	2008	2009	2010	2011	2012	2013
Current Assets:								
Receivables	39,802	56,049	47,249	41,639	50,707	69,230	99,979	171,309
% of Gross Profit	28%	29%	24%	24%	24%	24%	24%	24%
Inventory, net	7,341	18,190	18,884	16,642	20,266	27,669	39,959	68,467
% of Gross Profit	5%	9%	9%	9%	9%	9%	9%	9%
Prepaid expenses and other current assets	2,782	7,054	5,720	5,041	6,139	8,381	12,104	20,739
% of Gross Profit	2%	4%	3%	3%	3%	3%	3%	3%
Total current assets	49,925	81,293	71,853	63,322	77,111	105,280	152,042	260,516
Current Liabilities:								
Accounts payable and accrued expenses	36,141	45,571	29,034	25,587	31,159	42,541	61,436	105,268
% of Gross Profit	25%	23%	15%	15%	15%	15%	15%	15%
Accrued interest	3,239	2,976	2,975	2,975	2,975	2,975	2,975	2,975
Total current liabilities	39,380	48,547	32,009	28,562	34,134	45,516	64,411	108,243
Net Working Capital	10,545	32,746	39,844	34,760	42,978	59,764	87,630	152,273
Cash Used/Generated by Working Capital		(22,201)	(7,098)	5,084	(8,218)	(16,787)	(27,866)	(64,642)

Figure 7

Free Cash Flows and Debt Tax Shield:

Using all of the data and assumptions described above we estimated Alkermes' free cash flows and debt tax shield. Since the company holds large amount of investments that pay interest we netted out the interest expense and interest income in calculating the tax shield. Figure 8 summarizes these results for the next five years.

Alkermes - Free Cash Flow and Debt Tax Subsidy Estimates								
Years Ending March 31 (in '\$000)								
			Forecast					
	2006	2007	2008	2009	2010	2011	2012	2013
Gross Profit:								
Risperdal Consta Schizophrenia				145,811	175,694	194,455	214,268	235,182
Risperdal Consta Bipolar				0	30,127	76,185	139,976	173,507
Vivitrol Alcoholism				4,978	8,859	14,607	20,804	28,520
Vivitrol Opioid				0	0	7,856	35,606	76,860
Exenatide LAR				0	0	0	12,632	19,665
ALKS-27				0	0	0	0	184,102
ALKS-29				0	0	0	0	7,443
AIR Insulin				25,500				
Total Gross Profit	143,112	194,756	200,040	176,288	214,679	293,102	423,287	725,280
EXPENSES:								
Research and development	89,068	117,315	125,268	108,767	132,454	180,839	261,161	447,485
<i>R&D % of Gross Profit</i>	<i>62%</i>	<i>60%</i>	<i>63%</i>	<i>62%</i>	<i>62%</i>	<i>62%</i>	<i>62%</i>	<i>62%</i>
Selling, general and administrative	40,383	66,399	59,508	54,097	65,877	89,943	129,891	222,562
<i>SG&A % of Gross Profit</i>	<i>28%</i>	<i>34%</i>	<i>30%</i>	<i>31%</i>	<i>31%</i>	<i>31%</i>	<i>31%</i>	<i>31%</i>
Impairment of long-lived assets	0	0	11,630					
Restructuring	0	0	6,423					
Total expenses	129,452	183,715	202,830	162,865	198,332	270,783	391,053	670,049
EBIT	13,660	11,041	(2,790)	13,424	16,347	22,320	32,233	55,231
OTHER INCOME (EXPENSE):								
Loss Carryforward	-	0	251,790	238,366	222,019	199,699	167,465	112,234
Federal Income Taxes		3,754	(949)	4,564	5,558	7,589	10,959	18,779
Interest Expense		(17,125)	(16,370)	(6,432)	(6,432)	(6,432)	(6,432)	(6,432)
Interest Income		17,707	17,834	17,834	13,376	10,032	7,524	5,643
Net Interest		582	1,464	11,402	6,943	3,599	1,091	(789)
Tax Expense		(1,098)	(5,851)	(1,763)	(2,147)	(2,931)	(4,233)	(7,253)
Profit/(Loss) after taxes		10,525	(7,177)	23,063	21,144	22,988	29,092	47,189
Add back depreciation and amortization		11,991	12,138	10,697	13,026	17,785	25,684	44,008
<i>D&A % of Gross Profit</i>		<i>6.16%</i>	<i>6.07%</i>	<i>6.07%</i>	<i>6.07%</i>	<i>6.07%</i>	<i>6.07%</i>	<i>6.07%</i>
Subtract Capital Expenditures		36,305	21,890	17,384	21,170	28,904	41,742	71,522
<i>CapEx % of Gross Profit</i>		<i>18.64%</i>	<i>10.94%</i>	<i>9.86%</i>	<i>9.86%</i>	<i>9.86%</i>	<i>9.86%</i>	<i>9.86%</i>
Subtract New Net Working Capital		(22,201)	(7,098)	5,084	(8,218)	(16,787)	(27,866)	(64,642)
Free Cash Flow		\$5,174	(\$7,391)	\$11,291	\$21,218	\$28,656	\$40,901	\$84,317
Total Debt		\$156,851	\$160,324	\$91,889	\$91,889	\$91,889	\$91,889	\$91,889
Debt Tax Shield				\$0	\$0	\$0	\$0	\$268

