

ALKERMES INC
Form DEF 14A
July 29, 2003

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**SCHEDULE 14A
(Rule 14a-101)**

INFORMATION REQUIRED IN PROXY STATEMENT

**SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. ____)**

- Filed by the Registrant x
- Filed by a Party other than the Registrant o

- Check the appropriate box:
- Preliminary Proxy Statement Confidential, for Use of the Commission Only
(as permitted by Rule 14a- 6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

Alkermes, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Cambridge, Massachusetts

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be held September 9, 2003

TO THE SHAREHOLDERS:

The annual meeting of shareholders of Alkermes, Inc. (the Company) will be held at the offices of the Company, 88 Sidney Street, Cambridge, Massachusetts 02139, on Tuesday, September 9, 2003, at 10:00 a.m. for the following purposes:

1. To elect eight members of the Board of Directors, each to serve until the next annual meeting of shareholders and until his or her successor is duly elected and qualified.
2. To approve an amendment to the 1999 Stock Option Plan to increase to 14,400,000 the number of shares issuable upon the exercise of options granted thereunder, an increase of 3,000,000 shares.
3. To approve an amendment to the Non-Employee Director Plan to increase to 1,000,000 the number of shares issuable upon exercise of options granted thereunder, an increase of 500,000 shares.
4. To transact such other business as may properly come before the meeting.

The Board of Directors has fixed July 23, 2003 as the record date for determining the holders of Common Stock entitled to notice of and to vote at the meeting. Consequently, only holders of Common Stock of record on the transfer books of the Company at the close of business on July 23, 2003 will be entitled to notice of and to vote at the meeting.

If you are a shareholder of record, you may vote over the Internet, by telephone, by mailing the enclosed proxy card in the postage-prepaid envelope provided or by attending the meeting and voting in person.

Morris Cheston, Jr.
Secretary

July 25, 2003

YOU CAN VOTE IN ONE OF THREE WAYS:

- (1) Use the toll-free telephone number on your proxy card to vote by phone;
 - (2) Visit the web site noted on your proxy card to vote via the Internet; or
 - (3) Sign, date and return your proxy card in the enclosed envelope to vote by mail.
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ALKERMES, INC.

PROXY STATEMENT

INTRODUCTION

The accompanying proxy is solicited by the Board of Directors of Alkermes, Inc., a Pennsylvania corporation (Alkermes or the Company), in connection with its 2003 annual meeting of shareholders to be held at the offices of the Company, 88 Sidney Street, Cambridge, Massachusetts 02139, at 10:00 a.m., on Tuesday, September 9, 2003 (the Meeting). Copies of this Proxy Statement and the accompanying proxy are being mailed on or after July 29, 2003 to the holders of record of Common Stock on July 23, 2003 (the Record Date). The expense of this solicitation will be paid by the Company. Some of the officers and regular employees of the Company may solicit proxies personally and by telephone. In addition, the Company has retained the services of The Altman Group to solicit proxies, at an estimated cost of \$4,500.

Unless specific instructions are given to the contrary, the persons named in the accompanying proxy will vote:

FOR the election of the nominees named herein to the Company s Board of Directors;

FOR the amendment to increase the number of shares available under the 1999 Stock Option Plan; and

FOR the amendment to increase the number of shares available under the Non-Employee Director Plan.

With respect to all other matters, the persons named in the accompanying proxy will vote as stated herein. See Other Business.

Holders of Common Stock of record at the close of business on the Record Date will be entitled to cast one vote per share so held of record on such date on all items of business properly presented at the Meeting, except that the holders have cumulative voting rights in the election of directors. Therefore, each shareholder is entitled to cast as many votes in the election of directors as shall be equal to the number of shares of Common Stock held by such shareholder on the Record Date, multiplied by the number of directors to be elected. A shareholder may cast all such votes for a single nominee or may distribute votes among nominees as the shareholder sees fit.

The Company had 88,873,129 shares of Common Stock outstanding on the Record Date. The presence at the Meeting, in person or by proxy, of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast on a particular matter will constitute a quorum for the purposes of consideration and action on such matter.

HOW TO VOTE

If you are a shareholder of record and your shares are registered directly in your name, you may vote:

By Internet. Access the website of our tabulator, EquiServe, Inc., at <http://www.eproxyvote.com/alks>, using the voter control number that we have printed on the enclosed proxy card. Your shares will be voted in accordance with your instructions.

