

Alkermes plc.
Form 10-Q
July 26, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

Commission File Number 001-35299

ALKERMES PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

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Ireland
(State or other jurisdiction of incorporation or organization)

98-1007018
(I.R.S. Employer Identification No.)

Connaught House

1 Burlington Road

Dublin 4, Ireland

(Address of principal executive offices)

+ 353-1-772-8000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of the registrant's ordinary shares, \$0.01 par value, outstanding as of July 23, 2018 was 155,315,178 shares.

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ALKERMES PLC AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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Cautionary Note Concerning Forward-Looking Statements

This document contains and incorporates by reference “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In some cases, these statements can be identified by the use of forward-looking terminology such as “may,” “will,” “could,” “should,” “would,” “expect,” “anticipate,” “continue,” “believe,” “plan,” “estimate” or other similar words. These statements discuss future expectations, and contain projections of results of operations or of financial condition, or state trends and known uncertainties or other forward-looking information. Forward-looking statements in this Quarterly Report on Form 10-Q (“Form 10-Q”) include, without limitation, statements regarding:

our expectations regarding our financial performance, including revenues, expenses, gross margins, liquidity, capital expenditures and income taxes;

our expectations regarding our products, including the development, regulatory (including expectations about regulatory filings, regulatory approvals and regulatory timelines), therapeutic and commercial scope and potential of such products and the costs and expenses related thereto;

our expectations regarding the initiation, timing and results of clinical trials of our products;

our expectations regarding the competitive landscape, and changes therein, related to our products, including competition from generic forms of our products, our development programs, and our industry generally;

our expectations regarding the financial impact of currency exchange rate fluctuations and valuations;

our expectations regarding future amortization of intangible assets;

our expectations regarding our collaborations, licensing arrangements and other significant agreements with third parties relating to our products, including our development programs;

our expectations regarding the impact of new legislation and related regulations, including the Tax Cuts and Jobs Act of 2017, and the adoption of new accounting pronouncements;

our expectations regarding near term changes in the nature of our market risk exposures or in management’s objectives and strategies with respect to managing such exposures;

our ability to comply with restrictive covenants of our indebtedness and our ability to fund our debt service obligations;

our expectations regarding future capital requirements and capital expenditures and our ability to finance our operations and capital requirements;

our expectations regarding the timing, outcome and impact of administrative, regulatory, legal and other proceedings related to our patents, other proprietary and intellectual property (“IP”) rights, and our products, including the commercialization of such products; and

other factors discussed elsewhere in this Form 10-Q.

Actual results might differ materially from those expressed or implied by these forward-looking statements because these forward-looking statements are subject to risks, assumptions and uncertainties. These risks, assumptions and uncertainties include, among others: the unfavorable outcome of litigation, including so-called “Paragraph IV” litigation and other patent litigation, related to any of our products, which may lead to competition from generic drug manufacturers; data from clinical trials may be interpreted by the United States (“U.S.”) Food and Drug Administration (“FDA”) in different ways than we interpret it; the FDA may not agree with our regulatory approval strategies or components of our filings for our products, including our clinical trial designs, conduct and methodologies and, for ALKS 5461, evidence of efficacy and adequacy of bridging to buprenorphine; clinical development activities may not be completed on time or at all; the results of our clinical development activities may not be positive, or predictive of real-world results or of results in subsequent clinical trials; regulatory submissions may not occur or be submitted in a timely manner; the company and its licensees may not be able to continue to successfully commercialize their products; there may be a reduction in payment rate or reimbursement for the company’s products or an increase in the company’s financial obligations to governmental payers; the FDA or regulatory authorities outside the U.S. may make adverse decisions regarding the company’s products; the company’s products may prove difficult to manufacture, be precluded from commercialization by the proprietary rights of third parties, or have unintended side effects, adverse reactions or incidents of misuse; and those risks, assumptions and uncertainties described under the heading “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “Annual Report”) and in subsequent filings made by the company with the U.S. Securities and Exchange Commission (“SEC”), which are

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available on the SEC's website at www.sec.gov. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Form 10-Q. All subsequent written and oral forward-looking statements concerning the matters addressed in this Form 10-Q and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except as required by applicable law or regulation, we do not undertake any obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This Form 10-Q includes data that we obtained from industry publications and third-party research, surveys and studies. Industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. This Form 10-Q also includes data based on our own internal estimates and research. Our internal estimates and research have not been verified by any independent source, and, while we believe the industry publications and third-party research, surveys and studies are reliable, we have not independently verified such data. Such third-party data and our internal estimates and research are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Item 1A—Risk Factors" in our Annual Report and in subsequent reports filed with the SEC. These and other factors could cause our results to differ materially from those expressed in the estimates included in this Form 10-Q.

Note Regarding Company and Product References

Alkermes plc (as used in this report, together with our subsidiaries, "Alkermes," the "Company," "us," "we" and "our") is a full integrated, global biopharmaceutical company that applies its scientific expertise and proprietary technologies to research, develop and commercialize, both with partners and on its own, pharmaceutical products that are designed to address unmet medical needs of patients in major therapeutic areas. We have a diversified portfolio of marketed drug products and a clinical pipeline of product candidates that address central nervous system ("CNS") disorders such as schizophrenia, depression, addiction and multiple sclerosis ("MS"). Except as otherwise suggested by the context, (a) references to "products" or "our products" in this Form 10-Q include our marketed products, marketed products using our proprietary technologies, our product candidates, product candidates using our proprietary technologies, development products and development products using our proprietary technologies, (b) references to the "biopharmaceutical industry" are intended to include reference to the "biotechnology industry" and/or the "pharmaceutical industry" and (c) references to "licensees" are used interchangeably with references to "partners."

Note Regarding Trademarks

We are the owner of various U.S. federal trademark registrations ("®") and other trademarks ("TM"), including ALKERMES®, ARISTADA®, ARISTADA INITIOTM, LinkeRx®, NanoCrystal® and VIVITROL®.

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The following are trademarks of the respective companies listed: AMPYRA® and FAMPYRA®—Acorda Therapeutics, Inc. (“Acorda”); BYDUREON® —Amylin Pharmaceuticals, LLC; INVEGA SUSTENNA®, INVEGA TRINZA®, TREVICTA®, XEPLION®, and RISPERDAL CONSTA®—Johnson & Johnson (or its affiliates); TECFIDERA®—Biogen MA Inc. (together with its affiliates, “Biogen”); and ZYPREXA®—Eli Lilly and Company. Other trademarks, trade names and service marks appearing in this Form 10-Q are the property of their respective owners. Solely for convenience, the trademarks and trade names in this Form 10-Q are referred to without the ® and TM symbols, but such references should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements:

ALKERMES PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

| | June 30, 2018 | December 31, 2017 |
|--|--|-------------------|
| | (In thousands, except share and per share amounts) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 155,849 | \$ 191,296 |
| Investments—short-term | 277,658 | 242,208 |
| Receivables, net | 255,230 | 233,590 |
| Contract assets | 14,582 | — |
| Inventory | 87,165 | 93,275 |
| Prepaid expenses and other current assets | 49,639 | 48,475 |
| Total current assets | 840,123 | 808,844 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 296,635 | 284,736 |
| INTANGIBLE ASSETS, NET | 223,852 | 256,168 |
| INVESTMENTS—LONG-TERM | 127,012 | 157,212 |
| GOODWILL | 92,873 | 92,873 |
| CONTINGENT CONSIDERATION | 63,300 | 84,800 |
| DEFERRED TAX ASSETS | 93,066 | 98,560 |
| OTHER ASSETS | 14,625 | 14,034 |
| TOTAL ASSETS | \$ 1,751,486 | \$ 1,797,227 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 279,702 | \$ 286,166 |
| Contract liabilities—short-term | 4,928 | 1,956 |
| Long-term debt—short-term | 2,843 | 3,000 |
| Total current liabilities | 287,473 | 291,122 |
| LONG-TERM DEBT | 277,548 | 278,436 |
| OTHER LONG-TERM LIABILITIES | 22,453 | 19,204 |
| CONTRACT LIABILITIES—LONG-TERM | 5,857 | 5,657 |
| Total liabilities | 593,331 | 594,419 |
| COMMITMENTS AND CONTINGENCIES (Note 14) | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred shares, par value, \$0.01 per share; 50,000,000 shares authorized; zero issued and outstanding at June 30, 2018 and December 31, 2017, | — | — |

respectively

| | | |
|---|---------------------|---------------------|
| Ordinary shares, par value, \$0.01 per share; 450,000,000 shares authorized; 157,612,457 and 156,057,632 shares issued; 155,302,753 and 154,009,456 shares outstanding at June 30, 2018 and December 31, 2017, respectively | 1,573 | 1,557 |
| Treasury shares, at cost (2,309,704 and 2,048,176 shares at June 30, 2018 and December 31, 2017, respectively) | (105,088) | (89,347) |
| Additional paid-in capital | 2,406,861 | 2,338,755 |
| Accumulated other comprehensive loss | (3,980) | (3,792) |
| Accumulated deficit | (1,141,211) | (1,044,365) |
| Total shareholders' equity | 1,158,155 | 1,202,808 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,751,486 | \$ 1,797,227 |

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

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ALKERMES PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--|-------------|------------------|--------------|
| | June 30, | 2017 | June 30, | 2017 |
| | 2018 | | 2018 | |
| | (In thousands, except per share amounts) | | | |
| REVENUES: | | | | |
| Manufacturing and royalty revenues | \$ 128,241 | \$ 129,252 | \$ 242,842 | \$ 243,931 |
| Product sales, net | 109,807 | 88,756 | 201,649 | 165,212 |
| License revenue | 48,250 | — | 48,250 | — |
| Research and development revenue | 18,344 | 833 | 37,051 | 1,476 |
| Total revenues | 304,642 | 218,841 | 529,792 | 410,619 |
| EXPENSES: | | | | |
| Cost of goods manufactured and sold (exclusive of amortization of acquired intangible assets shown below) | 43,417 | 39,775 | 87,893 | 80,187 |
| Research and development | 106,823 | 99,153 | 215,169 | 203,988 |
| Selling, general and administrative | 138,257 | 108,950 | 256,404 | 211,049 |
| Amortization of acquired intangible assets | 16,247 | 15,472 | 32,316 | 30,774 |
| Total expenses | 304,744 | 263,350 | 591,782 | 525,998 |
| OPERATING LOSS | (102) | (44,509) | (61,990) | (115,379) |
| OTHER EXPENSE, NET: | | | | |
| Interest income | 1,900 | 1,171 | 3,386 | 2,114 |
| Interest expense | (3,126) | (2,923) | (8,614) | (5,687) |
| Change in the fair value of contingent consideration | (19,600) | 700 | (21,500) | 2,300 |
| Other expense, net | (3,517) | (119) | (2,725) | (1,618) |
| Total other expense, net | (24,343) | (1,171) | (29,453) | (2,891) |
| LOSS BEFORE INCOME TAXES | (24,445) | (45,680) | (91,443) | (118,270) |
| INCOME TAX PROVISION (BENEFIT) | 8,204 | (2,681) | 3,711 | (6,390) |
| NET LOSS | \$ (32,649) | \$ (42,999) | \$ (95,154) | \$ (111,880) |
| LOSS PER ORDINARY SHARE: | | | | |
| Basic and diluted | \$ (0.21) | \$ (0.28) | \$ (0.61) | \$ (0.73) |
| WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING: | | | | |
| Basic and diluted | 155,176 | 153,392 | 154,802 | 153,050 |
| COMPREHENSIVE LOSS: | | | | |
| Net loss | \$ (32,649) | \$ (42,999) | \$ (95,154) | \$ (111,880) |
| Holding gain (loss), net of a tax provision (benefit) of \$47, \$(71), \$(53) and \$(49), respectively | 148 | (133) | (188) | (61) |
| COMPREHENSIVE LOSS | \$ (32,501) | \$ (43,132) | \$ (95,342) | \$ (111,941) |