Figure 8

Beta Estimation:

To estimate Alkermes' equity beta we computed the regression between the stock's weekly returns and the dividend adjusted Wilshire 5000 Index's weekly returns for a 5-year rolling period between January 1998 and November 2008. The results are depicted in Figure 9 and allow us to conclude that there has been a considerable shift in the stock's beta in the past two years. We believe that this is because the 5-year betas for 2007 and 2008 do not include the effects of the technology bubble that catapulted Alkermes' stock to almost \$100 and ended in mid 2002 as shown in Figure 10. We also note that the adjusted R-square of the regression has been increasing considerably during the same period of beta decrease indicating the company's stock now has a closer relationship to the overall market. We used the average of the betas for the two periods 2003-2007 and 2004-2008 to obtain an equity beta of 1.41, which we used for our calculations.

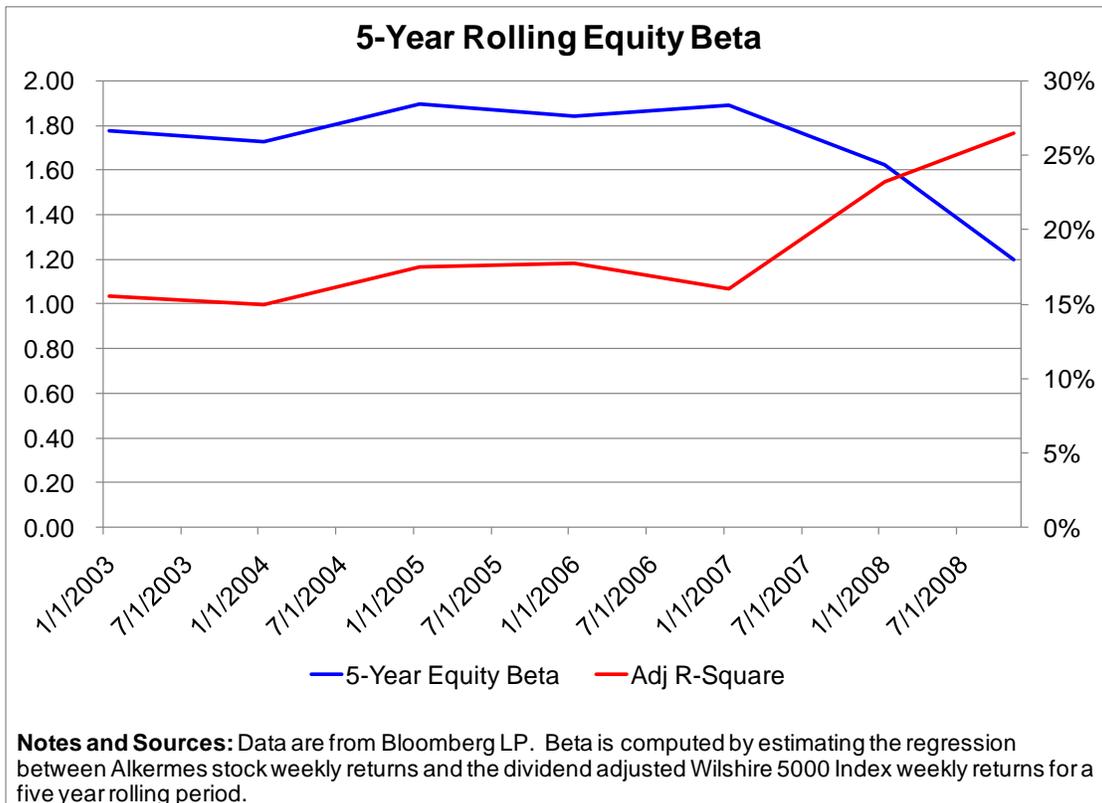


Figure 9

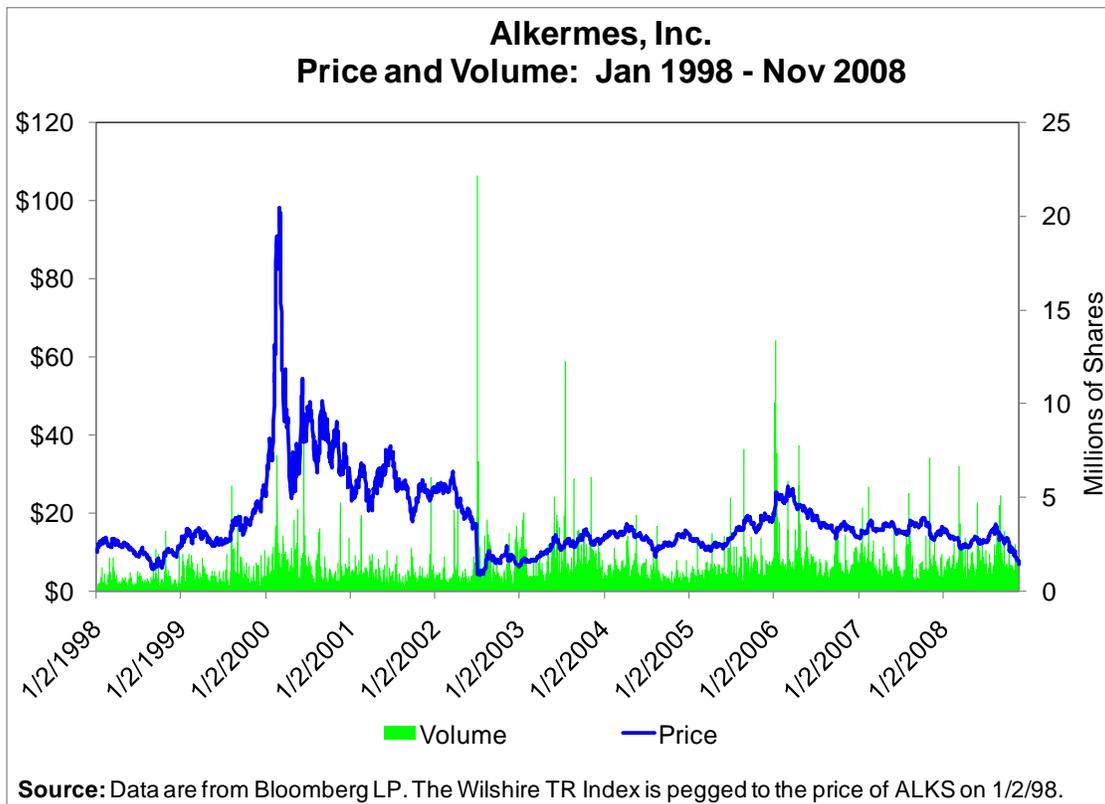


Figure 10

Discount Rate:

The company's discount rate was estimated using the capital asset pricing model. The following table details the data and steps used for this calculation. It is important to note that there are two discount rates. The first, 15.41% was obtained by using a risk-free rate equivalent to the present five-year treasury and is used in the model to discount cash flows for the next five years. The second, 16.49% uses the ten year treasury as the risk-free rate and is used to discount the terminal value of the company. This adjustment allows for time variation in interest rates without including a significant risk premium.