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You must specify how you want your shares voted or your Internet vote cannot be completed and you will receive an error message.

By Telephone. Call 1-877-PRX-VOTE (1-877-779-8683) toll-free from the U.S. and Canada and follow the instructions on the enclosed proxy card. Your shares will be voted in accordance with your instructions. You must specify how you want your shares voted or your telephone vote cannot be completed.

By Mail. Complete and mail the enclosed proxy card in the enclosed postage prepaid envelope to EquiServe, Inc. Your proxy will be voted in accordance with your instructions. If you sign and return the enclosed proxy but do not specify how you want your shares voted, they will be voted FOR the nominees named herein to the Company's Board of Directors, the amendment to increase the shares available under the 1999 Stock Option Plan and the amendment to increase the shares available under the Non-Employee Director Plan.

In Person at the Meeting. If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

If your shares of Common Stock are held in street name (held for your account by a broker or other nominee):

By Internet or By Telephone. You will receive instructions from your broker or other nominee if you are permitted to vote by Internet or telephone.

By Mail. You will receive instructions from your broker or other nominee explaining how to vote your shares.

In Person at the Meeting. Contact the broker or other nominee who holds your shares to obtain a broker's proxy card and bring it with you to the meeting.

How to Revoke Your Proxy

You may revoke your proxy at any time before it is exercised at the meeting by taking any of the following actions:

providing written notice to the Secretary of the Company by any means, including facsimile, stating that the proxy is revoked;

signing and delivering a proxy relating to the same shares and bearing a later date;

transmitting a subsequent vote over the Internet or by telephone; or

attending the meeting and voting in person, although attendance at the meeting will not, by itself, revoke a proxy.

Please note that if your shares are held of record by a broker or other nominee and you wish to vote at the meeting, you must bring to the meeting a letter from such broker or other nominee confirming your beneficial ownership of the shares.

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ELECTION OF DIRECTORS

The Board of Directors currently consists of nine members: Floyd E. Bloom, Robert A. Breyer, John K. Clarke, Gerri Henwood, Paul J. Mitchell, Richard F. Pops, Alexander Rich, Paul Schimmel and Michael A. Wall. In April 2003, the Board of Directors, as authorized under the Company's Bylaws, increased the number of directors from seven to nine and elected Gerri Henwood and Paul J. Mitchell to the newly created vacancies. Since that time, John K. Clarke, a member of the Board since 1987, has decided not to stand for re-election. Thus, eight directors are to be elected at the Meeting to serve one-year terms until the 2004 annual meeting of shareholders and until their respective successors are elected and shall qualify. The persons named in the accompanying proxy intend to vote for the election of Floyd E. Bloom, Robert A. Breyer, Gerri Henwood, Paul J. Mitchell, Richard F. Pops, Alexander Rich, Paul Schimmel and Michael A. Wall, unless authority to vote for one or more of such nominees is specifically withheld in the proxy. The persons named in the proxy will have the right to vote cumulatively and to distribute their votes among such nominees as they consider advisable. The Board of Directors is informed that all the nominees are willing to serve as directors, but if any of them should decline to serve or become unavailable for election at the Meeting, an event which the Board of Directors does not anticipate, the persons named in the proxy will vote for such nominee or nominees as may be designated by the Board of Directors, unless the Board of Directors reduces the number of directors accordingly.

The eight nominees for directors receiving the highest number of votes cast by shareholders entitled to vote thereon will be elected to serve on the Board of Directors. Votes that are withheld will be counted in determining the presence of a quorum, but will have no effect on the vote.

Set forth below is information regarding the nominees, as of July 18, 2003, including their recent employment, positions with the Company, other directorships and age.

Dr. Bloom, age 66, 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 59, 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.

Ms. Henwood, age 50, 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 Ms. Henwood 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, Ms. 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

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to founding IBAH, Ms. Henwood was employed by SmithKline Beecham in various capacities including senior medical and regulatory positions.

Mr. Mitchell, age 50, 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 62, 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 Board of Directors of Repligen Corporation and is a member of the Scientific Advisory Board of Illumina, Inc., a biotechnology company.

Mr. Wall, age 74, 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.

