

EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form 8-K
May 20, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: May 20, 2016
(Date of earliest event reported)

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

(Exact name of registrant as specified in its charter)

Washington 000-13468 91-1069248
(State or other jurisdiction of (Commission File No.) (IRS Employer
incorporation or organization) Identification Number)

1015 Third Avenue, 12th Floor, Seattle, Washington 98104
(Address of principal executive (Zip Code)
offices)

(206) 674-3400
(Registrant's telephone number,
including area code)

N/A
(Former name or former address, if changed
since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. Regulation FD Disclosure.

The following information is included in this document as a result of Expeditors' policy regarding public disclosure of corporate information.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER SECURITIES LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

Certain portions of this document, including the answers to questions 1, 2, 3, 4, 5, 8, 11, 12, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 29, 30, 32, 33, 35, 36, 37, 38, 39 contain forward-looking statements which are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those projected in any forward-looking statements depending on a variety of factors including, but not limited to, changes in customer demand for Expeditors' services caused by a general economic slow-down, inventory build-up, decreased consumer confidence, volatility in equity markets, changes in energy prices, liquidity constraints, political changes, changes in foreign currency rates, or the creditworthiness of our customers and service providers.

SELECTED INQUIRIES RECEIVED THROUGH MAY 6, 2016

1. Cash generation due to a decrease in accounts receivable was more than \$100mm in the first quarter, marking the fourth consecutive quarter of positive cash generation due to a decrease in receivables. The last time we observed a similar pattern was in 2008-09. Does this reflect a tightening of short term credit extension to customers? Can management help us understand the dynamics at play and what, if anything, this implies for the business outlook?

We have not changed our short-term credit policies to our customers. As we note in our most recent 10-K, our cash flow fluctuates as a result of seasonality. Historically, the first quarter shows an excess of customer collections over customer billings, resulting in positive cash flow. Over the last three consecutive quarters gross revenues have declined, which resulted in lower accounts receivable and generated positive cash flow as we collected our invoices timely. It is important to remember that the first two quarters of 2015 included the impact of the U.S. West Coast port slowdown, which resulted in increased gross revenue and accounts receivable. During the second half of 2015 and the first quarter of 2016, we lowered average sell rates to customers as a result of competitive market conditions and lower available buy rates.

2. How are airfreight and ocean volumes trending thus far in 2Q, and how would you characterize underlying trade patterns between Asia, the U.S. and Europe relative to the first quarter?

We do not comment on current-quarter activity.

3. With prominent container rate indices such as the CCFI [China Containerized Freight Index] near historic lows and significant capacity on order, ocean freight pricing may not recover for some time. Are these low rates driving incremental demand for your services and if so, what are these potential customers' rate expectations?

We do not believe that companies decide to ship products based on rates but on whether or not they have products to ship. There are no "these" potential customers. That said, it's fair to add that most customers know that the current ocean rates are not sustainable over the long-term, and there are signs that some carriers are starting to pull capacity out of certain markets. We do not believe that lower ocean rates are driving incremental demand.

4. Air segment net revenue margins were up 320bps Y/Y in 1Q16 and have expanded significantly on a Y/Y basis for 6 straight quarters. Roughly how much of this quarter's expansion was driven directly by falling fuel prices, and how

much was driven by the spread between underlying buy and sell rates (ex-fuel)?

We have noted in past 8-K filings that both gross revenues and direct transportation costs contain elements of “pass through” costs. Carrier adjustments of the fuel surcharge based on the rise and fall of fuel costs create increases and decreases in our gross revenues that can be disproportionate to the actual increase or decrease in our underlying activity, distorting the meaning of growth rates. But the bigger issue is not fuel but supply vs. demand and the impact on spot rates. It’s difficult to isolate fuel because the fuel surcharge varies by carrier and the formula for how each one incorporates it into their pricing is unique to each carrier. We look at the all-in price, and supply/

demand is the leading factor in the spread between buy and sell rates. We are focused on being competitive with pricing and taking advantage of favorable buying opportunities available in the market.

5. How has that spread between air cargo buy and sell rates (ex-fuel) trended over the last few quarters, and where does it sit in early 2Q?

We don't comment on the current-quarter conditions, but we can point out that both air buy and sell rates have generally trended downwards over the last five quarters, albeit at a different pace each quarter. Our pricing strategies have been very effective and our people have been adept at taking advantage of favorable spot market buying opportunities to generate improved yields from the decline in rates.

6. How much of your book of business is truly committed from both a price and capacity standpoint today, and how has that contractual vs. transactional mix shifted over the last few quarters? Is this different between air and ocean?

If referring to the sell side, meaning the capacity that we sell to our customers, the vast majority of our business is transactional. If referring to the buy side, meaning the capacity we purchase from carriers, we do not disclose that data because we consider our procurement process part of our competitive differentiation. In past responses to this question we have noted that we don't track our revenues and costs by whether they are "spot" or "contractual/fixed."

7. What's the underlying volume growth rate for the contractual side of the business vs. the transactional side, and how has that changed over the last few quarters? Is this different between air and ocean?

See our answer to question 6 above. The vast majority of our business is transactional and there is very little difference between air and ocean in that regard. On the buy side, we do make commitments but will not disclose details because we consider our procurement process part of our competitive differentiation.

8. Does today's more challenging and volatile freight environment change your near-term view on investing in headcount to grow the business in any particular product or region?

No. We generally take a long-term view to hiring for the growth of our business and investing in people to spur that growth and provide outstanding customer service.

9. Can you please clarify why the overall Expeditors year-over-year headcount has increased for the last three quarters by 6%, 5%, and 4% while volumes deteriorated at a faster rate with airfreight +3%, -1% and -9%, and ocean freight flat, -2% and -3%?

While we are aware of and do focus on economic conditions, we manage for growth over the long-term, not based on quarter-to-quarter fluctuations in business. Our focus has been not only to execute against current market conditions, but also to develop and right-size our organization to capitalize on the particular areas of growth that we outlined in our strategic initiatives. Over time, we've been very successful at growing our business deliberately and organically by investing in our people, processes and technology. Also, it's important to remember that a significant portion of compensation is variable due to our commission and bonus structure, which incentivizes those with hiring authority to keep overall payroll costs aligned with operating income.

10. Net revenues growth in North America for the last three quarters were +8%, +4% and flat compared to headcount growth of +8%, +7% and +5%. One would think that the incentive compensation system would self-regulate the change in headcount a little closer to the change in underlying volumes.

We do think our compensation program is an excellent regulator of costs. It's self-regulating on costs by design. At the same time, our districts are incentivized to invest in areas of opportunity. The only way the districts can meaningfully increase their compensation is by growing their business.

11. In your last update you talked about how you were taking inventory of how SOLAS would impact your customers around the world. Can you talk about what you found in that process? And how prepared do you think shippers, ports and other interested parties are for July 1st? Do you expect any supply chain disruptions at this point?