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

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ALKERMES PLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|-------------------|
| | 2018 | 2017 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (95,154) | \$ (111,880) |
| Adjustments to reconcile net loss to cash flows from operating activities: | | |
| Depreciation and amortization | 51,491 | 48,269 |
| Share-based compensation expense | 50,975 | 43,848 |
| Deferred income taxes | 3,368 | (6,863) |
| Change in the fair value of contingent consideration | 21,500 | (2,300) |
| Loss on debt refinancing | 2,298 | — |
| Payment made for debt refinancing | (2,251) | — |
| Other non-cash charges | 1,398 | 3,532 |
| Changes in assets and liabilities: | | |
| Receivables | (21,640) | (8,606) |
| Contract assets | (5,471) | — |
| Inventory | (2,082) | (14,585) |
| Prepaid expenses and other assets | (1,615) | (5,574) |
| Accounts payable and accrued expenses | (2,624) | 13,400 |
| Contract liabilities | 1,343 | (473) |
| Other long-term liabilities | 3,752 | 5,034 |
| Cash flows provided by (used in) operating activities | 5,288 | (36,198) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions of property, plant and equipment | (35,420) | (20,656) |
| Proceeds from the sale of equipment | 423 | 7 |
| Purchases of investments | (138,644) | (160,554) |
| Sales and maturities of investments | 133,101 | 190,642 |
| Cash flows (used in) provided by investing activities | (40,540) | 9,439 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from the issuance of ordinary shares under share-based compensation arrangements | 17,000 | 16,404 |
| Employee taxes paid related to net share settlement of equity awards | (15,742) | (16,417) |
| Payment made for debt refinancing | (743) | — |
| Principal payments of long-term debt | (710) | (1,500) |
| Cash flows used in financing activities | (195) | (1,513) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (35,447) | (28,272) |
| CASH AND CASH EQUIVALENTS—Beginning of period | 191,296 | 186,378 |
| CASH AND CASH EQUIVALENTS—End of period | \$ 155,849 | \$ 158,106 |
| SUPPLEMENTAL CASH FLOW DISCLOSURE: | | |

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Non-cash investing and financing activities:

| | | |
|--|----------|----------|
| Purchased capital expenditures included in accounts payable and accrued expenses | \$ 7,246 | \$ 4,531 |
|--|----------|----------|

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

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited)

1. THE COMPANY

Alkermes plc is a fully integrated, global biopharmaceutical company that applies its scientific expertise and proprietary technologies to research, develop and commercialize, both with partners and on its own, pharmaceutical products that are designed to address unmet medical needs of patients in major therapeutic areas. The Company has a diversified portfolio of marketed drug products and a clinical pipeline of product candidates that address CNS disorders such as schizophrenia, depression, addiction and MS. Headquartered in Dublin, Ireland, Alkermes has a research and development (“R&D”) center in Waltham, Massachusetts; an R&D and manufacturing facility in Athlone, Ireland; and a manufacturing facility in Wilmington, Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company for the three and six months ended June 30, 2018 and 2017 are unaudited and have been prepared on a basis substantially consistent with the audited financial statements for the year ended December 31, 2017. The year-end condensed consolidated balance sheet data, which is presented for comparative purposes, was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. (commonly referred to as “GAAP”). In the opinion of management, the condensed consolidated financial statements include all adjustments, which are of a normal recurring nature, that are necessary to state fairly the results of operations for the reported periods.

These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto of the Company, which are contained in the Company’s Annual Report that has been filed with the SEC. The results of the Company’s operations for any interim period are not necessarily indicative of the results of the Company’s operations for any other interim period or for a full fiscal year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Alkermes plc and its wholly-owned subsidiaries as disclosed in Note 2, Summary of Significant Accounting Policies, in the “Notes to Consolidated Financial Statements” accompanying the Company’s Annual Report. Intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the Company’s condensed consolidated financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, judgments and methodologies, including those related to revenue recognition and related allowances, its collaborative relationships, clinical trial expenses, the valuation of inventory, impairment and amortization of intangibles and long-lived assets, share-based compensation, income taxes including the valuation allowance for deferred tax assets, valuation of investments, contingent consideration and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Segment Information

The Company operates as one business segment, which is the business of developing, manufacturing and commercializing medicines. The Company’s chief decision maker, the Chairman of the Board and Chief Executive Officer, reviews the Company’s operating results on an aggregate basis and manages the Company’s operations as a single operating unit.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

Income Taxes

The Company's income tax provision (benefit) in the three and six months ended June 30, 2018 and 2017 primarily related to U.S. federal and state taxes. The Company records a deferred tax asset or liability based on the difference between the financial statement and tax basis of its assets and liabilities, as measured by enacted jurisdictional tax rates assumed to be in effect when these differences reverse. At June 30, 2018, the Company maintained a valuation allowance against certain of its U.S. and foreign deferred tax assets. The Company evaluates, at each reporting period, the need for a valuation allowance on its deferred tax assets on a jurisdiction-by-jurisdiction basis.

As of June 30, 2018, the Company has not modified its position with respect to provisional amounts recorded to its financial statements as a result of the Tax Cuts and Jobs Act ("Tax Reform") that was enacted in December 2017. The Company will continue to analyze the impact of Tax Reform on the Company. For additional information, please refer to Note 2, Summary of Significant Accounting Policies, in the "Notes to Consolidated Financial Statements" accompanying the Annual Report.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard-setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued guidance that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In May 2014, the FASB issued guidance that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The guidance ("Topic 606") is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Numerous updates have been issued subsequent to the initial guidance that provide clarification on a number of specific issues and require additional disclosures. The two permitted transition methods under the new guidance are the full retrospective method, in which case the guidance would be applied to each prior reporting period presented and the cumulative effect of applying the guidance would be recognized at the earliest

period shown, or the modified retrospective method, in which case the cumulative effect of applying the guidance would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new guidance's effective date by one year. The new guidance became effective for annual reporting periods beginning after December 15, 2017.

Effective January 1, 2018, the Company adopted the requirements of Topic 606 using the modified retrospective method. As part of the adoption, the Company reviewed all contracts that were not yet completed as of the date of initial application in determining the cumulative-effect impact related to the adoption of Topic 606. The cumulative-effect impact recorded to retained earnings resulted in an adjustment of approximately \$0.8 million, which was primarily due to the acceleration of manufacturing revenue, offset by an adjustment to deferred revenue for license and milestone payments that will now be recognized over time. The following balance sheet accounts were impacted:

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

| | Topic 606 Adjustment |
|---------------------------------|-------------------------|
| (In thousands) | |
| Contract assets | \$ 9,110 |
| Inventory | (8,209) |
| Deferred tax asset | 109 |
| Contract liabilities—short-term | (1,104) |
| Contract liabilities—long-term | (724) |
| Accumulated deficit | 818 |
| | \$ — |

For additional information regarding how the Company is accounting for revenue under the updated guidance, refer to Note 3, Revenue from Contracts with Customers, in the “Notes to Condensed Consolidated Financial Statements” in this Form 10-Q.

In January 2016, the FASB issued guidance that enhances the reporting model for financial instruments by addressing certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments in this guidance include: requiring equity securities to be measured at fair value with changes in fair value recognized through the income statement; simplifying the impairment assessment of equity instruments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset; and clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. This guidance is effective for the Company in this year ending December 31, 2018, and the Company has determined that the adoption of this guidance will not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The main difference between previous GAAP and this guidance is the recognition of lease assets and

lease liabilities by lessees for those leases classified as operating leases under previous GAAP. This guidance becomes effective for the Company in the year ending December 31, 2019 and the Company continues to assess the impact that this guidance will have on its consolidated financial statements. At this time, the Company cannot conclude as to the total expected impact the adoption of this new guidance will have on its consolidated financial statements, but does believe that the adoption will have a material impact on the Company's balance sheet as it currently has, among other operating leases, two operating leases for 67,000 and 175,000 square feet of office and laboratory space in two separate locations in Waltham, Massachusetts that expire in 2020 and 2021, respectively, and an operating lease for 14,600 square feet of corporate office space in Dublin, Ireland that expires in 2022. In addition, during the three months ended March 31, 2018, the Company entered into a lease for 220,000 square feet of office and laboratory space to be constructed in Waltham, Massachusetts with a delivery date of January 2020.

In June 2016, the FASB issued guidance to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this guidance replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This guidance becomes effective for the Company in the year ending December 31, 2020, with early adoption permitted for the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

Company in the year ending December 31, 2019. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements.

In October 2016, the FASB issued guidance to simplify and improve accounting on transfers of assets between affiliated entities. The updated guidance eliminates the prohibition for all intra-entity asset transfers, except for inventory. Effective January 1, 2018, the Company adopted this guidance and recorded a cumulative-effect adjustment of \$0.9 million to retained earnings.

In July 2017, the FASB issued guidance that addresses narrow issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. The guidance becomes effective for the Company in the year ending December 31, 2019 and early adoption is permitted. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Under Topic 606, the Company recognizes revenues when its customer obtains control of promised goods or services, in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. The Company recognizes revenues following the five step model prescribed under Topic 606: (i) identify contract(s) with a customer (ii) identify the performance obligation(s) in the contract(s) (iii) determine the transaction price (iv) allocate the transaction price to the performance obligation(s) in the contract(s) and (v) recognize revenues when (or as) the Company satisfies the performance obligation(s).

Collaborative Arrangements

The Company has entered into collaboration agreements with pharmaceutical companies including Janssen for INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA as well as RISPERDAL CONSTA; Acorda for AMPYRA/FAMPYRA; AstraZeneca for BYDUREON; and Biogen for BIIB098 (formerly ALKS 8700). Substantially all of the products developed under the Company's collaborative arrangements, except for BIIB098, are currently being marketed as approved products, for which the Company receives payments for manufacturing services and/or royalties on net product sales.

During the three and six months ended June 30, 2018 and 2017, the Company recorded manufacturing and royalty revenues from its collaborative arrangements as follows:

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| (In thousands) | Three Months Ended June 30, 2018 | | | Six Months Ended June 30, 2018 | | |
|---------------------------|----------------------------------|-----------------|------------|--------------------------------|-----------------|------------|
| | Manufacturing Revenue | Royalty Revenue | Total | Manufacturing Revenue | Royalty Revenue | Total |
| INVEGA | | | | | | |
| SUSTENNA/XEPLION & INVEGA | | | | | | |
| TRINZA/TREVICTA | \$ — | \$ 63,250 | \$ 63,250 | \$ — | \$ 109,336 | \$ 109,336 |
| AMPYRA/FAMPYRA | 11,543 | 8,135 | 19,678 | 25,106 | 22,831 | 47,937 |
| RISPERDAL CONSTA | 17,237 | 4,694 | 21,931 | 35,029 | 9,606 | 44,635 |
| BYDUREON | — | 13,509 | 13,509 | — | 23,258 | 23,258 |
| Other | 8,148 | 1,725 | 9,873 | 14,384 | 3,292 | 17,676 |
| | \$ 36,928 | \$ 91,313 | \$ 128,241 | \$ 74,519 | \$ 168,323 | \$ 242,842 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

| (In thousands) | Three Months Ended June 30, 2017 | | | Six Months Ended June 30, 2017 | | |
|---------------------------|----------------------------------|-----------------|------------|--------------------------------|-----------------|------------|
| | Manufacturing Revenue | Royalty Revenue | Total | Manufacturing Revenue | Royalty Revenue | Total |
| INVEGA | | | | | | |
| SUSTENNA/XEPLION & INVEGA | | | | | | |
| TRINZA/TREVICTA | \$ — | \$ 56,642 | \$ 56,642 | \$ — | \$ 95,824 | \$ 95,824 |
| AMPYRA/FAMPYRA | 12,233 | 13,023 | 25,256 | 26,069 | 28,406 | 54,475 |
| RISPERDAL CONSTA | 20,380 | 5,147 | 25,527 | 36,020 | 10,328 | 46,348 |
| BYDUREON | — | 11,635 | 11,635 | — | 23,901 | 23,901 |
| Other | 7,821 | 2,371 | 10,192 | 17,197 | 6,186 | 23,383 |
| | \$ 40,434 | \$ 88,818 | \$ 129,252 | \$ 79,286 | \$ 164,645 | \$ 243,931 |

Manufacturing revenues— The Company recognizes manufacturing revenues from the sale of products it manufactures, which is its one performance obligation under such arrangements, for resale by its licensees. Manufacturing revenues for the Company's partnered products, with the exception of those from Janssen related to RISPERDAL CONSTA, are recognized over time as products move through the manufacturing process, using a standard cost-based model as a measure of progress, which represents a faithful depiction of the transfer of goods. The Company recognizes manufacturing revenue from these products over time as it determined, in each instance, that it has a right to payment for performance completed to date if its customer were to terminate the manufacturing agreement for reasons other than the Company's non-performance and the products have no alternative future use. The Company invoices its licensees upon shipment with payment terms between 30 to 90 days. Prior to the adoption of Topic 606, the Company recorded manufacturing revenue from the sale of products it manufactures for resale by its partners after the Company had shipped such products and risk of loss had passed to the Company's partner, assuming persuasive evidence of an arrangement existed, the sales price was fixed or determinable and collectability was reasonably assured.