The Board of Directors held nine meetings during the last fiscal year. Each of the Company's directors attended at least 75% of the aggregate of all Board of Directors meetings and meetings of all committees of which the director was a member held during the year. The standing committees of the Board are the Audit Committee, the Compliance Committee, the Nominating

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Committee, the Compensation Committee, the Compensation Sub-Committee and the Limited Compensation Sub-Committee.

The Audit Committee consists of Floyd E. Bloom, John K. Clarke, Alexander Rich and, as of April 2003, Paul J. Mitchell. In connection with his appointment as a director, the Board determined that Mr. Mitchell is qualified to be an audit committee financial expert as defined by the Securities and Exchange Commission. The Audit Committee met six times during the last fiscal year. The Audit Committee is governed by a charter, which was attached to the Proxy Statement for the 2002 annual shareholders meeting. The Charter delegates to the Audit Committee the responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company, including review of the annual and quarterly financial statements. Each of the members of the Audit Committee is independent as such term is defined in Rule 4200(a)(14) of the National Association of Securities Dealers listing standards.

The Compliance Committee, consisting of Floyd E. Bloom, John K. Clarke and Alexander Rich, met in April 2003 but not during the last fiscal year. The Compliance Committee is responsible for overseeing the development, implementation, administration and enforcement of Company compliance programs to ensure that the Company is in compliance with applicable laws and regulations.

The Nominating Committee, consisting of John K. Clarke, Paul Schimmel and Floyd E. Bloom, was formed in June 2002. It met for the first time in April 2003 to consider the Board of Director's two new members. The Nominating Committee is responsible for considering potential board members and making recommendations to the full board of directors as to nominees for election to the board of directors.

The Compensation Committee, consisting of John K. Clarke, Paul Schimmel and Michael A. Wall, met six times during the last fiscal year and otherwise acted by unanimous written consent. The Compensation Committee is responsible for reviewing matters pertaining to the compensation of employees of, and consultants to, the Company, fixing the cash compensation of officers of the Company and administering, and making grants and awards to employees and consultants under, the Company's stock option and restricted stock award plans.

The Compensation Sub-Committee is responsible for making grants and awards under the Company's stock option and restricted stock award plans to directors and officers as defined under Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Compensation Sub-Committee, consisting of John K. Clarke and Paul Schimmel, met three times during the last fiscal year and otherwise acted by unanimous written consent. The Limited Compensation Sub-Committee consisting of John K. Clarke acted by written consent and has the authority to make individual grants of options under certain of the Company's stock option plans to purchase no more than 5,000 shares of Common Stock to certain of the Company's employees.

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APPROVAL OF AMENDMENT TO 1999 STOCK OPTION PLAN

The Company's 1999 Stock Option Plan (the "1999 Plan") authorizes the grant of options to officers, employees and directors of, and consultants to, the Company or any of its subsidiaries to purchase up to 11,400,000 shares of Common Stock. As of July 18, 2003, options to purchase 485,309 shares remained available for grant under the 1999 Plan. In July 2002, the Board of Directors amended the 1999 Plan to require shareholder approval for any amendment to the 1999 Plan that materially increases the benefits to any participant and to prohibit repricings of options. In June 2003, the Board of Directors amended the 1999 Plan, subject to shareholder approval, to increase the aggregate number of shares authorized for issuance upon exercise of options granted under the 1999 Plan to 14,400,000. This amendment was designed to enhance the flexibility of the Compensation Committee and the Compensation Sub-Committees of the Board of Directors in granting stock options to the Company's officers, employees, directors and consultants and to ensure that the Company can continue to grant stock options to such persons at levels determined to be appropriate by the Compensation Committee and the Compensation Sub-Committees based on comparable company and other market data. The Company believes that stock options are a critical part of the compensation package offered to new, existing and key employees and is an important tool in the Company's ability to attract and retain talented personnel. The resolution to be presented to the shareholders approving the proposed amendment to the 1999 Plan is attached as Appendix A to this Proxy Statement and is incorporated herein by reference.

The affirmative vote of a majority of the votes cast by all holders of Common Stock entitled to vote will be required to approve the proposed amendment to the 1999 Plan. Abstentions will be counted as present for purposes of determining the presence of a quorum for purposes of this proposal, but will not be counted as votes cast. Broker non-votes (shares held by a broker or nominee as to which the broker or nominee does not have the authority to vote on a particular matter) will not be counted as present for purposes of determining the presence of a quorum for purposes of this proposal and will not be voted. Accordingly, while abstentions will count towards establishing a quorum, neither abstentions nor broker non-votes will effect the outcome of the vote on this proposal.