Metric	Value	Description
Stock Price	\$6.37	From Bloomberg L.P. as of 11/21/08
Shares Outstanding	94,932,052	From ALKS 2Q09 10-Q filed on 11/07/08
Equity Value	\$604,717,000	<i>Equity Value = Price × Shares Outstanding</i>
Debt Value	\$91,889,000	From ALKS 2Q09 10-Q filed on 11/07/08
Debt/Equity Ratio	15.20%	
Return on Debt	7.00%	From ALKS 2008 10-K filed on 5/30/08
Tax Rate	34.00%	From ALKS 2008 10-K filed on 5/30/08
Market Risk Premium	7.83%	Monthly excess return on the market from 1926 through 2008 from Fama-French Factors Database
Risk Free Rate	2.73% (5yr) 3.81% (10yr)	Constant Maturity Treasury on September 1, 2008 from the Federal Reserve Economic Data (FRED)
Inflation Rate	2.79%	Average of the continuously compounded annual rate of change of CPI Index from 1921 through 2008 from the U.S. Department of Labor: Bureau of Labor Statistics
Beta Asset	1.41	See Beta Estimation
Beta Equity	1.62	$\beta_{Equity} = \beta_{Asset} \left[1 + \frac{Debt}{Equity} \left(1 - \frac{TaxRate \times r_{Debt}}{1 + r_{Debt}} \right) \right]$
Discount Rate	15.41% (5yr) 16.49% (10yr)	$R_{Equity} = R_{Risk Free} + \beta_{Equity} [Market Risk Premium]$

Figure 11

Adjusted Present Value

Figure 12 illustrates our calculation in estimating our target share price for Alkermes.