The Company is the exclusive manufacturer of RISPERDAL CONSTA for commercial sale under its manufacturing and supply agreement with Janssen. The Company determined that it is appropriate to record revenue under this agreement at the point in time when control of the product passes to Janssen, which is determined to be when the product has been fully manufactured, since Janssen does not control the product during the manufacturing process and, in the event Janssen terminates the manufacturing and supply agreement, it is unclear whether, and at what amount, the Company would be reimbursed for performance completed to date for product not yet fully manufactured. The manufacturing process is considered fully complete once the finished goods have been approved for shipment by both the Company and Janssen.

The sales price for certain of the Company's manufacturing revenues is based on the end-market sales price earned by its licensees. As end-market sales generally occur after the Company has recorded manufacturing revenue, the

Company estimates the sales price for such products based on information supplied to it by the Company's licensees, its historical transaction experience and other third-party data. Differences between actual manufacturing revenues and estimated manufacturing revenues are reconciled and adjusted for in the period in which they become known, which is generally within the same quarter. The difference between the Company's actual and estimated manufacturing revenues has not been material.

Royalty revenues—The Company recognizes royalty revenues related to the sale of products by its licensees that incorporate the Company's technologies. Royalties, with the exception of those earned on sales of AMPYRA as set forth below, qualify for the sales-and-usage exemption under Topic 606 as (i) royalties are based strictly on the sales-and-usage by the licensee; and (ii) a license of IP is the sole or predominant item to which such royalties relate. Based on this exemption, these royalties are earned under the terms of a license agreement in the period the products are sold by the Company's partner and the Company has a present right to payment. Royalties on AMPYRA manufactured under our license and supply agreements with Acorda are incorporated into the standard cost-based model described in the manufacturing revenues section, above, as the terms of such agreements entitle the Company to royalty revenue as the product is being manufactured, which represents a faithful depiction of the transfer of goods, and not based on the end-market sales of the licensee. Certain of the Company's royalty revenues are recognized by the Company based on information supplied to the Company by its partners and require estimates to be made. Differences between actual royalty revenues and estimated royalty revenues are reconciled and adjusted for in the period in which they become

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

known, which is generally within the same quarter. The difference between the Company's actual and estimated royalty revenues has not been material.

Multiple Element Arrangements

When entering into multiple element arrangements, the Company identifies whether its performance obligations under the arrangement represent a distinct good or service or a series of distinct goods or services. A series of distinct goods or services is required to be accounted for as a single performance obligation provided that (i) each distinct good or service in the series promised would meet the criteria to be a performance obligation satisfied over time; and (ii) the same method would be used to measure the Company's progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer. If a contract is separated into more than one performance obligation, the Company allocates the total transaction price to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. The fair value of deliverables under the arrangement may be derived using a "best estimate of selling price" if vendor-specific objective evidence and third-party evidence is not available.

The Company recognizes revenue when or as it satisfies a performance obligation by transferring an asset to a customer. An asset is transferred when or as the customer obtains control of that asset. Significant management judgment is required in determining the consideration to be earned under an arrangement and the period over which the Company is expected to complete its performance obligations under an arrangement. Steering committee services that are not inconsequential or perfunctory and that are determined to be performance obligations are combined with other research services or performance obligations required under an arrangement, if any, in determining the level of effort required in an arrangement and the period over which the Company expects to complete its aggregate performance obligations.

In November 2017, the Company granted Biogen, under a license and collaboration agreement, a worldwide, exclusive, sublicensable license to develop, manufacture and commercialize BIIB098 and other products covered by patents licensed to Biogen under the agreement. Upon entering into this agreement in November 2017, the Company received an up-front cash payment of \$28.0 million. In June 2018, the Company received an additional cash payment of \$50.0 million following Biogen's review of preliminary gastrointestinal tolerability data from the ongoing clinical development program for BIIB098. The Company is also eligible to receive an additional payment of \$150.0 million upon an approval by the FDA on or before December 31, 2021 of a 505(b)(2) new drug application ("NDA") (or, in certain circumstances, a 505(b)(1) NDA) for BIIB098. The Company is also eligible to receive additional payments upon achievement of developmental milestones with respect to the first two products, other than BIIB098, covered by patents licensed to Biogen under the agreement. In addition, the Company will receive a mid-teens percentage royalty on worldwide net sales of BIIB098, subject to, under certain circumstances, minimum annual payments for the first five years following FDA approval of BIIB098. The Company will also receive royalties on net sales of products, other than BIIB098, covered by patents licensed to Biogen under the agreement, at tiered royalty rates calculated as percentages of net sales ranging from high-single digits to low double-digits. All royalties are payable on a product-by-product and country-by-country basis until the later of (i) the last-to-expire patent right covering the applicable product in the applicable country and (ii) a specified period of time from the first commercial sale of the applicable product in the applicable country. Royalties for all such products and the minimum annual payments for BIIB098 are subject to reductions as set forth in the agreement. Biogen paid a portion of the BIIB098 development

costs the Company incurred in 2017 and, since January 1, 2018, Biogen is responsible for all BIIB098 development costs the Company incurs, subject to annual budget limitations. The Company has retained the right to manufacture clinical supplies and commercial supplies of BIIB098 and all other products covered by patents licensed to Biogen under the agreement, subject to Biogen's right to manufacture or have manufactured commercial supplies as a back-up manufacturer and subject to good faith agreement by the parties on the terms of such manufacturing arrangements.

The Company evaluated the agreement under Topic 606 and determined that it had four initial performance obligations: (i) the grant of a distinct, right-to-use license to Biogen; (ii) future development services; (iii) clinical supply; and (iv) participation on a joint steering committee with Biogen. The participation on the joint steering committee was considered to be perfunctory and thus not recognized as a separate unit of accounting. The deliverables, aside from the participation in the joint steering committee which was considered to be perfunctory, were determined to

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

be separate performance obligations as the license is separately identifiable from the development services and clinical supply, and the development services are not expected to significantly modify or customize the IP.

The consideration allocable to the delivered performance obligation(s) is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions. The Company allocated the non-contingent consideration to each unit of accounting using the relative selling price method based on its best estimate of selling price for the license and other deliverables. The Company used a discounted cash flow model to estimate the fair value of the license in order to allocate the consideration to the performance obligations. To estimate the fair value of the license, the Company assessed the likelihood of the FDA's approval of BIIB098 and estimated the expected future cash flows assuming FDA approval and the maintenance of the IP protecting BIIB098. The Company then discounted these cash flows using a discount rate of 8.0%, which it believes captures a market participant's view of the risk associated with the expected cash flows. The best estimate of selling price of the development services and clinical supply were determined through third-party evidence. The Company believes that a change in the assumptions used to determine its best estimate of selling price for the license most likely would not have a significant effect on the allocation of consideration transferred.

At the date the license was delivered to Biogen, under Topic 606, the Company allocated \$27.0 million to the delivery of the license, \$0.9 million to future R&D work and \$0.1 million to clinical supply. The amounts allocated to the R&D services and clinical supply will be recognized over the course of the R&D work and as clinical supply is delivered to Biogen, which is expected to continue through 2019.

The Company determined that the future milestones it is entitled to receive, including the \$150.0 million payment upon approval by the FDA on or before December 31, 2021 of a 505(b)(2) NDA (or, in certain circumstances, a 505(b)(1) NDA) for BIIB098, and sales-based royalties, are variable consideration. The Company is using the most likely amount method for estimating the variable consideration to be received related to the milestones under this arrangement. Given the challenges inherent in developing and obtaining approval for pharmaceutical and biologic products, there was substantial uncertainty as to whether these milestones would be achieved at the time the license and collaboration agreement was entered into. Accordingly, the Company has not included these milestones or royalties in the transaction price as it is not probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

During the three months ended June 30, 2018, the Company recognized \$48.3 million in license revenue related to the license and collaboration agreement with Biogen for BIIB098, which was triggered by Biogen's decision to pay the \$50.0 million option payment following Biogen's review of preliminary gastrointestinal tolerability data from the ongoing clinical development program for BIIB098, including certain data from the long-term safety clinical trial and part A of the elective, randomized, head-to-head phase 3 gastrointestinal tolerability clinical trial comparing BIIB098 and dimethyl fumarate. The Company previously determined that this \$50.0 million milestone payment was variable consideration, as described above, and was not included in the initial transaction price as it was not probable that a significant reversal in the amount of cumulative revenue recognized would not occur. Upon receipt of the \$50.0 million payment, the constraint preventing revenue recognition from previously occurring was removed and the payment was included in the transaction price and allocated to the performance obligations, as previously described. The Company recognized the transaction price allocated to the license upon receipt of the \$50.0 million payment as the license had already been delivered to Biogen. The remaining \$1.7 million of the \$50.0 million payment was

allocated to future development services and clinical supply, which will be accounted for as R&D revenue.

Research and development revenue—R&D revenue consists of funding that compensates the Company for formulation, pre-clinical and clinical testing under R&D arrangements with its partners. The Company generally bills its partners under R&D arrangements using a full-time equivalent (“FTE”) or hourly rate, plus direct external costs, if any. Revenue is recognized as the obligations under the R&D arrangements are performed. The research and development revenue recorded during the three and six months ended June 30, 2018 primarily related to revenue earned under the Company’s license and collaboration agreement with Biogen for BIIB098.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

Product Sales, Net

The Company's product sales, net consist of sales of VIVITROL and ARISTADA in the U.S. primarily to wholesalers, specialty distributors and pharmacies. Product sales, net are recognized when the customer obtains control of the product, which is when the product has been received by the customer.

Revenues from product sales are recorded net of reserves established for applicable discounts and allowances that are offered within contracts with the Company's customers, health care providers or payers. The Company's process for estimating reserves established for these variable consideration components does not differ materially from historical practices. The transaction price, which includes variable consideration reflecting the impact of discounts and allowances, may be subject to constraint and is included in the net sales price only to the extent that it is probable that a significant reversal of the amount of the cumulative revenues recognized will not occur in a future period. Actual amounts may ultimately differ from the Company's estimates. If actual results vary, the Company adjusts these estimates, which could have an effect on earnings in the period of adjustment. The following are the Company's significant categories of sales discounts and allowances:

Medicaid Rebates—the Company records accruals for rebates to states under the Medicaid Drug Rebate Program as a reduction of sales when the product is shipped into the distribution channel using the most likely amount method. The Company rebates individual states for all eligible units purchased under the Medicaid program based on a rebate per unit calculation, which is based on the Company's average manufacturer prices. The Company estimates expected unit sales and rebates per unit under the Medicaid program and adjusts its rebate based on actual unit sales and rebates per unit. To date, actual Medicaid rebates have not differed materially from the Company's estimates;

Chargebacks—discounts that occur when contracted indirect customers purchase directly from wholesalers and specialty distributors. Contracted customers generally purchase a product at its contracted price. The wholesaler or specialty distributor, in turn, then generally charges back to the Company the difference between the wholesale acquisition cost and the contracted price paid to the wholesaler or specialty distributor by the customer. The allowance for chargebacks is made using the most likely amount method and is based on actual and expected utilization of these programs. Chargebacks could exceed historical experience and the Company's estimates of future participation in these programs. To date, actual chargebacks have not differed materially from the Company's estimates;

Product Discounts—cash consideration, including sales incentives, given by the Company under agreements with a number of wholesaler, distributor, pharmacy, and treatment provider customers that provide them with a discount on the purchase price of products. The reserve is made using the most likely amount method and to date, actual product discounts have not differed materially from the Company's estimates; and

Product Returns—the Company records an estimate for product returns at the time its customers take title to the Company's product. The Company estimates this liability using the most likely amount method based on its historical return levels and specifically identified anticipated returns due to known business conditions and product expiry dates. Return amounts are recorded as a deduction to arrive at product sales, net. Once product is returned, it is destroyed.

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During the three and six months ended June 30, 2018 and 2017, the Company recorded product sales, net, as follows:

| (In thousands) | Three Months Ended | | Six Months Ended | |
|--------------------------|--------------------|-----------|------------------|------------|
| | June 30, 2018 | 2017 | June 30, 2018 | 2017 |
| VIVITROL | \$ 76,203 | \$ 66,071 | \$ 138,885 | \$ 124,527 |
| ARISTADA | 33,604 | 22,685 | 62,764 | 40,685 |
| Total product sales, net | \$ 109,807 | \$ 88,756 | \$ 201,649 | \$ 165,212 |

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

Receivables, Net—Receivables, net, include amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and collateral to the extent applicable. The Company's allowance for doubtful accounts was \$0.2 million at June 30, 2018 and December 31, 2017.

Contract Assets—Contract assets include unbilled amounts resulting from sales under certain of the Company's manufacturing contracts where revenue is recognized over time. The products included in the contract assets table below complete the manufacturing process in ten days to eight weeks. As such, the Company availed itself of the practical expedient to not disclose the transaction price allocated to the remaining performance obligations as the only performance obligation is completing the manufacturing of such products, and the time remaining to manufacture the products is generally less than eight weeks. Contract assets are classified as current.