Our current response would be similar to what we said about SOLAS in our March 15, 2016 Q&A 8-K filing. We certainly understand the two methods that are being proposed and we are taking inventory to determine how each country plans to implement the Safety of Life at Sea (SOLAS) amendment. So far 15 of 171 participating nations have published draft or final implementation guidelines, but the logistics in each country and, for that matter, in each origin city may be unique. Shippers will also differ in their ability to certify weights, either by their own scales, or by having to outsource that service. In either case, we will be ready to support them. In addition, we are currently working on local processes and systems capabilities to support shippers, as well as the local infrastructure requirements and/or capabilities around the two proposed methods. We have a strategy and a timetable in place to help prepare our customers for implementation. However, we still cannot predict the impact all of this might have prior to and potentially even after July 1st until there is further clarity on each country's implementation process and specific requirements.

12. EXPD has had an excellent run of net and operating margin expansion, but we're concerned those figures may trend the other way this year. Do you think your margins have peaked in this business cycle?

We have had an excellent run as a result of the outstanding work of our entire organization. Because of their talents, we have been able to push operating margins higher to near-record levels. Some of that margin expansion was a result of the West Coast port slowdowns last year. That experience, however, was just one of many that tells us we can continue to find ways to improve performance, serve our customers even better, and gain additional share in a very large and highly fragmented marketplace. We suspect that we are likely to see continued volatility in rates and tonnage, as one might define the current "business cycle." Such business cycles need to be managed, and we believe that our people are managing very well during this period of global economic volatility. We understand that we need to earn our customers' business over and over again, as they regularly solicit bids from competitors in order to improve service, pricing and contractual terms.

13. Are you seeing any signals that the cost to secure air freight capacity is rising or not falling as quickly as it did during 1Q16? Same question on ocean freight. It seems as though the Asia-Europe trade has experienced a spike in pricing.

While we don't comment on current-quarter conditions, in our May 3, 2016 press release we noted that we continued to benefit from available ocean and air carrier capacity and favorable market buying opportunities in the first quarter of 2016, and that we expect rate volatility to continue in the second quarter and the rest of 2016.

14. Can you talk about the progress you're making on improving the business in Europe and the Europe-related trade lanes. It seems like operating profit and margins are still under pressure.

We are investing in Europe and have added headcount there, as you saw in our recent Q1 earnings press release. Despite the general economic sluggishness in Europe in recent years, we are bullish on Europe over the long-term. The region is large and economically diverse, with huge intra- and inter-regional trading opportunities. Two years ago, we reorganized the company geographically as part of the reorganization, including splitting Europe off into its own region, and giving it additional resources and attention. Expeditors today does not have as large a presence in Europe as we do in North America or Asia. We believe that over time, however, Europe can become just as meaningful a market to us and that net revenue and profit per employee could be near U.S. levels.

15. Why was headcount down over 6% from December in the South Asia region? We would have expected to see steady employee growth given what's been consistently high EBIT growth rates there.

Headcount in our South Asia region did not decrease but increased slightly from 1,323 at December 31, 2015 to 1,327 at the end of Q1 2016. We adjust our headcount at the branch level to meet the expected level of business, both for sales and for support, and to invest in our future growth. If you look at headcount over time, it aligns with the additional business that we have gained and with the additional investments we have made. It's very important that whenever we add headcount, those additional people add value for the organization. We are relentlessly focused on doing less of what doesn't drive value and doing more of those things that do drive value and growth.

16. The fall in your implied gross revenue per kilo for 1Q16 was nowhere near as bad as air freight pricing in the quarter, according to indices like Drewry. To what do you attribute that?

We would not care to comment on third party pricing indices or implied gross revenue per kilo, neither of which account for the wide range of service fees that may be associated with any individual shipment. We believe that neither is an appropriate or accurate metric for measuring our performance.

17. What percentage of the air freight capacity that you secure is done on a spot basis vs. a contracted basis with the airline?

As already stated above under questions 6 and 7, we consider our procurement process part of our competitive differentiation and so we won't comment on this.

18. Now that we are on the cusp of its opening, have your views changed since the investor day on the impact that the Panama Canal expansion will have on whether freight shifts towards the USEC or USGC at the expense of the USWC?

It's still too early to know what the impact might be. As we noted in our March 15, 2016 Q&A 8-K filing, we have yet to notice any major changes in shipping plans or patterns from our customers. We had heard customers tell us that they planned to shift cargo to the East Coast because of the West Coast port issues earlier in 2015. At the time, we believed that any shift to the East Coast ports would be temporary and, for most of our customers, this seems to have been the case and we have seen a return to normal shipping patterns. However, most of the U.S. population lives east of the Mississippi and we generally believe that moving cargo as close as possible to the end customer is a good strategy. It makes sense to us that over time more cargo will be routed to take advantage of the Panama Canal expansion, and the larger ships being deployed to make use of it. We believe that is still the case but have not, as of yet, seen any major shifts in port utilization. We will also point out that the ports on the West Coast have an awful lot invested in their infrastructure.

19. In the earnings press release, you mentioned that customers are looking to take advantage of current oversupply conditions by trying to secure lower rates. If there is a meaningful appreciation in ocean and air rates at some point in the future, how much of a time lag would there be on customer pricing arrangements before they would be reset higher?

As we've experienced, there is a lag between when carriers institute pricing changes and our ability to implement those changes. However, there is no single answer to this because the relationship between supply/demand and rates is complex and each commitment depends on the individual customer, the shipper, the destination, and the lanes, among other variables.

20. Given the volume declines witnessed during the last two quarters, do you expect to scale back headcount additions?

We don't view our headcount as dispensable. We invest in our employees, and their experience and tenure with our company and our business is not easily replaced. The calculus for us on headcount is very simple and disciplined, with the individual districts controlling headcount decisions based on activity and investments. We make additional investments only after careful consideration and in alignment with our strategic plan.

21. How would you characterize the competitive environment this year? Do there continue to be competitors who are willing to extend unreasonably lenient terms to win business in the marketplace?

While there will always be players who try to win business by going out on a limb, it is not clear to what extent any of our major competitors are offering unreasonable terms. The marketplace is and will continue to be highly competitive even without those players. In any event, we believe that no one controls market share, despite the pace of M&A activity in 2015. That leaves a lot of room for growth. Also, history has taught us that consolidation often leads to dissatisfaction among the customers of the consolidating companies. When that happens, it presents opportunities for us.

22. Looking out 2-3 years, what geographies are you most excited about? Which geographies do you see as presenting the biggest risks to your growth? In this context, where are you investing most heavily?

We're focused on all of our geographies, but two in particular are especially compelling right now and are getting a lot of our attention. The first is China. Although growth in China may be slowing, it's still the second largest economy in the world. It has massive infrastructure and is an enormous manufacturer. It will likely be quite some time before any of the other Asian nations can compete with China in terms of scale. In addition, it has a very large and rapidly growing middle class that has discretionary funds to spend and an appetite for goods from outside of China. That creates opportunities beyond the export market. We think there is tremendous opportunity to generate business within the growing Chinese import business.