Alkermes (in \$'000)							
Years Ending March 31							
	2009	2010	2011	2012	2013	Terminal Value	Total
Free Cash Flow (FCF)	11,291	21,218	28,656	40,901	84,317		
Debt Tax Shield (DTS)	0	0	0	0	268		
Discount Rate	15.41%	15.41%	15.41%	15.41%	15.41%	16.49%	
Terminal Growth Rate						5.00%	
Present Value FCF	10,510	15,930	18,642	23,055	41,182	770,555	879,874
Present Value DTS	0	0	0	0	128	2,440	2,568
Cash (as of 9/30/08)							68,525
Debt Value Outstanding							(91,889)
Total Market Value							\$ 859,078
Price Per Share							\$ 9.05

Figure 12

Appendix

New Drug Development Phases:

Phase 1 includes the initial introduction of an investigational new drug into humans. These studies are closely monitored and may be conducted in patients, but are usually conducted in healthy volunteer subjects. These studies are designed to determine the metabolic and pharmacologic actions of the drug in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence on effectiveness. During Phase 1, sufficient information about the drug's pharmacokinetics and pharmacological effects should be obtained to permit the design of well-controlled, scientifically valid, Phase 2 studies. In Phase 1 studies, the Center for Drug Evaluation and Research (CDER) can impose a clinical hold for reasons of safety, or because of a sponsor's failure to accurately disclose the risk of study to investigators.

Phase 2 includes the early controlled clinical studies conducted to obtain some preliminary data on the effectiveness of the drug for a particular indication or indications in patients with the disease or condition. This phase of testing also helps determine the common short-term side effects and risks associated with the drug. Phase 2 studies are typically well-controlled, closely monitored, and conducted in a relatively small number of patients, usually involving several hundred people.

Phase 3 studies are expanded controlled and uncontrolled trials. They are performed after preliminary evidence suggesting effectiveness of the drug has been obtained in Phase 2, and are intended to gather the additional information about effectiveness and safety that is needed to evaluate the overall benefit-risk relationship of the drug. Phase 3 studies also provide an adequate basis for extrapolating the results to the general population and transmitting that information in the physician labeling. Phase 3 studies usually include several hundred to several thousand people.

In both Phase 2 and 3, CDER can impose a clinical hold if a study is unsafe (as in Phase 1), or if the protocol is clearly deficient in design in meeting its stated objectives. Great care is taken to ensure that this determination is not made in isolation, but reflects current scientific knowledge, agency experience with the design of clinical trials, and experience with the class of drugs under investigation.

Individual Drug Analysis:

Risperdal Consta - Schizophrenia

Risperdal Consta - Schizophrenia (in thousands, except for Price per Year)									
	Actual		Estimates					Years Ending March 31	
	2007	2008	2009	2010	2011	2012	2013	Source	Description
Price Per Year	\$4,767	\$4,900	\$5,036	\$5,177	\$5,321	\$5,469	\$5,622	Zimbo.com/Risperdal Consta Pricing	Increase by historical inflation rate of 2.79%
US Population	301,621	304,492	307,362	310,233	313,232	316,266	319,330	U.S. Census Bureau	2008 National Population Projections
Europe	494,350	495,394	496,440	497,488	498,538	499,591	500,645	Eurostat	News Release August 2008
Total Population	795,971	799,886	803,802	807,721	811,770	815,857	819,975		
% Schizophrenia	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	National Institute of Mental Health	
Total Market	9,552	9,599	9,646	9,693	9,741	9,790	9,840		
% Market Seek Drug Treatment	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	Treatment Advocacy Center	Briefing Paper April, 2007
Total Market Seek Drug Treatment	4,776	4,799	4,823	4,846	4,871	4,895	4,920		
Risperdal Consta Market Share	4.06%	5.00%	6.00%	7.00%	7.50%	8.00%	8.50%	ALKS 10K/10Q	Assume market share increases by 1% Until 2011 & 50 bps thereafter to account for increasing competition
Risperdal Consta Patients	194	240	290	339	365	392	418		
Total Risperdal Consta Revenues	\$924,200	\$1,176,500	\$1,458,109	\$1,756,941	\$1,944,551	\$2,142,682	\$2,351,818		
Total Manufacturing Profits	\$69,315	\$88,238	\$109,358	\$131,771	\$145,841	\$160,701	\$176,386	ALKS 10K/10Q	7.5% of sales (on top of costs)
Total Risperdal Consta Royalties	\$23,105	\$29,413	\$36,453	\$43,924	\$48,614	\$53,567	\$58,795	ALKS 10K/10Q	2.5% of sales
Total Profits Alkermes	\$ 92,420	\$ 117,650	\$ 145,811	\$ 175,694	\$ 194,455	\$ 214,268	\$ 235,182		