Contract assets consisted of the following:

| (In thousands) | Contract Assets |
|------------------------------------|--------------------|
| Contract assets at January 1, 2018 | \$ 9,110 |
| Additions | 38,364 |
| Transferred to receivables, net | (32,892) |
| Contract assets at June 30, 2018 | \$ 14,582 |

Contract Liabilities—The Company's contract liabilities consist of contractual obligations related to deferred revenue.

Contract liabilities consisted of the following:

| (In thousands) | Contract Liabilities |
|---|-------------------------|
| Contract liabilities at January 1, 2018 | \$ 9,442 |
| Additions | 3,614 |
| Amounts recognized into revenue | (2,271) |
| Contract liabilities at June 30, 2018 | \$ 10,785 |

In order to determine revenue recognized in the period from contract liabilities, we first allocate revenue to the individual contract liability balance outstanding at the beginning of the period until the revenue exceeds that balance. If additional advances are received on those contracts in subsequent periods, we assume all revenue recognized in the reporting period first applies to the beginning contract liability as opposed to a portion applying to the new advances for the period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

The Company adopted Topic 606 using the modified retrospective method. As such, the Company recognized the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of shareholders' equity at January 1, 2018. Therefore, the comparative information has not been adjusted and continues to be reported under the old revenue recognition guidance ("Topic 605"). The quantitative impacts of the changes are set out below for each of the condensed consolidated balance sheet and the condensed consolidated statement of operations for the current reporting period.

ADJUSTED CONDENSED CONSOLIDATED BALANCE SHEET

| | June 30, 2018 | | |
|---------------------------------|-------------------------------|-----------------|---|
| | As Reported (In thousands) | Adjustment | Balances Without Adoption of Topic 606 |
| ASSETS | | | |
| Contract assets | \$ 14,582 | \$ (14,582) (1) | \$ — |
| Inventory | 87,165 | 9,346 (2) | 96,511 |
| Deferred tax asset | 93,066 | (223) (3) | 92,843 |
| LIABILITIES | | | |
| Contract liabilities—short-term | \$ 4,928 | \$ (4,928) (4) | \$ — |
| Deferred revenue—short-term | — | 3,189 (4) | 3,189 |
| Contract liabilities—long-term | 5,857 | (5,857) (4) | — |
| Deferred revenue—long-term | — | 5,030 (4) | 5,030 |
| SHAREHOLDERS' EQUITY | | | |
| Accumulated deficit | \$ (1,141,211) | \$ (2,893) (5) | \$ (1,144,104) |

The adjustments are a result of the following:

- (1) Adjustment to contract assets is to reverse revenue recognized over time under Topic 606.
- (2) Adjustment to inventory to add back the cost of goods manufactured related to the revenue transactions summarized in item (1), above.
- (3) Adjustment to deferred tax asset is to apply the tax impact of the revenue transactions summarized in item (1), above.

- (4) Adjustment to contract liabilities—short-term and contract liabilities—long-term to reclassify amounts previously classified as deferred revenue—short-term and deferred revenue—long-term under Topic 605.
- (5) Adjustment to accumulated deficit for the net impact of the transactions noted in items (1) through (4), above.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

ADJUSTED CONDENSED CONSOLIDATED STATEMENTS

OF OPERATIONS AND COMPREHENSIVE LOSS

| | Three Months Ended June 30, 2018 | | | Six Months Ended June 30, 2018 | | | |
|--|--|---------------|--|--------------------------------|----------------|--|--|
| | As Reported | Adjustment | Balances Without Adoption of Topic 606 | As Reported | Adjustment | Balances Without Adoption of Topic 606 | |
| | (In thousands, except per share amounts) | | | | | | |
| REVENUES: | | | | | | | |
| Manufacturing and royalty revenues | \$ 128,241 | \$ 11,487 (1) | \$ 139,728 | \$ 242,842 | \$ (5,472) (1) | \$ 237,370 | |
| Product sales, net | 109,807 | — | 109,807 | 201,649 | — | 201,649 | |
| License revenue | 48,250 | (48,250) (2) | — | 48,250 | (48,250) (2) | — | |
| Research and development revenue | 18,344 | 49,819 (3) | 68,163 | 37,051 | 49,641 (3) | 86,692 | |
| Total revenues | 304,642 | 13,056 | 317,698 | 529,792 | (4,081) | 525,711 | |
| EXPENSES: | | | | | | | |
| Cost of goods manufactured and sold | 43,417 | 4,988 (4) | 48,405 | 87,893 | 1,139 (4) | 89,032 | |
| Research and development | 106,823 | — | 106,823 | 215,169 | — | 215,169 | |
| Selling, general and administrative | 138,257 | — | 138,257 | 256,404 | — | 256,404 | |
| Amortization of acquired intangible assets | 16,247 | — | 16,247 | 32,316 | — | 32,316 | |
| Total expenses | 304,744 | 4,988 | 309,732 | 591,782 | 1,139 | 592,921 | |
| Operating loss | (102) | 8,068 | 7,966 | (61,990) | (5,220) | (67,210) | |
| Other expense, net | (24,343) | — | (24,343) | (29,453) | — | (29,453) | |
| Loss before income taxes | (24,445) | 8,068 | (16,377) | (91,443) | (5,220) | (96,663) | |
| | 8,204 | 1,372 | 9,576 | 3,711 | 115 | 3,826 | |

| | | | | | | |
|---|-------------|----------|-------------|-------------|------------|--------------|
| Income tax provision | | | | | | |
| Net loss | \$ (32,649) | \$ 6,696 | \$ (25,953) | \$ (95,154) | \$ (5,335) | \$ (100,489) |
| Loss per ordinary share — basic and diluted | \$ (0.21) | \$ 0.04 | \$ (0.17) | \$ (0.61) | \$ (0.04) | \$ (0.65) |

The adjustments are a result of the following:

- (1) Adjustment to manufacturing and royalty revenues to recognize revenue under Topic 605 in the three and six months ended June 30, 2018 that was recognized under Topic 606.
- (2) Adjustments to license revenue during the three and six months ended June 30, 2018 to recognize revenue under Topic 605 that was recognized under Topic 606.
- (3) Adjustments to research and development revenue during the three and six months ended June 30, 2018 to recognize revenue under Topic 605 that was recognized under Topic 606.
- (4) Adjustment to cost of goods manufactured and sold to recognize the cost from the transactions noted in item (1), above.

The Company's changes in assets and liabilities within its condensed consolidated statement of cash flows changed as a result of the differences in the condensed consolidated balance sheet and change in net income in the condensed consolidated statement of operations but the overall cash flows used in operating activities did not change.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

4. INVESTMENTS

Investments consisted of the following (in thousands):

| | Amortized | Gross Unrealized Losses | | Greater than One Year | Estimated |
|---|------------|----------------------------|-----------------------|--------------------------------|------------|
| June 30, 2018 | Cost | Gains | Less than One Year | Year | Fair Value |
| Short-term investments: | | | | | |
| Available-for-sale securities: | | | | | |
| U.S. government and agency debt securities | \$ 167,322 | \$ 3 | \$ (144) | \$ (116) | \$ 167,065 |
| Corporate debt securities | 76,908 | 14 | (151) | (12) | 76,759 |
| International government agency debt securities | 33,885 | 2 | (53) | — | 33,834 |
| Total short-term investments | 278,115 | 19 | (348) | (128) | 277,658 |
| Long-term investments: | | | | | |
| Available-for-sale securities: | | | | | |
| Corporate debt securities | 67,126 | — | (503) | (35) | 66,588 |
| U.S. government and agency debt securities | 35,457 | — | (273) | (76) | 35,108 |
| International government agency debt securities | 21,875 | — | (186) | — | 21,689 |
| | 124,458 | — | (962) | (111) | 123,385 |
| Held-to-maturity securities: | | | | | |
| Fixed term deposit account | 1,667 | 169 | — | — | 1,836 |
| Certificates of deposit | 1,791 | — | — | — | 1,791 |
| | 3,458 | 169 | — | — | 3,627 |
| Total long-term investments | 127,916 | 169 | (962) | (111) | 127,012 |
| Total investments | \$ 406,031 | \$ 188 | \$ (1,310) | \$ (239) | \$ 404,670 |
| December 31, 2017 | | | | | |
| Short-term investments: | | | | | |
| Available-for-sale securities: | | | | | |
| U.S. government and agency debt securities | \$ 150,673 | \$ 1 | \$ (130) | \$ (233) | \$ 150,311 |
| Corporate debt securities | 56,552 | 3 | (48) | (10) | 56,497 |

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| | | | | | |
|---|------------|--------|----------|----------|------------|
| International government agency debt securities | 35,478 | 1 | (54) | (25) | 35,400 |
| Total short-term investments | 242,703 | 5 | (232) | (268) | 242,208 |
| Long-term investments: | | | | | |
| Available-for-sale securities: | | | | | |
| Corporate debt securities | 83,924 | — | (300) | (34) | 83,590 |
| U.S. government and agency debt securities | 48,948 | — | (270) | (71) | 48,607 |
| International government agency debt securities | 21,453 | — | (118) | — | 21,335 |
| | 154,325 | — | (688) | (105) | 153,532 |
| Held-to-maturity securities: | | | | | |
| Fixed term deposit account | 1,667 | 222 | — | — | 1,889 |
| Certificates of deposit | 1,791 | — | — | — | 1,791 |
| | 3,458 | 222 | — | — | 3,680 |
| Total long-term investments | 157,783 | 222 | (688) | (105) | 157,212 |
| Total investments | \$ 400,486 | \$ 227 | \$ (920) | \$ (373) | \$ 399,420 |

The proceeds from the sales and maturities of marketable securities, which were primarily reinvested and resulted in realized gains and losses, were as follows:

| (In thousands) | Six Months Ended | |
|---|------------------|------------|
| | June 30, | |
| | 2018 | 2017 |
| Proceeds from the sales and maturities of marketable securities | \$ 133,101 | \$ 190,642 |
| Realized gains | \$ 4 | \$ 9 |
| Realized losses | \$ 5 | \$ 3 |

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

The Company's available-for-sale and held-to-maturity securities at June 30, 2018 had contractual maturities in the following periods:

| (In thousands) | Available-for-sale | | Held-to-maturity | |
|------------------------------|--------------------|----------------------|------------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Within 1 year | \$ 251,659 | \$ 251,240 | \$ 1,791 | \$ 1,791 |
| After 1 year through 5 years | 150,914 | 149,803 | 1,667 | 1,836 |
| Total | \$ 402,573 | \$ 401,043 | \$ 3,458 | \$ 3,627 |

At June 30, 2018, the Company believed that the unrealized losses on its available-for-sale investments were temporary. The investments with unrealized losses consisted primarily of U.S. government and agency debt securities. In making the determination that the decline in fair value of these securities was temporary, the Company considered various factors, including, but not limited to: the length of time each security was in an unrealized loss position; the extent to which fair value was less than cost; financial condition and near-term prospects of the issuers; the Company's intent not to sell these securities; and the assessment that it is more likely than not that the Company would not be required to sell these securities before the recovery of their amortized cost basis.

In May 2014, the Company entered into an agreement whereby it is committed to provide up to €7.4 million to a partnership, Fountain Healthcare Partners II, L.P. of Ireland ("Fountain"), which was created to carry on the business of investing exclusively in companies and businesses engaged in the healthcare, pharmaceutical and life sciences sectors. As of June 30, 2018, the Company's total contribution in Fountain was equal to €4.2 million. The Company's commitment represents approximately 7% of the partnership's total funding. The Company is accounting for its investment in Fountain under the equity method. During the three and six months ended June 30, 2018, the Company recorded a decrease in its investment in Fountain of \$0.4 million and \$0.5 million, respectively. During the three and six months ended June 30, 2017, the Company recorded a decrease in its investment in Fountain of less than \$0.1 million and \$0.6 million, respectively. The decreases recorded represent the Company's proportional share of Fountain's net losses for these periods. The Company's \$3.4 million and \$3.7 million net investment in Fountain at June 30, 2018 and December 31, 2017, respectively, was included within "Other assets" in the accompanying condensed consolidated balance sheets.