The second geography getting our particular attention is Europe. The economic growth rate throughout Europe has been uneven and the European region is already served by several very large and highly capable logistics companies. But like China, Europe is a very large market with tremendous opportunities for growth. The nations of Europe are doing business with each other, as well as with the rest of the world. We believe there are opportunities to grow market share not for the sake of growing market share, but to pick up good profitable business that fits in the Expeditors model. Our intention is to gain business in this geography. We also think that it's important for us to have a stronger presence in Europe because many European customers control business elsewhere. Relationships with these customers facilitates securing business in other parts of the world.

23. What emerging technologies are most promising to you in the forwarding space?

Two of the technologies that we believe will continue to gain traction in the logistics space include sensors (Internet of Things - allowing automated tracking of cargo) and optimization software. We have invested in both of these technologies and are working to further integrate the use of these items in our supply chain offerings.

24. In your Q1 earnings release, Mr. Powell said, for the second consecutive quarter, we are "aware of the uncertainties and challenges with the global economy and global trade and how they may continue to impact the comparisons to our 2015 financial results." Does this mean you expect 2016 EPS to be below 2015?

We mean exactly what we say. We believe it is important for investors to understand that the operating conditions in 2016 are very different from those in 2015. The first half of 2015 was unusual in that we benefited to an unknown degree by the port slowdowns on the U.S. West Coast, which contributed to record results in 2015 for our company - the best in our history. By any standards, that would make 2016 a year of tough comparability. That was followed by a slowdown in volumes in the second half of the year, and that slowdown has continued into 2016. Given the ongoing sluggishness of global trade, carrier overcapacity, and pressure on pricing, we have our work cut out for us for the remainder of 2016. But we have seen challenging conditions before and none of this changes our focus and commitment to securing new business and growing market share.

25. If you were a private company and didn't have to worry about how your 2016 financial results compared to your 2015 financial results, what would you do differently? If you wouldn't do anything differently, what's the point of Mr. Powell's statement?

As stated in our answer to the question directly above: we are experiencing a very different operating environment thus far in 2016 relative to 2015. Our statements about these challenges are simply meant to help people appreciate the difference in conditions under which we're operating in 2016 versus 2015, and the stiff comparisons against which we're being judged.

26. Why did your operating margin fall so much in Q1? Was the poor expense management due to “uncertainties and challenges with the global economy and global trade”?

We do not believe we demonstrated poor expense management. We also do not subscribe to the suggestion or implication that our margins could have been better had we not added headcount in areas where we believe we have opportunities to continue to grow our market share with profitable business. We have added people where we believe that will be the case, according to the strategy that we laid out over a year ago.

27. The last time your operating margin was below 30% was Q2 2014, and Mr. Musser said at the time “we will be actively addressing the factors that contributed to this shortfall”. This quarter, Mr. Musser made no such comment. What should we read into that?

The timing in question refers to a stretch when we had recorded three consecutive quarters of operating income below 30%. While our goal is to keep that number above 30%, we don't view a single quarter as a cause for concern.

28. Your headcount increased by 4%, while airfreight volumes fell by 9% and ocean freight by 3%. Is the employee growth in back-office and support positions?

We refer to a similar question 9, in which we said that we manage for growth over the long-term, not based on quarter-to-quarter fluctuations in business. Our focus has been to not only execute against current market conditions, but also to develop and right-size our organization to capitalize on the particular areas of growth that we outlined in our strategic initiatives. Over time, we've been very successful at growing our business deliberately and organically by investing in our people, processes and systems. Also, it's important to remember that a significant portion of compensation is variable due to our commission and bonus structure, which incentivizes those with hiring authority to keep overall payroll costs aligned with operating income.

29. For the past two quarters, your airfreight volumes have fallen more than the industry. Are other freight forwarders offering terms that you're unwilling to match?

Many of our large airfreight customers are high-tech suppliers who have seen a bigger decline in their volumes than have others, but we do not believe we are losing share with those customers. In addition, the West Coast port slowdown a year ago distorts comparisons. It's not that we've lost market share; we picked up temporary market share during the port slow down and that temporary business has not returned to the market.

30. Your stock underperformed the S&P 500 by at least 10% in each year from 2011-2014. In 2015, your stock was 1% ahead of the S&P 500. From your conversations with investors since becoming CEO, what caused the stock to perform so poorly over the past five years? Why could the next five years be better?

We try to avoid speculative discussions of valuation to focus on the things that we can control. However, we recognize that our 5-year performance was not up to historical standards and two years ago we initiated a strategic review that led to the current strategic plan. Operating performance in 2015 was the best in the company's history. In addition, in 2014-15 we bought back nearly \$1.2 billion in stock. We've also increased our dividend every year for more than 20 years and paid out more than \$135 million in dividends just last year alone. Regarding the next five years, we will continue to diligently apply our strategic plan, which supports the growth of our business. We continue to believe that we can gain market share, even in a down market, because we handle less than five percent of the market in most areas where we offer services.

31. What preparations if any are you/customers making ahead of the proposed implementation of SOLAS?

We have planned a series of educational seminars and operational training events for our customers. Also, see our response to question 11 on SOLAS above.

32. Your share repurchase activity has averaged ~\$350 million annually over the past 6 years. Your net cash flow (FCF less dividends) has averaged over \$250 million over the same period. Should investors assume annual share repurchase activity going forward to be your annual net cash flow, at a minimum? What would cause your annual share repurchase activity to fall below your annual net cash flow?

Our current thinking on capital allocation includes reinvesting in the business where opportunities present themselves; using cash to manage and run our daily business (instead of leveraging ourselves up with loans and debt); making semi-annual dividend payments; and returning cash to our shareholders using stock repurchases. Under this methodology, we fully expect to continue to return cash to our shareholders, but the amount of share repurchases will continue to vary depending on the opportunities in our business.

33. Is it your opinion that global trade growth will grow much more in line with global GDP growth moving forward than during 1980-2010? If not, what can you point to as sources of global trade growth

growing in excess of GDP growth? If so, from whom do you expect to take share (e.g., large integrated forwarders, small individual brokers, carriers) in order to achieve your net revenue growth target of 10%+, in the event global trade growth remains stuck in a low-single-digit pace?

A factor in our rate of growth will always be tied to global trade. While our goal of low-double-digit growth has always been a long-term goal for growth, it's certainly not focused on an individual quarter. Changes in global trade - both increases and decreases - have an impact on our ability to grow. Fortunately, we service less than 5% of the market in areas where we operate, leaving abundant room for growth and expansion.

34. Salaries & Related Costs growth in 1Q16 (+2% yoy) outpaced net revenue growth (-2% yoy), after lagging net revenue growth over the past 8 quarters. To what is this attributed? Is it simply a function of how the model works during period of down net revenue growth (i.e., 2012)?

Yes, that is how the math of the model works, but managing salaries and related costs and headcount is much more complicated, as the majority of our investments is made in our people. These investments are long-term and closely aligned with our strategic initiatives. As we noted in our response to question 10 above, we believe that our compensation program is an excellent regulator of costs. It's self-regulating on costs by design. At the same time, our districts are incentivized to invest in areas of opportunity.