Risperdal Consta – Bipolar Disorder

Risperdal Consta - Bi-Polar Disorder (in thousands, except for Price per Year)									
	Actual		Estimates					Years Ending March 31	
	2007	2008	2009	2010	2011	2012	2013	Source	Description
Price Per Year	\$4,767	\$4,900	\$5,036	\$5,177	\$5,321	\$5,469	\$5,622	Zimbo.com/Risperdal Consta Pricing	Increase by historical inflation rate
US Population	301,621	304,492	307,362	310,233	313,232	316,266	319,330	U.S. Census Bureau	2008 National Populations Projections
EU Population	494,350	495,394	496,440	497,488	498,538	499,591	500,645	Eurostat	News Release August 2008
Total Population	795,971	799,886	803,802	310,233	562,501	815,857	819,975		
% Bipolar Disorder	1.90%	1.90%	1.90%	1.90%	1.90%	1.90%	1.90%	National Institute of Mental Health	
Total Bipolar Disorder Market	15,123	15,198	15,272	5,894	10,688	15,501	15,580		
% Market Seek Drug Treatment	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	Treatment Advocacy Center	Briefing Paper April, 2007
Market Seek Drug Treatment				2,947	5,344	7,751	7,790		
Risperdal Consta Market Share				2.99%	4.06%	5.00%	6.00%	ALKS 10K/10Q	Using Risperdal Consta's Schizophrenia growth trend
Risperdal Consta Patients				88	217	388	468		
Total Risperdal Consta Revenues				\$456,467	\$1,154,314	\$2,120,851	\$2,628,899		
Total Manufacturing Profits				\$34,235	\$86,574	\$159,064	\$197,167	ALKS 10K/10Q	7.5% of sales (on top of costs)
Total Risperdal Consta Royalties				\$11,412	\$28,858	\$53,021	\$65,722	ALKS 10K/10Q	2.5% of sales
Adjusted Total Profits Alkermes				\$ 30,127	\$ 76,185	\$ 139,976	\$ 173,507	Baez & Ipe Research	Factored 66.00% probability of product moving from Phase NDA to FDA approval

Vivitrol – Alcoholism US

Vivitrol - Alcoholism US (in thousands, except for Price Per Year)									
	Actual		Estimates					Years Ending March 31	
	2007	2008	2009	2010	2011	2012	2013	Source	Description
Price Per Year	\$8,340	\$8,572	\$8,811	\$9,057	\$9,309	\$9,569	\$9,836	Dept. of Pharmacy, Univ of Utah	Monthly treatment price of \$695. Increase by historical inflation rate
US Population	301,621	304,492	307,362	310,233	313,232	316,266	319,330	U.S. Census Bureau	2008 National Populations Projections
% Alcoholism	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	U.S. National Survey on Drug Use	6% of Americans abuse or are dependent on alcohol
Total Market	18,097	18,270	18,442	18,614	18,794	18,976	19,160		
% Market Seek Drug Treatment	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	U.S. National Survey on Drug Use	Only 12% seek treatment. Of those who seek treatment, 25% seek drug treatment
Market Seek Drug Treatment	543	548	553	558	564	569	575		
Vivitrol Market Share	0.15%	0.38%	0.48%	0.58%	0.68%	0.78%	0.88%		Assume market share increases by 10 bp every year due to slow adoption
Vivitrol Patients	0.84	2.10	2.67	3.26	3.85	4.46	5.08		
Total Revenues	\$7,000	\$18,000	\$23,551	\$29,491	\$35,855	\$42,659	\$49,926		
Gross Margins			-10%	9%	28%	47%	66%	WR Hambrecht	Product gross margins estimated to be 66% at peak and currently at -10%
Total Profits			(\$2,400)	\$2,612	\$10,005	\$20,029	\$32,951		
Manufacturing Profits			\$1,178	\$1,475	\$1,793	\$2,133	\$2,496	ALKS 10K/10Q	Manufacturing profit is estimated at 5% of sales (on top of costs)
License fee			\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	JP Morgan	Flat fee
Net Collaborative Profits			(\$1,200)	\$1,306	\$5,003	\$10,015	\$16,476	ALKS 10K/10Q	After 2007, all net profits/losses earned on VIVITROL are divided between ALKS and Cephalon in equal shares
Total Profits (US) Alkermes			\$ 4,978	\$ 7,781	\$ 11,795	\$ 17,148	\$ 23,972		