5. FAIR VALUE MEASUREMENTS

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The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value:

| (In thousands) | June 30, 2018 | Level 1 | Level 2 | Level 3 |
|---|------------------|------------|------------|-----------|
| Assets: | | | | |
| Cash equivalents | \$ 1,836 | \$ 1,836 | \$ — | \$ — |
| U.S. government and agency debt securities | 202,173 | 150,235 | 51,938 | — |
| Corporate debt securities | 143,347 | — | 142,855 | 492 |
| International government agency debt securities | 55,523 | — | 55,523 | — |
| Contingent consideration | 63,300 | — | — | 63,300 |
| Common stock warrants | 428 | — | — | 428 |
| Total | \$ 466,607 | \$ 152,071 | \$ 250,316 | \$ 64,220 |

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

| | December 31, 2017 | Level 1 | Level 2 | Level 3 |
|---|----------------------|------------|------------|-----------|
| Assets: | | | | |
| Cash equivalents | \$ 1,889 | \$ 1,889 | \$ — | \$ — |
| U.S. government and agency debt securities | 198,918 | 124,958 | 73,960 | — |
| Corporate debt securities | 140,087 | — | 140,087 | — |
| International government agency debt securities | 56,735 | — | 56,735 | — |
| Contingent consideration | 84,800 | — | — | 84,800 |
| Common stock warrants | 1,395 | — | — | 1,395 |
| Total | \$ 483,824 | \$ 126,847 | \$ 270,782 | \$ 86,195 |

The Company transfers its financial assets and liabilities, measured at fair value on a recurring basis, between the fair value hierarchies at the end of each reporting period.

There were no transfers of any securities between the fair value hierarchies during the six months ended June 30, 2018. The following table is a rollforward of the fair value of the Company's assets whose fair values were determined using Level 3 inputs at June 30, 2018:

| (In thousands) | Fair Value |
|--|------------|
| Balance, January 1, 2018 | \$ 86,195 |
| Purchase of corporate debt security | 492 |
| Change in the fair value of contingent consideration | (21,500) |
| Decrease in the fair value of warrants | (967) |
| Balance, June 30, 2018 | \$ 64,220 |

The Company's investments in U.S. government and agency debt securities, international government agency debt securities and corporate debt securities classified as Level 2 within the fair value hierarchy were initially valued at the transaction price and subsequently valued, at the end of each reporting period, utilizing market-observable data. The market-observable data included reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events. The Company validated the prices developed using the market-observable data by obtaining market values from other pricing sources, analyzing pricing data in certain instances and confirming that the relevant markets are active.

The Company's contingent consideration relates to the divestiture of its Gainesville, GA facility (the "Gainesville Transaction"), as summarized in Note 15, Divestiture, in the "Notes to Consolidated Financial Statements" of the Company's Annual Report. At June 30, 2018, the Company determined the value of the contingent consideration using the following valuation approaches:

- The Company is entitled to receive \$45.0 million upon regulatory approval of the first NDA for IV/IM and parenteral forms of Meloxicam or any other product with the same active ingredient as Meloxicam IV/IM that is discovered or identified using certain of the Company's IP to which Recro Pharma, Inc. ("Recro") was provided a right of use, through license or transfer (the "Meloxicam Product(s)"). The fair value of the regulatory milestone was estimated based on applying the likelihood of achieving this regulatory milestone and applying a discount rate from the expected time the milestone occurs to the balance sheet date. The Company expects the regulatory milestone event to occur in the second quarter of 2019 and used a discount rate of 4.4%;
- The Company is entitled to receive future royalties on net sales of Meloxicam Products. To estimate the fair value of the future royalties, the Company assessed the likelihood of a Meloxicam Product being approved for sale and estimated the expected future sales of such Meloxicam Product assuming approval and IP protection. The Company then discounted these expected payments using a discount rate of 16.0%, which it believes captures a market participant's view of the risk associated with the expected payments; and
- The Company is entitled to receive payments of up to \$80.0 million upon achieving certain sales milestones on future sales of the Meloxicam Products. The sales milestones were determined through the use of a real

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

options approach, where net sales are simulated in a risk-neutral world. To employ this methodology, the Company used a risk-adjusted expected growth rate based on its assessments of expected growth in net sales of the approved Meloxicam Product, adjusted by an appropriate factor capturing their respective correlation with the market. A resulting expected (probability-weighted) milestone payment was then discounted at a cost of debt, which ranged from 4.2% to 5.9%.

At June 30, 2018 and December 31, 2017, the Company determined that the value of the contingent consideration was \$63.3 million and \$84.8 million, respectively. The Company recorded a decrease of \$19.6 million and \$21.5 million during the three and six months ended June 30, 2018, respectively, and an increase of \$0.7 million and \$2.3 million during the three and six months ended June 30, 2017, respectively, within “Change in the fair value of contingent consideration” in the accompanying condensed consolidated statements of operations and comprehensive loss.

As part of the Gainesville Transaction, the Company also received warrants to purchase 350,000 shares of Recro common stock at a per share exercise price of \$19.46. The Company used a Black-Scholes model with the following assumptions to determine the fair value of these warrants at June 30, 2018:

| | | |
|--------------------------------------|----------|---|
| Closing stock price at June 30, 2018 | \$ 5.02 | |
| Warrant strike price | \$ 19.46 | |
| Expected term (years) | 3.78 | |
| Risk-free rate | 2.67 | % |
| Volatility | 74.0 | % |

During the three and six months ended June 30, 2018, the Company determined that the fair value of the warrants, recorded within “Other assets” in the accompanying condensed consolidated balance sheets, decreased by \$1.3 million and \$1.0 million, respectively, and during the three and six months ended June 30, 2017, decreased by \$0.4 million and \$0.2 million, respectively. The change in the fair value of the warrants was recorded within “Other expense, net” in the accompanying condensed consolidated statements of operations and comprehensive loss.

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses approximate fair value due to their short-term nature.

6. INVENTORY

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Inventory consisted of the following:

| (In thousands) | June 30, 2018 | December 31, 2017 |
|-------------------|------------------|----------------------|
| Raw materials | \$ 31,328 | \$ 29,883 |
| Work in process | 37,180 | 38,964 |
| Finished goods(1) | 18,657 | 24,428 |
| Total inventory | \$ 87,165 | \$ 93,275 |

- (1) At June 30, 2018 and December 31, 2017, the Company had \$13.3 million and \$8.7 million, respectively, of finished goods inventory located at its third-party warehouse and shipping service provider.

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

| (In thousands) | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| Land | \$ 6,293 | \$ 6,293 |
| Building and improvements | 156,168 | 155,198 |
| Furniture, fixtures and equipment | 301,012 | 289,455 |
| Leasehold improvements | 19,890 | 19,578 |
| Construction in progress | 72,010 | 54,270 |
| Subtotal | 555,373 | 524,794 |
| Less: accumulated depreciation | (258,738) | (240,058) |
| Total property, plant and equipment, net | \$ 296,635 | \$ 284,736 |

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consisted of the following:

| (In thousands) | Weighted Amortizable Life (Years) | Six Months Ended June 30, 2018 Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---------------------------------|---|--|-----------------------------|---------------------------|
| Goodwill | | \$ 92,873 | \$ — | \$ 92,873 |
| Finite-lived intangible assets: | | | | |
| Collaboration agreements | 12 | \$ 465,590 | \$ (294,147) | \$ 171,443 |
| NanoCrystal technology | 13 | 74,600 | (35,081) | 39,519 |

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| | | | | |
|------------------|----|------------|--------------|------------|
| OCR technologies | 12 | 42,560 | (29,670) | 12,890 |
| Total | | \$ 582,750 | \$ (358,898) | \$ 223,852 |

Based on the Company's most recent analysis, amortization of intangible assets included within its condensed consolidated balance sheet at June 30, 2018 is expected to be approximately \$65.0 million, \$55.0 million, \$50.0 million, \$40.0 million and \$35.0 million in the years ending December 31, 2018 through 2022, respectively. Although the Company believes such available information and assumptions are reasonable, given the inherent risks and uncertainties underlying its expectations regarding such future revenues, there is the potential for the Company's actual results to vary significantly from such expectations. If revenues are projected to change, the related amortization of the intangible assets will change in proportion to the change in revenues.

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

| (In thousands) | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| Accounts payable | \$ 57,879 | \$ 55,526 |
| Accrued compensation | 43,929 | 54,568 |
| Accrued sales discounts, allowances and reserves | 124,363 | 111,137 |
| Accrued other | 53,531 | 64,935 |
| Total accounts payable and accrued expenses | \$ 279,702 | \$ 286,166 |

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

10. LONG-TERM DEBT

Long-term debt consisted of the following:

| (In thousands) | June 30, 2018 | December 31, 2017 |
|-------------------------------------|------------------|----------------------|
| 2023 Term Loans, due March 26, 2023 | \$ 280,391 | \$ 281,436 |
| Less: current portion | (2,843) | (3,000) |
| Long-term debt | \$ 277,548 | \$ 278,436 |

In March 2018, the Company amended and refinanced its existing term loan, referred to as Term Loan B-1 (as so amended and refinanced, the “2023 Term Loans”), in order to, among other things, extend the due date of the loan from September 25, 2021 to March 26, 2023, reduce the interest payable from LIBOR plus 2.75% with a LIBOR floor of 0.75% to LIBOR plus 2.25% with no LIBOR floor and increase covenant flexibility (the “Refinancing”).

The Refinancing involved multiple lenders who were considered members of a loan syndicate. In determining whether the Refinancing was to be accounted for as a debt extinguishment or a debt modification, the Company considered whether creditors remained the same or changed and whether the changes in debt terms were substantial. A change in the debt terms was considered to be substantial if the present value of the remaining cash flows under the new terms of the 2023 Term Loans was at least 10% different from the present value of the remaining cash flows under the former Term Loan B-1 (commonly referred to as the “10% Test”). The Company performed a separate 10% Test for each individual creditor participating in the loan syndication. With the exception of one lender, who owned 1% of the total outstanding principal amount of Term Loan B-1 at the date of the Refinancing and was accounted for as a debt extinguishment, the Refinancing was accounted for as a debt modification.

The Refinancing resulted in a \$2.3 million charge in the three months ended March 31, 2018, which was included in “Interest expense” in the accompanying condensed consolidated statement of operations and comprehensive loss.

11. RESTRUCTURING

On January 25, 2018, the Company’s management approved a restructuring plan at its Athlone, Ireland manufacturing facility designed to streamline future operational performance. The restructuring plan included a reduction in headcount of 24 employees. In connection with this restructuring plan, during the six months ended June 30, 2018, the Company recorded a restructuring charge of \$3.2 million within cost of goods manufactured and sold and \$0.4 million within R&D expense, which consisted of severance and outplacement services. As of June 30, 2018, the Company had made substantially all of its severance and outplacement services payments related to this restructuring.

12. SHARE-BASED COMPENSATION

Share-based compensation expense consisted of the following:

| (In thousands) | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30, 2018 | 2017 | June 30, 2018 | 2017 |
| Cost of goods manufactured and sold | \$ 2,454 | \$ 1,908 | \$ 3,872 | \$ 4,141 |
| Research and development | 8,552 | 5,661 | 15,266 | 11,255 |
| Selling, general and administrative | 19,927 | 15,110 | 31,837 | 28,452 |
| Total share-based compensation expense | \$ 30,933 | \$ 22,679 | \$ 50,975 | \$ 43,848 |

At June 30, 2018 and December 31, 2017, \$0.5 million and \$0.4 million, respectively, of share-based compensation cost was capitalized and recorded as “Inventory” in the accompanying condensed consolidated balance sheets.

In February 2017, the compensation committee of the Company’s board of directors approved awards of restricted stock units (“RSUs”) to all employees employed by the Company during 2017, in each case subject to vesting on the

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ALKERMES PLC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

achievement of the following performance criteria: (i) FDA approval of the NDA for ALKS 5461, (ii) the achievement of the pre-specified primary efficacy endpoints in each of two phase 3 studies of ALKS 3831, and (iii) revenues equal to or greater than a pre-specified amount for the year ending December 31, 2019. These performance criteria are being assessed over a performance period of three years from the date of the grant. At June 30, 2018, there was \$56.7 million of unrecognized compensation cost related to these performance-vesting RSUs, which would be recognized in accordance with the terms of the award when the Company deems it probable that the performance criteria will be met.

13. LOSS PER SHARE

Basic loss per ordinary share is calculated based upon net loss available to holders of ordinary shares divided by the weighted average number of shares outstanding. For the three and six months ended June 30, 2018 and 2017, as the Company was in a net loss position, the diluted loss per share calculation did not assume conversion or exercise of stock options and awards as they would have had an anti-dilutive effect on loss per share.