35. On a related note, profit/employee fell -15% yoy in 1Q16, and fell for the first time since 2012. Is this a normal function of negative operating leverage (given negative volume and net revenue growth)? Can this be responded to - in other words, can you continue to drive profit/employee higher in a flat/down net revenue growth environment? Or to drive to productivity gains, do you require positive net revenue growth?

We measure our performance with several different measurements, including per-employee performance at each district over several different time periods. We always focus on driving efficiency. Our profit per employee is directly impacted by our buy and sell rates and in both cases we will see periods where profit per employee increases and decreases, depending on fluctuation in rates.

36. Europe/Africa and Middle East/India headcount growth materially outstripped your more mature region? Is there a positive or negative mix shift to overall EBIT margin from the growth in these smaller/emerging markets?

We don't operate those regions any differently than other regions. Our investments in each district is based on our strategic plan and the opportunities we see over the long-term.

37. It appears Europe's revenue and profit per employee has fallen steadily in recent years. What can be done to improve productivity in the region? At what stage would you describe your strategic growth initiative in Europe to be? Is there confidence that productivity metrics in Europe can return to ~2010 peak levels?

There are multiple reasons for the decline, including the effects of foreign currency exchange rates. However, we believe that the plans we have in place as a result of implementing our strategic initiatives will yield positive results over the long-term. We've spent the better part of the last 18 months driving infrastructure changes in the European Region and are now shifting to sales and execution.

38. Although volumes were consistently negative in each month of Q1 - except for the rebound in Ocean in March - management took the decision to increase headcount (both sequentially and Y/Y). This was particularly noticeable in the USA operating region, where net revenue was roughly flat - a good performance given soft market conditions, and tough comps - but OpEx (roughly 80% of which is compensation) increased sharply. Some analysts have dismissed this blithely as "negative operating leverage." What was the rationale for adding headcount and compensation expense, especially in the US, despite declining volumes? How should we understand this in the context of productivity (e.g., files handled per employee)?

Our approach to adding headcount and compensation expense in the U.S. is no different than any other region. As we have discussed in our responses to several different questions, these decisions are made by our District Managers based on current operations and investments made to support our strategic initiatives. We monitor several different productivity measurements over different time periods, but one of the primary measures is operating income divided by net revenue. This is a comprehensive efficiency measurement that captures our ability to convert a dollar of net revenue into operating income.

39. Jeff and Brad both alluded to maintaining or even gaining market share in the quarter, but some analysts covering Expeditors have pointed to various facts (e.g., freight volume indices, competitors' reported volume results, competitors assessment of market volumes, etc) that suggest Expeditors probably lost share from a volume perspective in Q1. What facts can management share that supports its expressed view that Expeditors gained or maintained share? If In fact Expeditors lost share, to what factors does management attribute the loss?

In our May 3, 2016 press release we stated that in Q1 2016 we worked with carriers to adjust pricing in air and ocean markets with excess capacity to maintain and grow profitable market share. In general, our comments on gaining or losing market share are based on our knowledge of net new business that we have won or lost from new and existing customers, as well as our knowledge of changes in the markets. In our response to question 29 above, we noted that many of our large airfreight customers are high-tech suppliers who have seen a bigger decline in their volumes than others have, but we do not believe we are losing share with those customers. We also commented that the West Coast port slowdown a year ago distorts comparisons. It's not that we've lost market share; we picked up temporary market share during the port slow down and that temporary business has not returned to the market.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

May 20, 2016 /s/ JEFFREY S. MUSSER

Jeffrey S. Musser, President, Chief Executive Officer and Director

May 20, 2016 /s/ BRADLEY S. POWELL

Bradley S. Powell, Senior Vice President and Chief Financial Officer

veloped that, if successful, could compete against our product candidates. These chemical entities are being designed to work differently than our product candidates and may turn out to be safer or to be more effective than our product candidates. Among the many experimental therapies being tested in the United States and Europe, there may be some that we do not now know of that may compete with our drug delivery systems or product candidates. Our collaborative partners could choose a competing drug delivery system to use with their drugs instead of one of our drug delivery systems.

Many of our competitors have much greater capital resources, manufacturing, research and development resources and production facilities than we do. Many of them also have much more experience than we do in preclinical testing and clinical trials of new drugs and in obtaining FDA and foreign regulatory approvals.

Major technological changes can happen quickly in the biotechnology and pharmaceutical industries, and the development by competitors of technologically improved or different products or drug delivery technologies may make our product candidates or platform technologies obsolete or noncompetitive.

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Further, our product candidates may not gain market acceptance among physicians, patients, healthcare payors and the medical community. The degree of market acceptance of any product candidates that we develop will depend on a number of factors, including:

- demonstration of their safety and clinical efficacy;
- their cost-effectiveness;
- their potential advantage over alternative treatment methods;
- the marketing and distribution support they receive; and
- reimbursement policies of government and third-party payors.

Our product candidates, if successfully developed and approved for commercial sale, will compete with a number of drugs and therapies currently manufactured and marketed by major pharmaceutical and other biotechnology companies. Our product candidates may also compete with new products currently under development by others or with products which may cost less than our product candidates. Physicians, patients, third-party payors and the medical community may not accept or utilize any of our product candidates that may be approved. If our products do not achieve significant market acceptance, our business and financial condition will be materially adversely affected.

We may not be able to retain our key personnel.

Our success depends on the services of key employees in executive, research and development, manufacturing and regulatory positions. The loss of the services of key employees could have a material adverse effect on our business.

If we issue additional common stock, you may suffer dilution of your investment and a decline in stock price.

As discussed above under "We will need to spend substantial funds to become profitable," we may issue additional equity securities or securities convertible into equity securities to raise funds, thus reducing the ownership share of the current holders of our common stock, which may adversely affect the market price of the common stock. In addition, we were obligated, at September 30, 2003, to issue 14,248,312 shares of common stock upon the vesting and exercise of stock options and vesting of stock awards, 9,978 shares of common stock issuable upon conversion of the 3.75% Subordinated Notes, 2,186,589 shares of common stock issuable upon conversion of the Convertible Preferred Stock and 9,025,275 shares of common stock issuable upon conversion of the 2 1/2% Convertible Senior Subordinated Notes. Any of our shareholders could sell all or a large number of their shares, which could adversely affect the market price of our common stock.

Our common stock price is highly volatile.

The realization of any of the risks described in these "Risk Factors" or other unforeseen risks could have a dramatic and adverse effect on the market price of our common stock. Additionally, market prices for securities of biotechnology and pharmaceutical companies, including ours, have historically been very volatile. The market for these securities has from time to time experienced significant price and volume fluctuations for reasons that were unrelated to the operating performance of any one company. In particular

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and in addition to circumstances described elsewhere under Risk Factors, the following factors can adversely affect the market price of our common stock:

non-approval or set-backs in development of our product candidates and success of our research and development programs;

public concern as to the safety of drugs developed by us or others;

announcements of issuances of common stock or acquisitions by Alkermes;

developments of our corporate partners;

announcements of technological innovations or new therapeutic products or drug delivery methods by us or others;

changes in government regulations or policies or patent decisions; and

general market conditions.