The Board of Directors recommends that you vote **FOR** the approval of the amendment to the 1999 Plan.

Principal Features of the 1999 Plan

The purpose of the 1999 Plan is to enable the Company to offer to certain officers, employees and directors of, and consultants to, the Company or any of its subsidiaries options to acquire equity interests in the Company, thereby helping to attract, retain and reward such persons and strengthen the mutuality of interests between such persons and the Company's shareholders.

Administration

The 1999 Plan is administered by the Compensation Committee by delegation from the Board of Directors. The Compensation Committee has further delegated administration of the 1999 Plan with respect to options granted to directors and executive officers of the Company ("Reporting Persons") to the Compensation Sub-Committee. Additionally, the Compensation Committee has delegated to the Limited Compensation Sub-Committee the authority to make individual grants of options to purchase no more than 5,000 shares of Common Stock to employees who are not Reporting Persons. The total number of options to be granted in any year under the 1999 Plan to participants, the selection and number of participants to receive options, the type and number of options granted to each participant and the other terms and provisions of such options are wholly within the discretion of the Compensation Committee and the Compensation Sub-Committees, subject to the limitations set forth in the 1999 Plan. Therefore,

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the benefits and amounts that will be received by participants under the 1999 Plan are not currently determinable.

Amendment and Repricings

The 1999 Plan may not be amended without the approval of the Company's shareholders if (a) such amendment would materially increase the benefits to participants under the 1999 Plan or (b) shareholder approval is necessary to comply with the Internal Revenue Code of 1986, as amended (the Code), Federal or state securities laws, the rules and regulations of any stock exchange or stock market on which the Common Stock is listed or traded or any other applicable rules or regulations. Additionally, no option previously granted under the plan may be repriced, except for an adjustment to the exercise prices as a result of a merger, reorganization, consolidation, recapitalization, dividend, stock split or other change in corporate structure affecting the Common Stock.

Eligible Participants

The Company's, and any of its subsidiaries', officers, employees, directors and consultants are eligible to be granted options under the 1999 Plan. The Company estimates that there are currently approximately 450 persons who are eligible to receive options under the 1999 Plan.

Number of Shares Subject to the 1999 Plan

Up to 11,400,000 shares of Common Stock may be issued under the 1999 Plan. The proposed amendment, which has been adopted by the Board of Directors, increases the number of shares that may be issued upon exercise of options which may be granted under the 1999 Plan to 14,400,000. Such options may either be incentive stock options as defined in Section 422 of the Code, or may be non-qualified stock options. The 1999 Plan will terminate on June 2, 2009 unless sooner terminated by the Board of Directors.

Stock Options

Under the terms of the 1999 Plan, the option exercise price may not be less than 100% (or, with respect to incentive stock options, 110% if the optionee owns more than 10% of the total combined voting power of all classes of stock of the Company) of the fair market value of the underlying stock at the time the option is granted. Options granted under the 1999 Plan are generally nontransferable, unless otherwise determined by the Compensation Committee, and expire upon the earlier of an expiration date fixed by the Compensation Committee and set forth in each individual option award certificate, ten years (or with respect to incentive stock options, five years, if the optionee owns more than 10% of the total combined voting power of all classes of stock of the Company) from the date of grant, and either three months after the date the optionee ceases to be an officer, employee or director of, or consultant to, the Company or its subsidiaries or one year after the optionee dies or becomes disabled. Options which have expired or which have been canceled unexercised will be available for future grant under the 1999 Plan.

Under the 1999 Plan, the price payable upon exercise of options may be paid in cash, or in shares of stock of the Company duly owned by the participant or by reduction in the number of shares of Common Stock issuable upon such exercise, based, in each case, on the fair market value of the Common Stock on the date of exercise.

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Options Outstanding, Exercisable and Available for Future Grant

As of July 18, 2003, options to purchase 10,798,060 shares were outstanding under the 1999 Plan, of which 3,804,820 were exercisable. The exercise prices for the outstanding options ranged from \$4.02 to \$48.03 per share. On July 18, 2003, the average of the high and low sales prices of a share of Common Stock as reported on the Nasdaq National Market was \$12.06. As of July 18, 2003, of all options outstanding under the 1999 Plan, options to purchase 4,325,596 shares had an exercise price of \$12.06 or below, of which 272,113 were exercisable. As of July 18, 2003, options to purchase 485,309 shares (plus any options that expire unexercised or are cancelled in the future) were available for future grant, exclusive of the additional shares covered by the proposed amendment.