The following potential ordinary equivalent shares have not been included in the net loss per ordinary share calculation because the effect would have been anti-dilutive:

| (In thousands) | Three Months Ended | | Six Months Ended | |
|------------------------|--------------------|--------|------------------|--------|
| | June 30, 2018 | 2017 | June 30, 2018 | 2017 |
| Stock options | 11,572 | 9,850 | 10,465 | 9,511 |
| Restricted stock units | 2,832 | 2,159 | 2,819 | 1,998 |
| Total | 14,404 | 12,009 | 13,284 | 11,509 |

14. COMMITMENTS AND CONTINGENCIES

Lease Commitments

In March 2018, the Company entered into a lease agreement for approximately 220,000 square feet of office and laboratory space located in a building to be built at 900 Winter Street, Waltham, Massachusetts (“900 Winter Street”). The Company plans to occupy the premises in early 2020. The initial term of the lease shall commence on the earlier of: (i) the Delivery Date (defined as (a) the later of January 20, 2020, or (b) the date on which the landlord substantially completes its work in accordance with the terms of the lease), or (ii) the date the Company enters into possession of all or any substantial portion of 900 Winter Street for the conduct of its business (the “Commencement Date”). The initial lease term expires on the last day of the calendar month in which the fifteenth (15th) anniversary of the Commencement Date occurs, with an option to extend for an additional ten (10) years.

Litigation

From time to time, the Company may be subject to legal proceedings and claims in the ordinary course of business. On a quarterly basis, the Company reviews the status of each significant matter and assesses its potential financial exposure. If the potential loss from any claim, asserted or unasserted, or legal proceeding is considered probable and the amount can be reasonably estimated, the Company would accrue a liability for the estimated loss. Because of uncertainties related to claims and litigation, accruals are based on the Company’s best estimates based on available information. On a periodic basis, as additional information becomes available, or based on specific events such as the outcome of litigation or settlement of claims, the Company may reassess the potential liability related to these matters and may revise these estimates, which could result in material adverse adjustments to the Company’s operating results. At June 30, 2018, there were no potential material losses from claims, asserted or unasserted, or legal proceedings the Company determined were probable of occurring.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

INVEGA SUSTENNA ANDA Litigation

In January 2018, Janssen Pharmaceuticals NV and Janssen Pharmaceuticals, Inc. initiated a patent infringement lawsuit in the United States District Court for the District of New Jersey against Teva Pharmaceuticals USA, Inc. (“Teva”), who filed an abbreviated new drug application (“ANDA”) seeking approval to market a generic version of INVEGA SUSTENNA before the expiration of United States Patent No. 9,439,906. Requested judicial remedies included recovery of litigation costs and injunctive relief. The Company is not a party to these proceedings.

For information about risks relating to the INVEGA SUSTENNA Paragraph IV litigation, see “Part I, Item 1A—Risk Factors” of the Company’s Annual Report and specifically the section entitled “—We or our licensees may face claims against IP rights covering our products and competition from generic drug manufacturers.”

AMPYRA ANDA Litigation

Ten separate Paragraph IV Certification Notices have been received by the Company and/or its partner Acorda from: Accord Healthcare, Inc. (“Accord”); Actavis Laboratories FL, Inc. (“Actavis”); Alkem Laboratories Ltd. (“Alkem”); Apotex Corporation and Apotex, Inc. (collectively, “Apotex”); Aurobindo Pharma Ltd. (“Aurobindo”); Mylan Pharmaceuticals, Inc. (“Mylan”); Par Pharmaceutical, Inc. (“Par”); Roxane Laboratories, Inc. (“Roxane”); Sun Pharmaceutical Industries Limited and Sun Pharmaceuticals Industries Inc. (collectively, “Sun”); and Teva (collectively with Accord, Actavis, Alkem, Apotex, Aurobindo, Mylan, Par, Roxane and Sun, the “ANDA Filers”) advising that each of the ANDA Filers had submitted an ANDA to the FDA seeking marketing approval for generic versions of AMPYRA (dalfampridine) Extended-Release Tablets, 10 mg. The ANDA Filers challenged the validity of the Orange Book-listed patents for AMPYRA, and they also asserted that their generic versions do not infringe certain claims of these patents. In response, the Company and/or Acorda filed lawsuits against the ANDA Filers in the U.S. District Court for the District of Delaware (the “Delaware Court”) asserting infringement of U.S. Patent No. 5,540,938 (the “’938 Patent”), which the Company owns, and U.S. Patent Nos. 8,007,826; 8,354,437; 8,440,703; and 8,663,685, which are owned by Acorda. Requested judicial remedies included recovery of litigation costs and injunctive relief. Mylan challenged the jurisdiction of the Delaware Court with respect to the Delaware action. In January 2015, the Delaware Court denied Mylan’s motion to dismiss. Subsequently, in January 2015, the Delaware Court granted Mylan’s request for an interlocutory appeal of its jurisdictional decision to the Federal Circuit. In March 2016, the Federal Circuit denied Mylan’s appeal. Mylan requested the U.S. Court of Appeals for the Federal Circuit (the “Federal Circuit”) to reconsider its decision. However, on June 20, 2016, the Federal Circuit denied Mylan’s request. Mylan filed an appeal with the U.S. Supreme Court, which was denied.

All lawsuits were filed within 45 days from the date of receipt of each of the Paragraph IV Certification Notices from the ANDA Filers. As a result, a 30-month statutory stay of approval period applied to each of the ANDA Filers' ANDAs under the U.S. Drug Price Competition and Patent Term Restoration Act of 1984 (the "Hatch-Waxman Act"). The 30-month stay started on January 22, 2015, and restricted the FDA from approving the ANDA Filers' ANDAs until July 2017 at the earliest, unless a Federal district court issued a decision adverse to all of the asserted Orange Book-listed patents prior to that date. Lawsuits with eight of the ANDA Filers have been consolidated into a single case.

The Company and/or Acorda entered into a settlement agreement with each of Accord, Actavis, Alkem, Apotex, Aurobindo, Par and Sun (collectively, the "Settling ANDA Filers") to resolve the patent litigation that the Company and/or Acorda brought against the Settling ANDA Filers in the Delaware Court. As a result of the settlement agreements, the Settling ANDA Filers will be permitted to market generic versions of AMPYRA in the U.S. at a specified date in the future. The parties submitted their respective settlement agreements to the U.S. Federal Trade Commission and the U.S. Department of Justice, as required by federal law. The settlements with the Settling ANDA Filers did not impact the patent litigation that the Company and Acorda brought against the remaining ANDA Filers (the "Non-Settling ANDA Filers"), as described in this Form 10-Q.

On March 31, 2017, after a bench trial, the Delaware Court issued an opinion (the "Delaware Court Decision"), upholding the validity of the '938 Patent, which pertains to the formulation of AMPYRA and is set to expire on July 30,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Unaudited) (Continued)

2018, and finding that Apotex, Mylan, Roxane and Teva stipulated that their proposed generic forms of AMPYRA infringed the '938 Patent. The Delaware Court also invalidated U.S. Patent Nos. 8,007,826; 8,354,437; 8,440,703; and 8,663,685. In May 2017, Acorda filed an appeal of the Delaware Court Decision with the Federal Circuit with respect to the findings on U.S. Patent Nos. 8,007,826; 8,354,437; 8,440,703; and 8,663,685. In June 2017, the Non-Settling ANDA Filers filed their cross-appeal of the Delaware Court Decision with the Federal Circuit with respect to the validity of the '938 Patent. The Company and Acorda filed their opening brief on August 7, 2017. The Non-Settling ANDA Filers responded on October 2, 2017. The Company and Acorda filed a response and reply brief on November 13, 2017, and the Non-Settling ANDA Filers filed their reply brief on November 27, 2017. The Federal Circuit heard oral argument on June 7, 2018. In addition, on May 23, 2018, Acorda filed a motion for an injunction pending appeal with the Federal Circuit. The Non-Settling ANDA Filers filed an opposition on May 30, 2018 and Acorda filed its reply on June 6, 2018. This motion is currently pending. If the Federal Circuit upholds the Delaware Court Decision or, in certain circumstances, remands or vacates the decision to the Delaware Court, we can expect competition from generic forms of AMPYRA as early as July 31, 2018, following expiration of the '938 Patent.

The Company intends to vigorously enforce its IP rights. For information about risks relating to the AMPYRA Paragraph IV litigations and other proceedings see "Part I, Item 1A—Risk Factors" of the Company's Annual Report and specifically the section entitled "—We or our licensees may face claims against IP rights covering our products and competition from generic drug manufacturers."

VIVITROL IPR Proceeding

On April 20, 2018, Amneal Pharmaceuticals LLC filed an inter partes review ("IPR") petition with the U.S. Patent and Trademark Office challenging U.S. Patent Number 7,919,499 (the "'499 Patent"), which is an Orange Book-listed patent for VIVITROL. The Company's Preliminary Patent Owner Response is due August 9, 2018, and the Patent Trial and Appeal Board will decide whether to institute the IPR by November 9, 2018. If instituted, the Company will vigorously defend the '499 Patent in the IPR proceedings. For information about risks relating to the '499 Patent IPR proceedings see "Part I, Item 1A—Risk Factors" in the Company's Annual Report and specifically the sections entitled "—Patent protection for our products is important and uncertain" and "—Uncertainty over intellectual property in the biopharmaceutical industry has been the source of litigation, which is inherently costly and unpredictable."

Government Matters

On June 22, 2017, the Company received a subpoena from an Office of the U.S. Attorney for documents related to VIVITROL. The Company is cooperating with the government.

Securities Litigation

On November 22, 2017, a purported stockholder of the Company filed a putative class action against the Company and certain of its officers (collectively, the “Defendants”) in the United States District Court for the Southern District of New York captioned *Gagnon v. Alkermes plc, et al.*, No. 1:17-cv-09178. This complaint has been amended twice since its initial filing. The second amended complaint was filed on behalf of a putative class of purchasers of Alkermes securities during the period of February 24, 2015 to November 14, 2017, and alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, based on allegedly false or misleading statements and omissions regarding the Company’s marketing practices related to VIVITROL. The lawsuit seeks, among other things, unspecified damages for alleged inflation in the price of securities, and reasonable costs and expenses, including attorneys’ fees. On June 29, 2018, Defendants filed a motion to dismiss the second amended complaint. For information about risks relating to this action, see “Part I, Item 1A—Risk Factors” of the Company’s Annual Report and specifically the section entitled “—Litigation or arbitration against Alkermes, including securities litigation, or citizen petitions filed with the FDA, may result in financial losses, harm our reputation, divert management resources, negatively impact the approval of our products, or otherwise negatively impact our business.”

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes beginning on page 5 of this Form 10-Q, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and notes thereto included in our Annual Report, which has been filed with the SEC.

Executive Summary

Net loss for the three and six months ended June 30, 2018 was \$32.6 million and \$95.2 million, or \$0.21 and \$0.61 per ordinary share— basic and diluted, respectively, as compared to a net loss of \$43.0 million and \$111.9 million or \$0.28 and \$0.73 per ordinary share— basic and diluted for the three and six months ended June 30, 2017, respectively.

The decrease in the net loss in both the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017, was primarily due to the license and collaboration agreement with Biogen for the development of BIIB098. During the three months ended June 30, 2018, we recognized \$66.1 million of revenue related to this agreement, as discussed in the License Revenue and Research and Development Revenue sections below. In addition, revenue from our proprietary product sales, net increased by 24% and 22%, respectively, in the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017. The increase in revenue was partially offset by an increase in operating expenses of 16% and 13%, respectively, in the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017, which was primarily due to increased investment in the commercialization of VIVITROL and ARISTADA. In addition, during the three months ended June 30, 2018, we had a \$19.6 million charge due to a decrease in the fair value of the contingent consideration related to IV Meloxicam as a result of Recro’s receipt of a complete response letter from the FDA regarding the NDA for IV Meloxicam. These items are discussed in greater detail later in the “Results of Operations” section of this Item 2 of this Form 10-Q.

Products

Marketed Products

Our portfolio of marketed products is designed to address unmet medical needs of patients in major therapeutic areas. See the description of the marketed products below, and refer to “Part I, Item 1A—Risk Factors” of our Annual Report for important factors that could adversely affect our marketed products and to the “Patents and Proprietary Rights” section in “Part I, Item 1— Business” of our Annual Report for information with respect to the IP protection for these marketed

products.