We may encounter difficulties integrating future acquisitions.

We have in the past and may again acquire novel technologies, compounds or the rights to certain products through acquisitions of such technologies and intellectual property rights or through the acquisition of businesses or companies. We cannot assure you that any such future acquisition will be completed, successfully integrated with our current businesses, will achieve revenues or will be profitable. We may have difficulty assimilating the operations, technology and personnel of any acquired businesses.

If we make significant acquisitions for stock consideration, the current holders of our common stock may be significantly diluted. If we make significant acquisitions for cash consideration, we may be required to use a substantial portion of our available cash.

Anti-takeover provisions may not benefit shareholders.

We are a Pennsylvania corporation and Pennsylvania law contains strong anti-takeover provisions. In February 2003, our board of directors adopted a shareholder rights plan. The shareholder rights plan provides for a dividend of one preferred share purchase right on each outstanding share of our common stock. Each right entitles shareholders to buy 1/1000th of a share of our Series A Junior Participating Preferred Stock at an exercise price of \$80.00. Each right will become exercisable following the tenth day after a person or group announces an acquisition of or commences a tender offer to purchase 15% or more of our common stock. We will be entitled to redeem the rights at \$0.001 per right at any time on or before the close of business on the tenth day following acquisition by a person or group of 15% or more of our common stock. The shareholder rights plan and Pennsylvania law could make it more difficult for a person or group to, or discourage a person or group from attempting to, acquire control of us, even if the change in control would be beneficial to shareholders. Our articles of incorporation and bylaws also contain certain provisions that could have a similar effect. The articles provide that our board of directors may issue, without shareholder approval, preferred stock having such voting rights, preferences and special rights as the board of directors may determine. The issuance of such preferred stock could make it more difficult for a third party to acquire us.

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Litigation may result in financial losses or harm our reputation and may divert management resources.

In October and early November 2003, Alkermes and certain of our current and former officers and directors were named as defendants in purported securities class action lawsuits filed in the United States District Court for the District of Massachusetts. These actions were allegedly filed on behalf of purchasers of our common stock during the period April 22, 1999 to July 1, 2002 and generally allege, among other things, that, during such period, the defendants made misstatements to the investing public relating to FDA approval of Risperdal Consta. The complaints seek unspecified damages. This and any other litigation that may be brought against us may result in financial losses, harm our reputation and require the dedication of significant management resources.

Risks Related to the Notes

The notes are subordinated to our senior debt.

The notes are unsecured and subordinated to our existing and future senior indebtedness, including our existing bank loan and equipment lease financing. As a result of such subordination, in the event of our insolvency, liquidation, reorganization, payment default on senior indebtedness, covenant default on our designated senior indebtedness, or upon acceleration of the notes due to an event of default, we will not be able to make payments on the notes until we have paid in full all of our senior indebtedness. We may, therefore, not have sufficient assets to pay the amounts due on the notes. Neither we nor our subsidiaries are prohibited from incurring debt under the indenture for the notes, including debt senior to, on parity with or subordinate to the notes. If we incur additional debt, our ability to pay amounts due on the notes could be adversely affected. As of September 30, 2003, we had approximately \$460,000 of senior indebtedness outstanding. We may also incur additional debt in the future.

Our subsidiaries will not be prohibited from incurring debts in the future that would be senior to the notes.

The notes are effectively subordinate to all indebtedness and other liabilities of our subsidiaries. Substantially all of our operations are conducted through our subsidiaries. Because substantially all of our operations are conducted through subsidiaries, claims from holders of indebtedness of our subsidiaries, as well as claims of regulators and creditors of our subsidiaries, will have priority with respect to the assets and any earnings of such subsidiaries over the claims of creditors of Alkermes, Inc., including you.

The notes are obligations exclusively of Alkermes, Inc. Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the notes or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations.

We may not have sufficient funds to repurchase the notes.

At maturity, the entire outstanding principal amount of the notes will become due and payable by us. We cannot assure you that we will have sufficient funds, or will be able to arrange for financing, to pay the principal amount due. You may require us to repurchase all or any portion of your notes on September 1, 2008, September 1, 2013 and September 1, 2018, each a repurchase date, or upon a repurchase event, including a change in control. We may not have sufficient cash funds to repurchase the notes on a

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repurchase date or upon a repurchase event. If the repurchase is in connection with a repurchase event, we may elect, subject to certain conditions, to pay the repurchase price in common stock. Any future credit agreements or debt agreements may prohibit us from repaying the repurchase price in either cash or common stock or expressly prohibit the repurchase of the notes upon a change in control or may provide that a change in control constitutes an event of default under that agreement. If we are prohibited from repurchasing the notes, we could seek consent from our lenders to repurchase the notes. If we are unable to obtain their consent, we could attempt to refinance the notes. If we were unable to obtain a consent to repurchase, or refinance the notes, we would be prohibited from repurchasing the notes. If we were unable to repurchase the notes upon a repurchase date or repurchase event, it would result in an event of default under the indenture. An event of default under the indenture could result in a further event of default under other then-existing debt. In addition, the occurrence of the repurchase event may be an event of default under our other debt. As a result, we would be prohibited from paying amounts due on the notes under the subordination provisions of the indenture.

We have substantially increased our indebtedness.

As a result of the sale of the notes, we incurred \$125 million of additional indebtedness. Our other indebtedness is principally comprised of bank financing. We may incur substantial additional indebtedness in the future. The level of our indebtedness among other things, could:

make it difficult for us to make payments on the notes;

make it difficult for us to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes;

limit our flexibility in planning for, or reacting to changes in, our business; and

make us more vulnerable in the event of a downturn in our business.

We cannot assure you that we will be able to meet our debt service obligations, including our obligations under the notes.

There may be no active market for the notes.

There was no trading market for the notes prior to the closing of the notes on August 22, 2003. Since then, the notes were approved for trading on the Portal Market. Although the initial purchaser of the notes has advised us that it intends to make a market in the notes, it is not obligated to make a market in the notes. The initial purchaser could stop making a market at any time without notice. Accordingly, no market for the notes may develop, and any market that develops may not last or be active.

We expect the trading price of the notes and the underlying common stock to be highly volatile, which could adversely affect the market price of our notes and underlying common stock.

The trading price of the notes and the underlying common stock will fluctuate in response to variations in:

the factors described under **Risks Related to Alkermes** Our common stock price is highly volatile;

our operating results;

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announcement by us or our competitors of technological innovations or new products; and

general economic and market conditions.

In addition, stock markets have experienced extreme price volatility in recent years, particularly for biotechnology companies. In the past, our common stock has experienced volatility not necessarily related to announcements of our financial performance. Broad market fluctuations may also adversely affect the market price of our notes and underlying common stock.

If we automatically convert the notes, you should be aware that there is a substantial risk of fluctuation in the price of our common stock from the date we elect to automatically convert to the conversion date.