Federal Income Tax Consequences

The Federal income tax discussion set forth below is intended for general information only and does not address the rates of taxation applicable to specific categories of taxpayers or classes of income or the tax consequences to persons who would be subject to liability under Section 16(b) of the Exchange Act with respect to a sale of the shares of Alkermes Common Stock acquired upon exercise of an option. State and local income tax consequences are not discussed and may vary from locality to locality.

Under present Treasury regulations, a participant who is granted a non-qualified option will not realize taxable income at the time the option is granted. In general, a participant will be subject to tax for the year of exercise on an amount of ordinary income equal to the excess of the fair market value of the shares on the date of exercise over the option exercise price, and the Company will generally be able to receive a deduction for a corresponding amount. In the case of a participant who is an employee, withholding and employment taxes will be imposed on the amount of ordinary income recognized. The participant's basis in the shares so acquired will be equal to the option exercise price plus the amount of ordinary income upon which he is taxed. Upon subsequent disposition of the shares, the participant will realize capital gain or loss, long-term or short-term, depending upon the length of time the shares are held after the option is exercised.

A participant is not taxed at the time an incentive option is granted. The tax consequences upon exercise and later disposition depend upon whether the participant was an employee of the Company or one of its subsidiaries at all times from the date of grant until three months preceding exercise (one year in the case of death or permanent and total disability) and on whether the participant holds the shares for more than one year after exercising the option and two years after the date of grant of the option.

If the participant satisfies both the employment rule and the holding rule, for regular tax purposes the participant will not realize income upon exercise of an incentive option and the Company will not be allowed an income tax deduction at any time. The difference between the option exercise price and the amount realized upon disposition of the shares by the participant will generally constitute a long-term capital gain or a long-term capital loss, as the case may be.

If the participant meets the employment rule but disposes of the shares before satisfying the holding rule (a disqualifying disposition), the participant generally recognizes as ordinary income, in the year of the disqualifying disposition, the excess of the fair market value of the shares at the date of exercise over the option price. In the case of a sale, any excess of the sales price over the fair market value at the date of exercise will be recognized by the participant as capital gain (long-term or short-term depending on the length of time the stock was held after the option was exercised). If, however, the sales price is less than the fair market value at the date of exercise, then the ordinary income recognized by the

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participant generally is limited to the excess of the sales price over the option price. In the case of any disqualifying disposition, the Company's tax deduction is limited to the amount of ordinary income recognized by the participant.

Currently, the exercise of incentive options is not subject to income, FICA or FUTA tax withholding. Proposed regulations issued by the Internal Revenue Service would subject incentive options to FICA or FUTA tax withholding at the time of exercise, but the effective date of these regulations has been postponed indefinitely. Any change to the current exemption from FICA and FUTA tax withholding will not take effect until January 1 of the year following the second anniversary of the publication of final regulations or other guidance. It is the current position of the IRS that no tax withholding is required in the event of a disqualifying disposition, but that employers are nevertheless generally required to report any income from a disqualifying disposition on Form W-2.

Different consequences will apply to participants that are subject to the alternative minimum tax.

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**APPROVAL OF AMENDMENT TO STOCK OPTION PLAN
FOR NON-EMPLOYEE DIRECTORS**

The Stock Option Plan for Non-Employee Directors (the Director Plan) authorizes the grant of options to purchase up to 500,000 shares of Common Stock to non-employee directors. As of July 18, 2003, there were 60,000 shares available for grant under the Director Plan. In June 2003, the Board of Directors amended the Director Plan, subject to shareholder approval, to increase to 1,000,000 the aggregate number of shares authorized for issuance upon exercise of options granted under the Director Plan. The purpose of the Director Plan is to assist the Company in attracting and retaining independent directors and to strengthen the mutuality of interests between such directors and the Company's shareholders. The proposed 500,000 share increase in the number of shares available for grant will provide sufficient shares under the Director Plan for automatic grant to the seven current non-employee directors at the annual rate of 20,000 shares each for three years. The resolution to be presented to the shareholders approving the proposed amendment to the Director Plan is attached as Appendix B to this Proxy Statement and is incorporated herein by reference.