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Summary information regarding our proprietary products includes:

| Product | Indication(s) | Licensee | Territory |
|---------|--|------------------------------------|---|
| | Initiation or re-initiation of ARISTADA for the treatment of Schizophrenia | None | Commercialized by Alkermes in the U.S. |
| | Schizophrenia | None | Commercialized by Alkermes in the U.S. |
| | Alcohol dependence and Opioid dependence | None | Commercialized by Alkermes in the U.S. |
| | | | Russia and Commonwealth of Independent States (“CIS”) |
| | | Cilag GmbH International (“Cilag”) | |

Summary information regarding products that use our proprietary technologies includes:

| Product | Indication(s) | Licensee | Territory |
|---------------------|---|--|-----------|
| RISPERDAL CONSTA | Schizophrenia and Bipolar I disorder | Janssen Pharmaceutica Inc. (“Janssen, Inc.”) and Janssen Pharmaceutica International, a division of Cilag International AG (“Janssen International”) | Worldwide |

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| Product | Indication(s) | Licensee | Territory |
|--------------------------------------|---|--|---|
| INVEGA SUSTENNA | Schizophrenia and Schizoaffective disorder | Janssen Pharmaceutica N.V. (together with Janssen, Inc., Janssen International and their affiliates “Janssen”) | U.S. |
| XEPLION | Schizophrenia | Janssen | All countries outside of the U.S. (“ROW”) |
| INVEGA TRINZA | Schizophrenia | Janssen | U.S. |
| TREVICTA | Schizophrenia | Janssen | ROW |
| AMPYRA | Treatment to improve walking in patients with MS, as demonstrated by an increase in walking speed | Acorda | U.S. |
| FAMPYRA | | Biogen, under sublicense from Acorda | ROW |
| BYDUREON and BYDUREON BCise | Type 2 diabetes | AstraZeneca plc (“AstraZeneca”) | Worldwide |

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Proprietary Products

We develop and commercialize products designed to address the unmet needs of patients suffering from addiction and schizophrenia.

ARISTADA INITIO

ARISTADA INITIO (aripiprazole lauroxil), in combination with oral aripiprazole, is indicated for the initiation of ARISTADA when used for the treatment of schizophrenia in adults. ARISTADA INITIO leverages the company's proprietary NanoCrystal technology and is designed to provide an extended-release formulation using a smaller particle size of aripiprazole lauroxil compared to ARISTADA, thereby enabling faster dissolution and leading to more rapid achievement of relevant levels of aripiprazole. The ARISTADA INITIO regimen, consisting of a single injection of 675 mg ARISTADA INITIO in combination with a single 30 mg dose of oral aripiprazole, can be used to initiate onto any dose of ARISTADA, and provides patients with relevant levels of aripiprazole within four days of treatment initiation. The first ARISTADA dose may be administered on the same day as the ARISTADA INITIO regimen or up to 10 days thereafter.

ARISTADA INITIO was approved by the FDA in June 2018. We developed ARISTADA INITIO and exclusively manufacture and commercialize it in the U.S.

ARISTADA

ARISTADA (aripiprazole lauroxil) is an extended-release intramuscular injectable suspension approved in the U.S. for the treatment of schizophrenia. ARISTADA is the first of our products to utilize our proprietary LinkeRx technology. ARISTADA is a prodrug; once in the body, ARISTADA is likely converted by enzyme-mediated hydrolysis to N-hydroxymethyl aripiprazole, which is then hydrolyzed to aripiprazole. ARISTADA is the first atypical antipsychotic with once-monthly, once-every-six-weeks and once-every-two-months dosing options to deliver and maintain therapeutic levels of medication in the body. ARISTADA has four dosing options (441 mg, 662 mg, 882 mg and 1064 mg) and is packaged in a ready-to-use, pre-filled product format. We developed ARISTADA and exclusively manufacture and commercialize it in the U.S.

VIVITROL

VIVITROL (naltrexone for extended-release injectable suspension) is a once-monthly, non-narcotic, injectable medication approved in the U.S., Russia and certain countries of the CIS for the treatment of alcohol dependence and for the prevention of relapse to opioid dependence, following opioid detoxification. VIVITROL uses our polymer-based microsphere injectable extended-release technology to deliver and maintain therapeutic medication levels in the body through one intramuscular injection every four weeks. We developed and exclusively manufacture VIVITROL. We commercialize VIVITROL in the U.S., and Cilag commercializes VIVITROL in Russia and certain countries of the CIS.

Products Using Our Proprietary Technologies

We have granted licenses under our proprietary technologies to enable third parties to develop, commercialize and, in some cases, manufacture products for which we receive royalties and/or manufacturing revenues. Such arrangements include the following:

INVEGA SUSTENNA/XEPLION, INVEGA TRINZA/TREVICTA and RISPERDAL CONSTA

INVEGA SUSTENNA/XEPLION (paliperidone palmitate), INVEGA TRINZA (paliperidone palmitate)/TREVICTA (paliperidone palmitate 3-monthly injection) and RISPERDAL CONSTA (risperidone long-acting injection) are long-acting atypical antipsychotics owned and commercialized worldwide by Janssen that incorporate our proprietary technologies.

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In May 2018, U.S. Patent Nos. 9,974,746 and 9,974,747 were granted. U.S. Patent No. 9,974,746 has claims to an injectable nanoparticulate active agent composition produced by a method for reducing flake-like aggregates. U.S. Patent No. 9,974,747 has claims to a method of reducing flake-like aggregates in an injectable nanoparticulate active agent composition. These patents, which we believe are subject to our license agreement with Janssen, expire in 2030.

INVEGA SUSTENNA is approved in the U.S. for the treatment of schizophrenia and for the treatment of schizoaffective disorder as either a monotherapy or adjunctive therapy. Paliperidone palmitate extended-release injectable suspension is approved in the European Union (“EU”) and other countries outside of the U.S. for the treatment of schizophrenia and is marketed and sold under the trade name XEPLION. INVEGA SUSTENNA/XEPLION uses our nanoparticle injectable extended-release technology to increase the rate of dissolution and enable the formulation of an aqueous suspension for once-monthly intramuscular administration. INVEGA SUSTENNA/XEPLION is manufactured by Janssen.

In January 2018, Janssen Pharmaceuticals NV and Janssen Pharmaceuticals, Inc. initiated a patent infringement lawsuit in the U.S. District Court for the District of New Jersey against Teva, who filed an ANDA seeking approval to market a generic version of INVEGA SUSTENNA before the expiration of U.S. Patent No. 9,439,906. We are not a party to these proceedings. For further discussion of the legal proceedings related to the patents covering INVEGA SUSTENNA, see Note 14, Commitments and Contingencies in the “Notes to Condensed Consolidated Financial Statements” in this Form 10-Q, and for information about risks relating to the INVEGA SUSTENNA Paragraph IV litigation, see “Part I, Item 1A—Risk Factors” of our Annual Report and specifically the section entitled “—We or our licensees may face claims against IP rights covering our products and competition from generic drug manufacturers.”

INVEGA TRINZA is an atypical antipsychotic injection for the treatment of schizophrenia used in people who have been treated with INVEGA SUSTENNA for at least four months. INVEGA TRINZA is the first schizophrenia treatment to be taken once every three months. TREVICTA is approved in the EU for the maintenance treatment of schizophrenia in adult patients who are clinically stable on XEPLION. INVEGA TRINZA/TREVICTA uses our proprietary technology and is manufactured by Janssen.

RISPERDAL CONSTA is approved in the U.S. for the treatment of schizophrenia and as both monotherapy and adjunctive therapy to lithium or valproate in the maintenance treatment of bipolar I disorder. RISPERDAL CONSTA is approved in numerous countries outside of the U.S. for the treatment of schizophrenia and the maintenance treatment of bipolar I disorder. RISPERDAL CONSTA uses our polymer-based microsphere injectable extended-release technology to deliver and maintain therapeutic medication levels in the body through just one intramuscular injection every two weeks. RISPERDAL CONSTA microspheres are exclusively manufactured by us.

AMPYRA/FAMPYRA

AMPYRA (dalfampridine)/FAMPYRA (fampridine) is believed to be the first treatment approved in the U.S. and in over 50 countries across Europe, Asia and the Americas to improve walking in adults with MS who have walking disability, as demonstrated by an increase in walking speed. Extended-release dalfampridine tablets are marketed and sold by Acorda in the U.S. under the trade name AMPYRA and by Biogen outside the U.S. under the trade name FAMPYRA. In July 2011, the European Medicines Agency (“EMA”) conditionally approved FAMPYRA in the EU and, in May 2017, the EMA granted FAMPYRA a standard marketing authorization in the EU for the improvement of walking in adults with MS. AMPYRA and FAMPYRA incorporate our oral controlled-release technology. AMPYRA and FAMPYRA are manufactured by us.

We and/or Acorda have received notices of ANDA filings for AMPYRA asserting that a generic form of AMPYRA would not infringe AMPYRA’s Orange Book-listed patents and/or those patents are invalid. In response, we and/or Acorda filed lawsuits against certain of the ANDA filers in the Delaware Court asserting infringement of the ‘938 Patent, which we own, and U.S. Patent Nos. 8,007,826; 8,354,437; 8,440,703; and 8,663,685, which are owned by Acorda. In May 2017, Acorda filed its appeal of the Delaware Court Decision with the Federal Circuit with respect to the findings on U.S. Patent Nos. 8,007,826; 8,354,437; 8,440,703; and 8,663,685. In June 2017, certain of the ANDA filers filed a cross-appeal of the Delaware Court Decision with the Federal Circuit with respect to the validity of the ‘938 Patent. We and Acorda filed an opening brief in August 2017 and the ANDA filers responded in October 2017. Each side

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subsequently filed a response and reply brief in November 2017. The Federal Circuit heard oral argument on June 7, 2018. If the Federal Circuit upholds the Delaware Court Decision or, in certain circumstances, remands or vacates the decision to the Delaware Court, we can expect competition from generic forms of AMPYRA as early as July 31, 2018, following expiration of the '938 Patent. For further discussion of the legal proceedings related to the patents covering AMPYRA, see Note 14, Commitments and Contingencies in the “Notes to Condensed Consolidated Financial Statements” in this Form 10-Q, and for information about risks relating to such legal proceedings see “Part I, Item 1A—Risk Factors” of our Annual Report.

The legal proceedings in the Delaware Court related to the patents covering AMPYRA do not involve the patents covering FAMPYRA, and the latest of the patents covering FAMPYRA expires in April 2025 in the EU.

BYDUREON and BYDUREON BCise

BYDUREON (exenatide extended-release for injectable suspension) is approved in the U.S. and the EU for the treatment of type 2 diabetes. AstraZeneca is responsible for the development and commercialization of BYDUREON worldwide. BYDUREON, a once-weekly formulation of exenatide, uses our polymer-based microsphere injectable extended-release technology. BYDUREON is manufactured by AstraZeneca. BYDUREON Pen 2 mg, a pre-filled, single-use pen injector that contains the same formulation and dose as the original BYDUREON single-dose tray, is available in the U.S., certain countries in the EU and Japan. BYDUREON was also approved by the FDA in April 2018 as an add-on to basal insulin in adults with type 2 diabetes who have inadequate glycemic control.

BYDUREON BCise, a new formulation of BYDUREON in an improved once-weekly, single-dose autoinjector device for adults with type 2 diabetes was approved by the FDA in October 2017 and is available in the U.S. A regulatory application for the new autoinjector device has also been accepted by the EMA.

Key Development Programs

Our R&D is focused on leveraging our formulation expertise and proprietary product platforms to develop novel, competitively advantaged medications designed to enhance patient outcomes in major CNS disorders, such as schizophrenia, addiction, depression and MS. As part of our ongoing R&D efforts, we have devoted, and will continue to devote, significant resources to conducting pre-clinical work and clinical studies to advance the development of new pharmaceutical products. The discussion below highlights our current key R&D programs. Drug development involves a high degree of risk and investment, and the status, timing and scope of our development programs are subject to change. Important factors that could adversely affect our drug development efforts are discussed under the heading “Cautionary Note Concerning Forward-Looking Statements” in this Form 10-Q and in “Part I, Item 1A—Risk Factors” of our Annual Report. Refer to the “Patents and Proprietary Rights” section in “Part I, Item 1— Business” of our Annual Report for information with respect to the IP protection for our development products.

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The following graphic summarizes the status of our key development programs:

Preclinical Phase 1 Phase 2 Phase 3 FDA Review

ALKS 5461 Major Depressive Disorder

ALKS 3831 Schizophrenia

BIIB 098 (formerly ALKS 8700) Multiple Sclerosis

ALKS 4230 Cancer immunotherapy

ALKS 5461

ALKS 5461 is a proprietary, investigational, once-daily, oral medicine that acts as an opioid system modulator and represents a novel mechanism of action for the adjunctive treatment of Major Depressive Disorder (“MDD”). ALKS 5461 is a fixed-dose combination of buprenorphine, a partial mu-opioid receptor agonist and kappa-opioid receptor antagonist, and samidorphan, a mu-opioid receptor antagonist. Our NDA for ALKS 5461 was submitted to the FDA in January 2018 and accepted by the FDA for review in April 2018. Acceptance of the NDA for review followed FDA issuance, and then rescission, of a refusal to file letter citing insufficient evidence of effectiveness and the need for additional bridging data, both of which we expect will be addressed in the context of the FDA’s review. The NDA is based on a clinical efficacy and safety package with data from more than 30 clinical trials and more than 1,500 patients with MDD. The FDA has tentatively scheduled an advisory committee meeting for the ALKS 5461 NDA on November 1, 2018 and has issued a target action date for the ALKS 5461 NDA of January 31, 2019 under the Prescription Drug User Fee Act.