Vivitrol – Alcoholism Europe and Russia

Vivitrol - Alcoholism Europe and Russia (in thousands, except for Price Per Year)									
	Actual		Estimates						
	2007	2008	2009	2010	2011	2012	2013	Source	Description
Price Per Year	\$8,340	\$8,572	\$8,811	\$9,057	\$9,309	\$9,569	\$9,836	Dept. of Pharmacy, Univ of Utah	Monthly treatment price of \$695. Increase by historical inflation rate
Population Germany	82,186	81,871	81,557	81,243	80,929	80,614	80,300	World Bank	World Bank Projections
Population UK	61,229	61,857	62,486	63,114	63,743	64,371	65,000	World Bank	World Bank Projections
Population Russia	149,060	149,213	149,366	149,519	149,672	149,825	149,978	World Bank	World Bank Projections
Total Population	292,474	292,942	293,409	293,876	294,343	294,811	295,278		
% Alcoholism				6.00%	6.00%	6.00%	6.00%		Use same estimates as in US
Total Market				17,633	17,661	17,689	17,717		
% Market Seek Drug Treatment				3.00%	3.00%	3.00%	3.00%		Use same estimates as in US
Market Seek Drug Treatment				529	530	531	532		
Vivitrol Market Share				0.15%	0.38%	0.48%	0.58%		Assume same market share as in US
Vivitrol Patients				0.79	2.01	2.55	3.08		
Total Revenues				\$7,186	\$18,743	\$24,374	\$30,321		
Manufacturing Profits				\$359	\$937	\$1,219	\$1,516	ALKS 10K/10Q	5% of sales
License Profits				\$719	\$1,874	\$2,437	\$3,032	ALKS 10K/10Q	10% of sales
Total Profits (Europe) Alkermes				\$ 1,078	\$ 2,811	\$ 3,656	\$ 4,548		

Vivitrol – Opioid Dependency

Vivitrol - Opioid Dependency (in thousands, except for Price Per Year)									
	Actual		Estimates					Years Ending March 31	
	2007	2008	2009	2010	2011	2012	2013	Source	Description
Price Per Year	\$4,170	\$4,286	\$4,406	\$4,529	\$4,655	\$4,784	\$4,918	Dept. of Pharmacy, Univ of Utah	Priced at half of Vivitrol for alcoholism. Increase by historical inflation rate
US Population	301,621	304,492	307,362	310,233	313,232	316,266	319,330	U.S. Census Bureau	2008 National Populations Projections
% Drug Addiction	0.64%	0.64%	0.64%	0.64%	0.64%	0.64%	0.64%	U.S. National Survey on Drug Use and Health	In 2006, 0.64% of Americans were depended or abused pain relievers or heroin
Total Market	1,918	1,936	1,955	1,973	1,992	2,011	2,031		
Vivitrol Market Share					1.00%	2.00%	3.00%		Market share start at 1% and increase by 1% yearly due to aggressive pricing plan
Vivitrol Patients					19.92	40.23	60.93		
Total Revenues					\$92,726	\$192,468	\$299,624		
Gross Margins					28%	47%	66%		Gross margins estimated to be the same as Vivitrol for alcoholism
Total Profits (US)					\$25,875	\$90,368	\$197,752		
Total Profits (US) Alkermes					\$12,937	\$45,184	\$98,876	ALKS 10K/10Q	Net profit to Alkermes is 50% of the forecasted revenues. ¹
Population Germany	82,186	81,871	81,557	81,243	80,929	80,614	80,300	World Bank	World Bank Projections
Population UK	61,229	61,857	62,486	63,114	63,743	64,371	65,000	World Bank	World Bank Projections
Population Russia	149,060	149,213	149,366	149,519	149,672	149,825	149,978	World Bank	World Bank Projections
Total Population	292,474	292,942	293,409	293,876	294,343	294,811	295,278		
% Drug Addiction				0.64%	0.64%	0.64%	0.64%		
Total Market				1,869	1,872	1,875	1,878		
Vivitrol Market Share						1.00%	2.00%		Same as in US
Vivitrol Patients						18.75	37.56		
Total Revenues						\$89,706	\$184,704		
Manufacturing Profits						\$4,485	\$9,235		7.5% of sales (on top of costs)
License Profits						\$8,971	\$18,470		2.5% of sales
Total Profits (Europe) Alkermes						\$13,456	\$27,706		
Adjusted Total Profits Alkermes					\$ 7,856	\$ 35,606	\$ 76,860	Baez & Ipe Research	Factored 60.72% probability of product moving from Phase 3 to FDA approval

¹This profit margin was determined by reference to margins on other products the Company produces for partners, an analysis of margins enjoyed by other pharmaceutical contract manufacturers and other available data.