The affirmative vote of a majority of the votes cast by all holders of Common Stock entitled to vote will be required to approve the proposed amendments to the Director Plan. Abstentions will be counted as present for purposes of determining the presence of a quorum for purposes of this proposal, but will not be counted as votes cast. Broker non-votes (shares held by a broker or nominee as to which the broker or nominee does not have the authority to vote on a particular matter) will not be counted as present for purposes of determining the presence of a quorum for purposes of this proposal and will not be voted. Accordingly, while abstentions will count towards establishing a quorum, neither abstentions nor broker non-votes will effect the outcome of the vote on this proposal.

The Board of Directors recommends that you vote FOR the approval of the amendments to the Director Plan.

Principal Features of the Director Plan

Administration

The Director Plan is administered and interpreted by the Board of Directors. The Board of Directors, subject to the provisions of the Director Plan, has the authority to (i) adopt, alter and repeal such rules, guidelines and practices as it deems advisable, (ii) interpret the terms and provisions of the Director Plan and any option granted under the Director Plan and (iii) otherwise administer the Director Plan. In addition, the Board of Directors may correct any defect, supply any omission or reconcile any inconsistency in the Director Plan or in any option granted in the manner and to the extent it shall deem necessary to carry the Director Plan into effect. Any decision, interpretation or other action of the Board of Directors will be final, binding and conclusive upon all persons in interest.

Eligible Participants

Members of the Board of Directors who are not officers or employees of the Company or any of its subsidiaries (Eligible Directors) are eligible to be granted options under the Director Plan. Seven directors of the Company will be eligible to participate in the Director Plan on the date of the Meeting.

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Number of Shares Subject to the Director Plan

Up to 500,000 shares of Common Stock may be issued upon exercise of the options granted under the Director Plan. The proposed amendment, which has been adopted by the Board, increases the number of shares which may be so issued to 1,000,000. The shares of Common Stock that may be issued under the Director Plan may be either authorized and unissued shares or issued shares that have been reacquired by the Company. The aggregate number of shares of Common Stock issuable under the Director Plan and the number of shares subject to grants made under the Director Plan are subject to adjustment in the event of a merger, reorganization, consolidation, recapitalization, dividend (other than a regular cash dividend), stock split, or other change in corporate structure affecting the Common Stock. If any option granted under the Director Plan expires, terminates or is cancelled for any reason without having been exercised in full, the number of unpurchased shares will again be available for the purposes of the Director Plan.

Granting of Options Under the Director Plan

On the date of each annual meeting of the Company's shareholders, for as long as the Director Plan remains in effect, each Eligible Director will automatically be granted an option to purchase 20,000 shares of Common Stock.

Stock Options

The exercise price of each option granted under the Director Plan will be equal to the fair market value of the Common Stock on the date of grant. Therefore, while it is known that non-employee directors will receive all grants under the Director Plan, the actual value of the benefits and amounts that will be received by such non-employee directors is not currently determinable. Options will be exercisable in full six months after the date of the grant. The term of each option will be ten years from the date of grant. The option price due upon exercise of any option may be paid to the Company in full in cash. Unless determined otherwise by the Board of Directors in its discretion, payment of the exercise price may also be made by tendering previously acquired shares of Common Stock or reducing the number of shares issuable upon such exercise, in each case based on the fair market value of the Common Stock on the last trading date preceding payment.

Options are not transferable (other than by will or the laws of descent and distribution) and during the participant's lifetime are exercisable only by the participant. If a participant ceases to be a member of the Board of Directors because of death or disability, any then exercisable option held by the participant may be exercised by the participant, or in the case of death, by his legal representative, for one year after ceasing to be a member of the Board of Directors or until the earlier expiration of the option term, and all other options are canceled. If a participant ceases to be a member of the Board of Directors for any reason other than death or disability, any then exercisable stock option held by the participant may be exercised by the participant for the lesser of three months after ceasing to be a member of the Board of Directors or until the expiration of the option term, and all other options are canceled. Options which have expired or which have been canceled unexercised will be available for future grant under the Director Plan.