We may elect to automatically convert the notes on or prior to maturity if our common stock price has exceeded 150% of the conversion price for at least 20 trading days during a 30-day trading period ending within five trading days prior to the notice of automatic conversion. You should be aware that there is a risk of fluctuation in the price of our common stock between the time when we may first elect to automatically convert the notes and the automatic conversion date. This time period may extend up to 30 calendar days from the time we elect to automatically convert the notes until the conversion date.

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WHERE YOU CAN FIND MORE INFORMATION

Alkermes, Inc. is a reporting company and files annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission. You may read and copy these reports, proxy statements, and other information at the Securities and Exchange Commission's public reference room located at 450 Fifth Street, N.W., Washington, DC 20549. You can request copies of these documents by writing to the Securities and Exchange Commission and paying a fee for the copying cost. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for more information about the operation of the public reference rooms. Our Securities and Exchange Commission filings are also available at the Securities and Exchange Commission's web site at <http://www.sec.gov>. In addition, you can read and copy our filings at the office of the National Association of Securities Dealers, Inc. at 1735 K Street, Washington, DC 20006. You may also obtain a copy of the registration statement at no cost by writing us at the following address:

Alkermes, Inc.
Attn: Investor Relations
88 Sidney Street
Cambridge, MA 02139
www.alkermes.com

This prospectus is one part of a registration statement filed on Form S-3 with the SEC under the Securities Act. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information concerning us and the securities, you should read the entire registration statement, including this prospectus and any related prospectus supplements, and the additional information described under the sub-heading "Documents Incorporated By Reference" below. The registration statement has been filed electronically and may be obtained in any manner listed above. Any statements contained herein concerning the provisions of any document are not necessarily complete, and, in each instance, reference is made to the copy of such document filed as an exhibit to the registration statement or otherwise filed with the SEC. Each such statement is qualified in its entirety by such reference.

Our URL and the SEC's URL above are intended to be inactive textual references only. Such information on our or the SEC's web site is not a part of this prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference information that we file with them, which means that we can disclose important information to you by referring you to those other documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act but prior to the termination of any offering of securities made by this prospectus:

Our Annual Report on Form 10-K for the year ended March 31, 2003;

Our Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 2003 and September 30, 2003;

Our Current Reports on Form 8-K dated April 29, 2003 and October 29, 2003; and

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The description of our common stock under the caption "Item 1. Description of Registrant's Securities to be Registered" contained in our Registration Statement on Form 8-A dated June 28, 1991, as amended on Form 8-A/A dated January 17, 1997.

Upon written or oral request, we will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, a copy of any or all of such documents which are incorporated herein by reference (other than exhibits to such documents unless such exhibits are specifically incorporated by reference into the documents that this prospectus incorporates). Written or oral requests for copies should be directed to Alkermes, Inc., Attn: Investor Relations, 88 Sidney Street, Cambridge, Massachusetts 02139, telephone number (617) 494-0171.

Any statement contained in this prospectus, or in a document all or a portion of which is incorporated by reference, shall be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus, any supplement or any document incorporated by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this prospectus.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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We will not receive any of the proceeds from the sale of the securities covered by this prospectus.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol ALKS. The following table sets forth, for the calendar periods indicated, the high and low sale prices per share of the common stock as reported on the Nasdaq National Market:

	<u>High</u>	<u>Low</u>
Fiscal year ended March 31, 2002		
First Quarter	\$ 37.75	\$ 20.38
Second Quarter	\$ 35.36	\$ 17.39
Third Quarter	\$ 28.90	\$ 18.22
Fourth Quarter	\$ 31.39	\$ 23.67
Fiscal year ended March 31, 2003		
First Quarter	\$ 26.65	\$ 14.65
Second Quarter	\$ 10.68	\$ 3.55
Third Quarter	\$ 11.31	\$ 6.00
Fourth Quarter	\$ 9.15	\$ 6.30
Fiscal year ended March 31, 2004		
First Quarter	\$ 14.50	\$ 8.74
Second Quarter	\$ 14.67	\$ 10.25
Third Quarter (through November 11, 2003)	\$ 16.24	\$ 11.25

RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for each of the periods indicated as follows:

<u>Fiscal Year Ended March 31,</u>					<u>Six Months Ended</u>
<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>September 30, 2003</u>

Ratio of earnings to fixed charges⁽¹⁾

⁽¹⁾ For the fiscal years ended March 31, 2003, 2002, 2001, 2000 and 1999 and for the six months ended September 30, 2003, earnings were insufficient to cover fixed charges by \$106,898,000, \$61,355,000, \$24,137,000, \$77,436,000, \$48,511,000 and \$56,792,000, respectively. For this reason, no ratios are provided.

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DESCRIPTION OF NOTES

Alkermes, Inc. issued the notes under an indenture dated August 22, 2003 between Alkermes, Inc. and U.S. Bank National Association, as notes trustee. The following summarizes the material provisions of the notes and the notes indenture. This summary is subject to and is qualified by reference to all the provisions of the notes and the notes indenture. As used in this description, the words *we*, *us* or *our* do not include any current or future subsidiary of Alkermes, Inc.

General

We issued \$125,000,000 aggregate principal amount of notes.

The notes are subordinated obligations of Alkermes, Inc. that are subordinate in right of payment as described under *Subordination* below. The notes are convertible into common stock as described under *Conversion by Holders* and *Automatic Conversion* below. The notes were issued in denominations of \$1,000 and multiples of \$1,000. The notes mature on September 1, 2023 unless earlier converted, redeemed or repurchased.

The notes bear interest at the rate of 2 1/2% per year. Interest will be paid on March 1 and September 1 of each year, commencing on March 1, 2004, subject to limited exceptions if the notes are converted, redeemed or repurchased prior to the applicable interest payment date. The record dates for payment of interest are February 15 and August 15 of each year.

Interest will be payable in cash. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

We will pay principal and interest on the notes at the corporate trust office of the notes trustee or at the office or agency we maintain for such purpose in the Borough of Manhattan, The City of New York, which shall initially be the office or agency of the notes trustee. At our option, however, we may pay interest by check mailed to your address as it appears in the notes register. However, holders of \$2,000,000 or more in principal amount of notes may elect in writing to be paid by wire transfer; provided that any payment to DTC or its nominee will be made by wire transfer of immediately available funds to the account of DTC or its nominee.

We will not be restricted from paying dividends or repurchasing securities or incurring indebtedness under the notes indenture. The notes indenture has no financial covenants. Holders of the notes are not protected in the event of a highly leveraged transaction or a change in control of Alkermes except as described under *Repurchase at Option of Holders upon a Repurchase Event* below.

You are not required to pay a service charge for registration or transfer of notes. We may, however, require you to pay any tax or other governmental charge in connection with the transfer. We are not required to exchange or register the transfer of:

any note for a period of 15 days before selection for redemption;

any note or portion selected for redemption;

any note or portion surrendered for conversion;

any note or portion surrendered for repurchase but not withdrawn in connection with a repurchase event; or

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any note or portion tendered for repurchase on September 1, 2008, September 1, 2013 or September 1, 2018, each a repurchase date. The notes will be issued:

in fully-registered form; and

in denominations of \$1,000 and multiples of \$1,000.