In June 2018, U.S. Patent No. 10,005,790 relating to ALKS 5461 was granted. This patent has claims to a compound which is an intermediate in a process for synthesizing samidorphan, and expires in 2031.

ALKS 3831

ALKS 3831 is an investigational, novel, once-daily, oral atypical antipsychotic drug candidate for the treatment of schizophrenia. ALKS 3831 is composed of samidorphan in combination with the established antipsychotic drug olanzapine, which is generally available under the name ZYPREXA. ALKS 3831 is designed to provide the strong antipsychotic efficacy of olanzapine and a differentiated safety profile with favorable weight and metabolic properties.

The ENLIGHTEN clinical development program for ALKS 3831 includes two key studies: ENLIGHTEN-1, a study evaluating the antipsychotic efficacy of ALKS 3831 compared to placebo over four weeks and ENLIGHTEN-2, a study assessing weight gain with ALKS 3831 compared to olanzapine in patients with schizophrenia over six months. The program also includes supportive studies to evaluate the pharmacokinetic and metabolic profile of ALKS 3831 and long-

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term safety.

Results from ENLIGHTEN-2 are expected in the fourth quarter of 2018.

Topline results from the completed exploratory phase 1 metabolic study of ALKS 3831, assessing the effects of ALKS 3831 on important metabolic parameters compared to olanzapine, were announced in the second quarter of 2018.

We expect to use safety and efficacy data from the ENLIGHTEN clinical development program, if successful, to serve as the basis for an NDA, which we plan to submit to the FDA in mid-2019.

In April 2018 and June 2018, respectively, U.S. Patent Nos. 9,943,514 and 10,005,790 relating to ALKS 3831 were granted. U.S. Patent No. 9,943,514 has claims to a method of suppressing food intake by administering a genus of compounds which includes samidorphan. U.S. Patent No. 10,005,790 has claims to a compound which is an intermediate in a process for synthesizing samidorphan. Both patents expire in 2031.

BIIB098 (formerly ALKS 8700)

BIIB098 (diroximel fumarate), formerly referred to as ALKS 8700, is an oral, novel fumarate candidate in development for the treatment of relapsing forms of MS. BIIB098 is designed to rapidly and efficiently convert to monomethyl fumarate in the body and to potentially offer differentiated features as compared to the currently marketed dimethyl fumarate, TECFIDERA.

We expect to complete the required non-clinical studies for BIIB098 in 2018 and file a 505(b)(2) NDA for BIIB098 in the fourth quarter of 2018. For more information about 505(b)(2) NDAs, see “Part 1, Item 1—Business, Regulatory, Hatch-Waxman Act” of our Annual Report.

In November 2017, we entered into an exclusive license and collaboration agreement with Biogen relating to BIIB098. For more information about the license and collaboration agreement with Biogen, see “Part 1, Item 1—Business, Collaborative Arrangements” of our Annual Report.

ALKS 4230

ALKS 4230 is an engineered fusion protein designed to preferentially bind and signal through the intermediate affinity interleukin-2 (“IL-2”) receptor complex, thereby selectively activating and increasing the number of immunostimulatory tumor-killing immune cells while avoiding the expansion of immunosuppressive cells that interfere with anti-tumor response. The selectivity of ALKS 4230 is designed to leverage the proven anti-tumor effects while overcoming limitations of existing IL-2 therapy, which activates both immunosuppressive and tumor-killing immune cells. Our phase 1 study for ALKS 4230 is designed to evaluate ALKS 4230 as a monotherapy agent and in combination with the anti-PD-1 therapy, pembrolizumab. A dose-escalation stage designed to determine a maximum tolerated dose of ALKS 4230 in a monotherapy setting and to identify the optimal dose range of ALKS 4230 based on measures of immunological-pharmacodynamic effects is ongoing, with initial results expected in 2018. Upon completion of the dose-escalation stage, we expect to initiate a dose-expansion stage of ALKS 4230 in patients with selected solid tumor types. In the third quarter of 2018, we plan to expand the phase 1 study to include evaluation of ALKS 4230 in combination with the anti-PD-1 therapy, pembrolizumab.

Results of Operations

Manufacturing and Royalty Revenues

Manufacturing revenues for products that incorporate our technologies, with the exception of those from Janssen related to RISPERDAL CONSTA, are recognized over time as products move through the manufacturing process, using a standard cost-based model as a measure of progress. Manufacturing revenue from RISPERDAL CONSTA is recognized at the point in time the product has been fully manufactured. Royalties are generally earned on our licensees' net sales of products that incorporate our technologies and are recognized in the period the products are sold by our licensees. The following table compares manufacturing and royalty revenues earned in the three and six months ended June 30, 2018 and 2017:

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| (In millions) | Three Months Ended | | Change Favorable/ (Unfavorable) | Six Months Ended | | Change Favorable/ (Unfavorable) |
|--|--------------------|----------|---------------------------------------|------------------|----------|---------------------------------------|
| | June 30, 2018 | 2017 | | June 30, 2018 | 2017 | |
| Manufacturing and royalty revenues: | | | | | | |
| INVEGA SUSTENNA/XEPLION & INVEGA TRINZA/TREVICTA | \$ 63.3 | \$ 56.6 | \$ 6.7 | \$ 109.3 | \$ 95.8 | \$ 13.5 |
| AMPYRA/FAMPYRA | 19.7 | 25.3 | (5.6) | 47.9 | 54.5 | (6.6) |
| RISPERDAL CONSTA | 21.9 | 25.5 | (3.6) | 44.6 | 46.3 | (1.7) |
| BYDUREON | 13.5 | 11.6 | 1.9 | 23.3 | 23.9 | (0.6) |
| Other | 9.8 | 10.3 | (0.5) | 17.7 | 23.4 | (5.7) |
| Manufacturing and royalty revenues | \$ 128.2 | \$ 129.3 | \$ (1.1) | \$ 242.8 | \$ 243.9 | \$ (1.1) |

The increase in INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA royalty revenues in the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017, was due to an increase in Janssen's end-market sales of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA. During the three and six months ended June 30, 2018, Janssen's end-market sales of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA were \$720.0 million and \$1,416.0 million, respectively, as compared to \$629.0 million and \$1,233.0 million, respectively, during the three and six months ended June 30, 2017. Under our agreement with Janssen, we earn royalty revenues on end-market net sales of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA of: 5% on calendar year net sales up to \$250 million; 7% on calendar year net sales of between \$250 million and \$500 million; and 9% on calendar year net sales exceeding \$500 million. The royalty rate resets to 5% at the beginning of each calendar year. The adoption of Topic 606 had no impact on the method in which we recognize royalty revenue from sales of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA.

With the adoption of Topic 606, we changed the way we record certain of our manufacturing and royalty revenue for AMPYRA and FAMPYRA. For AMPYRA manufactured under our license and supply agreements with Acorda, we now record manufacturing and royalty revenue as the product is being manufactured, rather than when it is shipped to Acorda. For FAMPYRA, we record manufacturing revenue as the product is being manufactured, rather than when it is shipped, but continue to record royalty revenue when the end-market sale of FAMPYRA occurs. See Note 3, Revenue from Contracts with Customers, in the "Notes to Condensed Consolidated Financial Statements" in this Form 10-Q, for additional information regarding the adoption of Topic 606.

The decrease in the amount of manufacturing and royalty revenue recognized for AMPYRA and FAMPYRA in the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017, was primarily due to a 30% and 17% decrease in the amount of revenue earned on AMPYRA, respectively, due to a decrease in demand due to the anticipated entry of generic forms of AMPYRA. On March 31, 2017, the Delaware Court upheld the '938 Patent, which pertains to the formulation of AMPYRA and is set to expire in July 2018, and invalidated U.S. Patent Nos. 8,007,826; 8,354,437; 8,440,703; and 8,663,685, which pertain to AMPYRA. Acorda filed an appeal with the Federal Circuit with respect to the Delaware Court's findings on U.S. Patent Nos. 8,007,826; 8,354,437; 8,440,703; and 8,663,685. If the Federal Circuit upholds the Delaware Court's findings with respect to U.S.

Patent Nos. 8,007,826; 8,354,437; 8,440,703; and 8,663,685, or, in certain circumstances, remands or vacates the decision to the Delaware Court we can expect competition from generic forms of AMPYRA as early as July 31, 2018, following expiration of the '938 Patent. We can expect that competition from generic forms of AMPYRA will impact our manufacturing and royalty revenues and we expect our manufacturing and royalty revenues to continue to decline in advance of generic entry in anticipation of reduced demand for AMPYRA.

For further discussion of the legal proceedings related to the patents covering AMPYRA, see “Part II, Item 1—Legal Proceedings” and Note 14, Commitments and Contingencies in the “Notes to Condensed Consolidated Financial Statements” in this Form 10-Q, and for information about risks relating to such legal proceedings see “Part I, Item 1A—Risk Factors” of our Annual Report. The legal proceedings related to the patents covering AMPYRA do not involve the patents covering FAMPYRA, and the latest of the patents covering FAMPYRA expires in April 2025 in the EU.

Under Topic 606, we continue to recognize manufacturing revenue for RISPERDAL CONSTA at a point in time, however, we now recognize manufacturing revenue when RISPERDAL CONSTA has been fully manufactured, which is when the product is approved for sale, rather than when it is shipped. We continue to record royalty revenue when the

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end-market sale of RISPERDAL CONSTA occurs. The decrease in the amount of revenues from RISPERDAL CONSTA earned in the three months ended June 30, 2018, as compared to the three months ended June 30, 2017 was primarily due to a 15% decrease in RISPERDAL CONSTA manufacturing revenue, which was primarily due to a 28% decrease in the amount of RISPERDAL CONSTA manufactured for resale in the U.S., partially offset by a 9% increase in the amount of RISPERDAL CONSTA manufactured for resale in the rest of the world. The decrease in the amount of revenues from RISPERDAL CONSTA earned in the six months ended June 30, 2018, as compared to the six months ended June 30, 2017 was primarily due to a 7% decrease in RISPERDAL CONSTA royalty revenue. End-market sales of RISPERDAL CONSTA were \$188.0 million and \$384.0 million in the three and six months ended June 30, 2018, respectively, as compared to \$207.0 million and \$414.0 million in the three and six months ended June 30, 2017, respectively.

The change in BYDUREON royalty revenues in the three and six months ended June 30, 2018, as compared to the three and six months ended June 30, 2017, was due to the amount of end-market sales of BYDUREON by AstraZeneca. During the three and six months ended June 30, 2018, AstraZeneca's end-market sales of BYDUREON were approximately \$153.8 million and \$293.1 million, respectively, as compared to \$146.0 million and \$298.8 million in the three and six months ended June 30, 2017, respectively. The adoption of Topic 606 had no impact in the method in which we recognize royalty revenue from sales of BYDUREON.

Product Sales, net

Our product sales, net consist of sales of VIVITROL and ARISTADA in the U.S., primarily to wholesalers, specialty distributors and pharmacies. The following table presents the adjustments deducted from product sales, gross to arrive at product sales, net during the three and six months ended June 30, 2018 and 2017:

| (In millions) | Three Months Ended June 30, | | | Six Months Ended June 30, | | | 2017 | | | | |
|--------------------------------------|--------------------------------|------------|---|------------------------------|------------|---|----------|------------|---|----------|--------|
| | 2018 | % of Sales | | 2018 | % of Sales | | 2018 | % of Sales | | | |
| Product sales, gross | \$ 209.0 | 100.0 | % | \$ 167.9 | 100.0 | % | \$ 386.6 | 100.0 | % | \$ 300.5 | 100.0 |
| Adjustments to product sales, gross: | | | | | | | | | | | |
| Medicaid rebates | (54.2) | (25.9) | % | (42.5) | (25.3) | % | (95.8) | (24.8) | % | (70.1) | (23.3) |
| Chargebacks | (15.7) | (7.5) | % | (12.2) | (7.3) | % | (30.4) | (7.9) | % | (21.9) | (7.3) |
| Product discounts | (15.3) | (7.3) | % | (12.9) | (7.7) | % | (29.4) | (7.6) | % | (23.1) | (7.7) |
| Medicare Part D | (6.8) | (3.3) | % | | | | | | | | |