Options Outstanding, Exercisable and Available for Future Grant

As of July 18, 2003, options to purchase 440,000 shares were outstanding under the Director Plan, all of which were exercisable. The exercise prices for the outstanding options ranged from \$4.25 to \$39.81 per share. On July 18, 2003, the average of the high and low sales prices of a share of Common Stock as reported on the Nasdaq National Market was \$12.06. As of July 18, 2003, of all options

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outstanding under the Director Plan, options to purchase 215,000 shares had an exercise price of \$12.06 or below and were exercisable. At July 18, 2003, options to purchase 60,000 shares (plus any options that expire unexercised or are cancelled in the future) were available for future grant, exclusive of the additional shares covered by the proposed amendment.

Federal Income Tax Consequences

The Federal income tax discussion set forth below is intended for general information only and does not address the rates of taxation applicable to specific categories of taxpayers or classes of income. State and local income tax consequences are not discussed and may vary from locality to locality.

Under present Treasury regulations, an optionee who is granted a non-qualified option will not realize taxable income at the time the option is granted. In general, an optionee will be subject to tax for the year of exercise on an amount of ordinary income equal to the excess of the fair market value of the shares on the date of exercise over the option price, and the Company will receive a corresponding deduction. The optionee's basis in the shares so acquired will be equal to the option price plus the amount of ordinary income upon which he is taxed. Upon subsequent disposition of the shares, the optionee will realize capital gain or loss, long-term or short-term, depending upon the length of time the shares are held after the option is exercised.

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

PLAN CATEGORY	(a)	(b)	(c)
	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS, AND RIGHTS	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS, AND RIGHTS	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	13,288,704	\$ 16.06	545,309
Equity compensation plans not approved by security holders	967,640	\$ 15.40	20,802
Total	14,256,344	\$ 16.02	566,111

The above share and share price information is as of July 18, 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 the Company and is the only equity compensation plan not approved by the Company's shareholders, please see Note 14 to the Company's Consolidated Financial Statements for the year ended March 31, 2003, contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee has reviewed and discussed the Company's audited financial statements with both the Company's management and the Company's independent auditors, Deloitte & Touche LLP. The Company's management has advised the Audit Committee that the audited financial statements were prepared in accordance with generally accepted accounting principles.

The Audit Committee has discussed with Deloitte & Touche LLP certain matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees. The Audit Committee has also discussed with Deloitte & Touche LLP their independence from the Company and its management. The Audit Committee has received the written disclosures and letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1, Independence with Audit Committees, disclosing all relationships between Deloitte & Touche LLP and its related entities and the Company. In addition to the information provided by Deloitte & Touche LLP, the Audit Committee considered the level of non-audit services provided by Deloitte & Touche LLP in determining that they were independent.

Based on the review and discussions described above, the Audit Committee recommended to the Company's Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended March 31, 2003 which was filed with the Securities and Exchange Commission.

Floyd E. Bloom
John K. Clarke
Paul J. Mitchell
Alexander Rich

Table of Contents**AUDIT FEES**

This table shows the aggregate fees billed to the Company by Deloitte & Touche LLP for the fiscal years ended March 31, 2003 and 2002.

	<u>2003</u>	<u>2002</u>
Audit Fees	\$ 163,485 (a)	\$ 151,875 (a)
Audit Related Fees	346,367 (b)	163,076 (b)
Tax Fees	183,027 (c)	172,020 (c)

(a) During the fiscal years ended March 31, 2003 and 2002, Audit Fees included fees for the audit of the Company's annual financial statements and review of the Company's quarterly financial statements included in reports on Form 10-Q.

(b) Audit Related Fees:

	<u>2003</u>	<u>2002</u>
Employee benefit plan audits	\$ 7,000	\$ 14,526
Debt conversion/offering, including registration statements	212,500	
Support for merger, including registration statements	97,877	110,480
Other accounting consultations	28,990	38,070

(c) Tax Fees:

	<u>2003</u>	<u>2002</u>
Tax preparation and review	\$ 58,411	\$ 38,555
Tax consultations	120,456	62,316
Tax support for merger	4,160	71,149

Appointment of Independent Auditor and Pre-Approval of Audit and Non-Audit Services

The Audit Committee has responsibility for hiring the Company's independent auditor and pre-approves all audit services and non-audit services to be performed by the Company's independent auditor.

Table of Contents**EXECUTIVE COMPENSATION AND OTHER INFORMATION****Summary Compensation Table**

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

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

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- (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.
- (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 the Company 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.

Name	Individual Grants				Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term
	Number of Securities Underlying Options Granted (#)(1)	Percent of Total Options Granted to Employees in Fiscal Year (%)	Exercise or Base Price (\$/Share)			