Exenatide LAR – Diabetes

Exenatide LAR - Diabetes (in thousands, except for Price Per Year)									
	Actual		Estimates					Years Ending March 31	
	2007	2008	2009	2010	2011	2012	2013	Source	Description
Price Per Year	\$1,500	\$1,542	\$1,585	\$1,629	\$1,674	\$1,721	\$1,769	US BLS	Increase by historical inflation rate
US Population	301,621	304,492	307,362	310,233	313,232	316,266	319,330	U.S. Census Bureau	2008 National Populations Projections
Total Population	301,621	304,492	307,362	310,233	313,232	316,266	319,330		
% Diabetes	7.80%	7.80%	7.80%	7.80%	7.80%	7.80%	7.80%	US Center for Disease Control	2007 Diabetes Fact Sheet
Total Market	23,526	23,750	23,974	24,198	24,432	24,669	24,908		
% Market Seek Drug Treatment	20.52%	20.52%	20.52%	20.52%	20.52%	20.52%	20.52%	US Center for Disease Control	76% diagnosed and treated, 27% of the 76% take insulin or insulin + oral medication
Market Seek Drug Treatment	4,828	4,874	4,920	4,965	5,013	5,062	5,111		
Exenatide LAR Market Share						4.00%	6.00%	Baez & Ipe AMLN Report	Use Byetta/LAR forecast
Exenatide LAR Patients						202	307		
Total Exenatide LAR Revenues						\$348,478	\$542,493		
Total Royalties Alkermes						\$25,265	\$39,331	JP Morgan/Cowen	7.25% of sales as royalty revenues for Alkermes
Adjusted Total Profits Alkermes						\$ 12,632	\$ 19,665	CenterWatch	Factored 50% probability of FDA approval

ALKS 27 – COPD

ALKS 27 - COPD (in thousands, except for Price Per Year)									
	Actual		Estimates					Years Ending March 31	
	2007	2008	2009	2010	2011	2012	2013	Source	Description
Price Per Year	\$1,657	\$1,703	\$1,750	\$1,799	\$1,849	\$1,901	\$1,954	WHO Initiative for COPD	Average price per month of \$134.31. Increase by historical inflation rate
Population US	301,621	304,492	307,362	310,233	313,232	316,266	319,330		
Population EU	494,350	495,394	496,440	497,488	498,538	499,591	500,645	U.S. Census Bureau	2008 National Populations Projections
Total Population	795,971	799,886	803,802	807,721	811,770	815,857	819,975		
% COPD		4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	National Heart and Lung and Blood Institute	In 2008, 4% of Americans were diagnosed with COPD
Total Market		31,995	32,152	32,309	32,471	32,634	32,799		
ALKS 27 Market Share							3.00%	Estimate	Assumed low end market share
ALKS 27 Patients							984		
Total Revenues							\$1,922,410		
Gross Margins							66%	WR Hambrecht	Product gross margins estimated to be 66%
Total Profits							\$1,268,791		
Adjusted Total Profits Alkermes							\$ 184,102	Industry estimate	Net profit to Alkermes is 50% of the forecasted revenues. ¹ Factored 29% probability of product moving from Phase 2 to FDA approval

¹This profit margin was determined by reference to margins on other products the Company produces for partners, an analysis of margins enjoyed by other pharmaceutical contract manufacturers and other available data.

ALKS 29 – Alcoholism

ALKS 29 - Alcoholism (in thousands, except for Price Per Year)									
	Actual		Estimates					Years Ending March 31	
	2007	2008	2009	2010	2011	2012	2013	Source	Description
Price Per Year	\$1,191	\$1,225	\$1,259	\$1,294	\$1,330	\$1,367	\$1,405	Dept. of Pharmacy, Univ of Utah	Price of current presc. pills for alcoholism is 1/7th that of Vivitrol Alcoholism. Increase by historical inflation rate
Population US, UK, Germany and Russia	594,095	597,433	600,771	604,109	607,575	611,077	614,608	Eurostat & U.S. Census Bureau	2008 National Populations Projections
% Alcoholism	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	U.S. National Survey on Drug Use and Health	
Total Market	35,646	35,846	36,046	36,247	36,455	36,665	36,876		
% Market Seek Drug Treatment	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	U.S. National Survey on Drug Use and Health	Only 12% seek treatment. Of those who seek treatment, 25% seek drug treatment
Market Seek Drug Treatment	1,069	1,075	1,081	1,087	1,094	1,100	1,106		
Vivitrol Market Share							5.00%		
Vivitrol Patients							55.31		
Total Revenues							\$77,723		
Gross Margins							66%	WR Hambrecht	Product gross margins estimated to be 66% at peak, currently at -10%
Total Profits							\$51,297		
Adjusted Total Profits Alkermes							\$ 7,443	Industry data	Net profit to Alkermes is 50% of the forecasted revenues. ¹ Factored 29% probability of product moving from Phase 2 to FDA approval

¹This profit margin was determined by reference to margins on other products the Company produces for partners, an analysis of margins enjoyed by other pharmaceutical contract manufacturers and other available data.