Book-Entry System

Global Security

The notes were issued in the form of a global security held in book-entry form. Except as noted below under *Certificated Notes*, DTC or its nominee is the sole registered holder of the notes for all purposes under the notes indenture. Owners of beneficial interests in the notes represented by the global security hold these interests pursuant to the procedures and practices of DTC. Owners of beneficial interests must exercise any rights in respect of their interests, including any right to convert or require repurchase of their interests, in accordance with DTC's procedures and practices. Beneficial owners are not holders, and are not entitled to any rights under the global security or the notes indenture with respect to the global security. We and the trustee may treat DTC as the sole holder and owner of the global security. See *Book-Entry System* The Depository Trust Company.

Certificated Notes

Certificated notes may be issued in exchange for notes represented by the global security if DTC no longer serves as the depository and no successor depository is appointed by us.

Conversion by Holders

You may, at your option, convert some or all of your notes at any time prior to maturity into shares of our common stock at a conversion price of \$13.85 per share, subject to adjustment upon certain events, which amounts to a conversion ratio of 72.2022 shares of common stock per \$1,000 of notes. You may convert notes in denominations of \$1,000 and multiples of \$1,000; we will not, however, issue fractional shares upon conversion of the notes but will instead make a cash adjustment for any fractional share interest. The conversion price is subject to adjustment as described below. If the notes are called for redemption, the conversion rights on the notes called for redemption will expire at the close of business of the last business day before the redemption date, unless we default in payment of the redemption price. If you have submitted your notes for repurchase after a repurchase event or in connection with a repurchase date, you may only convert your notes if you deliver a withdrawal notice before the close of business on the last business day before the repurchase date.

If you convert your notes after a record date and prior to the next interest payment date, you will have to pay us interest, unless the notes have been called for redemption or we have issued a notice of an automatic conversion where such redemption or automatic conversion occurs prior to the interest payment date, under the notes indenture. We will pay a cash adjustment for any fractional shares based on the market price of our common stock on the last business day before the conversion date.

You can convert your notes by delivering the notes to an office or agency of the notes trustee in the Borough of Manhattan, The City of New York, along with a duly signed and completed notice of conversion, a form of which may be obtained from the notes trustee. In the case of a global security,

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DTC will effect the conversion upon notice from the holder of a beneficial interest in the global security in accordance with DTC's rules and procedures. The conversion date will be the date on which the notes and the duly signed and completed notice of conversion are delivered. As promptly as practicable on or after the conversion date, but no later than three business days after the conversion date, we will issue and deliver to the conversion agent certificates for the number of full shares of common stock issuable upon conversion, together with any cash payment for fractional shares. In the event we fail to convert any tendered notes into common stock in accordance with the terms of the notes indenture, the holder may bring an action to enforce its right to convert.

You will not be required to pay any stamp, transfer, documentary or similar taxes or duties upon conversion but will be required to pay any stamp or transfer tax or duty if the common stock issued upon conversion of the notes is in a name other than your name. Certificates representing shares of common stock will not be issued or delivered unless all stamp or transfer taxes and duties, if any, payable by the holder have been paid.

Adjustment to the conversion price

The conversion price will be adjusted if:

- (1) we dividend or distribute shares of our common stock to our common shareholders;
- (2) we split, subdivide or combine our common stock;
- (3) we issue rights or warrants to all holders of our common stock to purchase common stock at less than the current market price;
- (4) we dividend or distribute to all holders of our common stock capital stock or evidences of indebtedness or assets, but excluding:
 - dividends, distributions and rights or warrants referred to in (3) above or to be exercised in connection with certain trigger events;
 - dividends and distributions paid exclusively in cash or paid in connection with our liquidation, dissolution or winding up; or
 - capital stock, evidence of indebtedness, cash or assets distributed in a merger or consolidation;
- (5) we make a dividend or distribution consisting exclusively of cash to all holders of common stock. In the event of such a dividend or distribution, we will reduce the conversion price to a price to be determined by multiplying the then current conversion price by the fraction obtained by (i) subtracting the full amount of the dividend or distribution payable to the holder of one share of our common stock from the average closing price of our common stock for the three trading days immediately preceding the ex-dividend date for such dividend or distribution and (ii) dividing the difference obtained in (i) by the average closing price of our common stock for the three trading days immediately preceding the ex-dividend date for such dividend or distribution;
- (6) the purchase of common stock pursuant to a tender offer made by us or any of our subsidiaries involves an aggregate consideration that, together with any cash and the fair market value of any other consideration payable in any other tender offer by us or any of

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our subsidiaries for common stock expiring within the 12 months preceding such tender offer, exceeds 10% of our market capitalization on the expiration of such tender offer; or

- (7) payment on tender offers or exchange offers by a third party other than Alkermes, Inc. or our subsidiaries if, as of the closing date of the offer, our board of directors does not recommend rejection of the offer. We will only make this adjustment if a tender offer increases the person's ownership to more than 25% of our outstanding common stock and the payment per share is greater than the current market price of the common stock. We will not make this adjustment if the tender offer is a merger or transaction described below under Consolidation, Merger or Transfer of Assets.

The conversion adjustment provisions apply to the conversion price for both voluntary conversions and automatic conversions.

Pursuant to our shareholders' rights plan, the holders of notes will receive the rights upon conversion of the notes, whether or not these rights were separated from the common stock prior to conversion.

If we reclassify our common stock, consolidate, merge or combine with another person or sell or convey our property and assets as an entirety or substantially as an entirety, each note then outstanding will, without the consent of the holder of any note, become convertible only into the kind and amount of securities, cash and other property receivable upon such reclassification, consolidation, merger, combination, sale or conveyance by a holder of the number of shares of common stock into which the note was convertible immediately prior to the reclassification, consolidation, merger, combination, sale or conveyance. This calculation will be made based on the assumption that the holder of common stock failed to exercise any rights of election that the holder may have to select a particular type of consideration. The adjustment will not be made for a consolidation, merger or combination that does not result in any reclassification, conversion, exchange or cancellation of our common stock.

We are permitted to reduce the conversion price of the notes for limited periods of time, if our board of directors deems it advisable. Any such reduction shall be effective for not less than 20 days. We are required to give at least 15 days' prior notice of any such reduction. We may also reduce the conversion price to avoid or diminish income tax to holders of our common stock in connection with a dividend or distribution of stock or similar event.

No adjustment in the conversion price of the notes will be required unless it would result in a change in the conversion price of at least one percent. Any adjustment not made will be taken into account in subsequent adjustments.

Automatic Conversion

We may elect to automatically convert the notes if our stock price hits specific targets.