Alkermes Inc. - Balance Sheet

	<u>2008</u>	<u>2007</u>
	<small>(In thousands, except share and per share amounts)</small>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 101,241	\$ 80,500
Investments — short-term	240,064	271,082
Receivables	47,249	56,049
Inventory, net	18,884	18,190
Prepaid expenses and other current assets	5,720	7,054
Total current assets	413,158	432,875
PROPERTY, PLANT AND EQUIPMENT:		
Land	301	301
Building and improvements	35,003	25,717
Furniture, fixtures and equipment	63,364	64,203
Equipment under capital lease	464	464
Leasehold improvements	33,387	32,345
Construction in progress	42,859	42,442
Less: accumulated depreciation	(62,839)	(41,877)
Property, plant and equipment — net	112,539	123,595
INVESTMENTS — LONG-TERM	119,056	5,884
OTHER ASSETS	11,558	6,267
TOTAL ASSETS	\$ 656,311	\$ 568,621
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 29,034	\$ 45,571
Accrued interest	2,975	2,976
Accrued restructuring costs	4,037	284
Unearned milestone revenue — current portion	5,927	11,450
Deferred revenue — current portion	0	200
Long-term debt — current portion	47	1,579
Total current liabilities	42,020	62,060
ACCRUED RESTRUCTURING COSTS — LONG-TERM PORTION	4,041	795
NON-RECOURSE RISPERDAL CONSTA SECURED 7% NOTES	160,324	156,851
UNEARNED MILESTONE REVENUE — LONG-TERM PORTION	111,730	117,300
DEFERRED REVENUE — LONG-TERM PORTION	27,837	22,153
OTHER LONG-TERM LIABILITIES	5,045	6,001
TOTAL LIABILITIES	350,997	365,160
SHAREHOLDERS' EQUITY:		
Capital stock	0	0
Common stock	1,030	1,015
Non-voting common stock	4	4
Treasury stock, at cost	(107,322)	(12,492)
Additional paid-in capital	869,695	837,727
Accumulated other comprehensive (loss) income	(1,526)	753
Accumulated deficit	(456,567)	(623,546)
TOTAL SHAREHOLDERS' EQUITY	305,314	203,461
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 656,311	\$ 568,621

Alkermes Inc. - Income Statement

	Year Ended March 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
REVENUES:					
Risperdal Consta	95,200	88,616	64,901		
Vivitrol	6,500	16,800	0		
Manufacturing revenues	\$ 101,700	\$ 105,416	\$ 64,901	\$ 40,488	\$ 25,736
Royalty revenues	29,457	23,151	16,532	9,636	3,790
R&D revenue under collaborative arrangements	89,510	74,483	45,883	26,002	9,528
Net collaborative profit	20,050	36,915	39,285	0	0
Total revenues	240,717	239,965	166,601	76,126	39,054
EXPENSES:					
Risperdal Consta	34,777	29,909	23,489		
Vivitrol	5,900	15,300	0		
Cost of goods manufactured	40,677	45,209	23,489	16,834	19,037
Research and development	125,268	117,315	89,068	91,641	92,101
Selling, general and administrative	59,508	66,399	40,383	29,499	27,206
Impairment of long-lived assets	11,630	0	0	0	0
Restructuring	6,423	0	0	11,527	(208)
Total expenses	243,506	228,923	152,940	149,501	138,136
OPERATING (LOSS) INCOME	(2,789)	11,042	13,661	(73,375)	(99,082)
OTHER INCOME (EXPENSE):					
Gain on sale Reliant Pharmaceuticals	174,631	0	0	0	0
Interest income	17,834	17,707	11,569	3,005	3,409
Interest expense	(16,370)	(17,725)	(20,661)	(7,394)	(6,497)
Derivative (loss) income related to notes	0	0	(1,084)	4,385	(4,514)
Other income (expense), net	(476)	(481)	333	(1,789)	2,118
Total other income (expense)	175,619	(499)	(9,843)	(1,793)	(5,484)
INCOME (LOSS) BEFORE INCOME TAXES	172,830	10,543	3,818	(75,168)	(104,566)
INCOME TAXES	5,851	1,098	0	0	0
NET INCOME (LOSS)	\$ 166,979	\$ 9,445	\$ 3,818	\$ (75,168)	\$ (104,566)

Explanation of Ratings:

Buy: Shares expected to increase in price over the next six months

Hold: Shares expected to remain stable in price over the next six months

Sell: Shares expected to decrease in price over the next six months

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