We may elect to automatically convert some or all of the notes at any time on or prior to maturity if the closing price of our common stock has exceeded 150% of the conversion price for at least 20 trading days during any consecutive 30-day trading period ending within five trading days prior to the notice of automatic conversion. We refer to this as an automatic conversion. The notice of automatic conversion must be given not more than 30 and not less than 20 days prior to the date of automatic conversion.

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If an automatic conversion occurs on or prior to September 1, 2006, we will pay additional interest in cash or, at our option, in shares of our common stock to holders of notes being converted. This additional interest shall be equal to three years' worth of interest less any interest actually paid or provided for prior to the date of automatic conversion. We will specify in the automatic conversion notice whether we will pay the additional interest in cash or common stock. If we elect to pay the additional interest in shares of our common stock, the shares of common stock will be valued at 97.5% of the average of the closing price of our common stock for each of the five trading days immediately preceding the second trading day preceding the conversion date. We will not issue fractional shares for any additional interest upon conversion but will instead make a cash adjustment for any fractional share interest.

During the two-year period after the issue date of the notes, we may automatically convert the notes only if a registration statement has been declared effective prior to the date of the notice of automatic conversion and such registration statement remains effective on the date of automatic conversion.

You will not be required to pay any stamp, transfer, documentary or similar taxes or duties upon conversion but will be required to pay any stamp or transfer tax or duty if the common stock issued upon conversion of the notes is in a name other than your name. Certificates representing shares of common stock will not be issued or delivered unless all stamp or transfer taxes and duties, if any, payable by the holder have been paid.

Optional Redemption

At any time on or after September 6, 2006, we may redeem some or all of the notes, at our option, upon not less than 20 nor more than 60 days' prior written notice sent via first class mail, at the redemption prices specified below. The redemption price, expressed as a percentage of the principal amount, is as follows for the periods beginning September 6, 2006:

Period	Redemption Price
September 6, 2006 to August 31, 2007	101.00%
September 1, 2007 to August 31, 2008	100.50%
September 1, 2008 to September 1, 2023	100.00%

In each case we will also pay accrued and unpaid interest to, but excluding, the redemption date. If the redemption date is an interest payment date, we will pay interest to the record holders as of the relevant record date.

No sinking fund will be provided for the notes, which means that the notes indenture will not require us to redeem or retire the notes periodically. We may not redeem the notes if there is a default under the notes indenture. See "Events of Default and Remedies" below.

Repurchase at Option of the Holder

You have the right to require us to repurchase the notes for cash on September 1, 2008, September 1, 2013 and September 1, 2018. We will be required to repurchase any outstanding note for which you deliver a written repurchase notice to the paying agent. This notice must be delivered during the period beginning at any time from the opening of business on the date that is 20 business days prior to the repurchase date until the close of business on the repurchase date. If a repurchase notice is given and

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withdrawn during that period, we will not be obligated to repurchase the notes listed in the notice. Our repurchase obligation will be subject to certain additional conditions.

The repurchase price payable for a note will be equal to 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the repurchase date. Your right to require us to repurchase notes is exercisable by delivering a written repurchase notice to the paying agent within 20 business days of the repurchase date. The paying agent initially will be U.S. Bank National Association, the notes trustee.

The repurchase notice must state:

if certificated notes have been issued, the note certificate numbers (or, if your notes are not certificated, your repurchase notice must comply with appropriate DTC procedures);

the portion of the principal amount of notes to be repurchased, which must be in \$1,000 multiples; and

that the notes are to be repurchased by us pursuant to the applicable provisions of the notes and the notes indenture.

You may withdraw any written repurchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business of the repurchase date. The withdrawal notice must state:

the principal amount of the withdrawn notes;

if certificated notes have been issued, the certificate numbers of the withdrawn notes (or, if your notes are not certificated, your withdrawal notice must comply with appropriate DTC procedures); and

the principal amount, if any, which remains subject to the repurchase notice.

We must give notice of an upcoming repurchase date to all note holders not less than 20 business days prior to the repurchase date at their addresses shown in the register of the registrar. We will also give notice to beneficial owners as required by applicable law. This notice will state, among other things, the procedures that holders must follow to require us to repurchase their notes.

Payment of the repurchase price for a note for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the note, together with necessary endorsements, to the paying agent at its office, or any other office of the paying agent, prior to, on or at any time after delivery of the repurchase notice. Payment of the repurchase price for the note will be made promptly following the later of the repurchase date and the time of book-entry transfer or delivery of the note. If the paying agent holds money sufficient to pay the repurchase price of the note, then, on and after the later of the repurchase date or the date such cash is first held the note will cease to be outstanding and all other rights of the note holder will terminate, other than the right to receive the repurchase price upon delivery of the note. This will be the case whether or not book-entry transfer of the note has been made or the note has been delivered to the paying agent.

No notes may be repurchased by us at the option of the holders if the principal amount of the notes has been accelerated, and such acceleration has not been rescinded, on or prior to such date. We may be unable to repurchase the notes if you elect to require us to repurchase the notes pursuant to this provision. If you elect to require us to repurchase the notes we may not have enough funds to pay the

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repurchase price for all tendered notes. Any future credit agreements or other agreements relating to our indebtedness may contain provisions prohibiting repurchase of the notes under certain circumstances. If you elect to require us to repurchase the notes at a time when we are prohibited from repurchasing notes, we could seek the consent of our lenders to repurchase the notes or attempt to refinance this debt. If we do not obtain consent to repurchase, or successfully refinance the notes, we would not be permitted to repurchase the notes. Our failure to repurchase tendered notes would constitute an event of default under the notes indenture, which might constitute a default under the terms of our other indebtedness. Our ability to repurchase notes with cash may be limited by the terms of our then-existing borrowing agreements. Even though we become obligated to repurchase any outstanding note on a repurchase date, we may not have sufficient funds to pay the repurchase price on that repurchase date.

We will comply with the provisions of Rule 13e-4 and any other rules under the Securities Exchange Act of 1934 that may be applicable. We will file a Schedule TO or any other schedule required in connection with any offer by us to repurchase the notes.

Repurchase at Option of Holders upon a Repurchase Event

If a repurchase event occurs after issuance of the notes, you will have the right, at your option, to require us to repurchase all or any portion of your notes 40 days after we mail holders a notice of the repurchase event. The repurchase price we are required to pay will be equal to 105% of the principal amount of the notes submitted for repurchase, plus accrued and unpaid interest to, but excluding, the repurchase date. If a repurchase date is an interest payment date, we will pay the interest that is due and payable on such date to the record holder on the applicable record date.

We may pay the repurchase price, at our option, in cash or common stock. If we elect to pay the repurchase price in common stock, the number of shares we deliver will be valued at 95% of the average of the closing price for each of the five trading days immediately preceding the second trading day prior to the repurchase date. We may only pay the repurchase price in common stock if we satisfy conditions provided in the notes indenture.

A repurchase event will be considered to have occurred if:

our common stock or other common stock into which the notes are convertible is neither listed for trading on a United States national securities exchange nor approved for trading on an established automated over-the-counter trading market in the United States; or

one of the following change in control events occurs:

1. any person or group becomes the beneficial owner of more than 50% of the voting power of our outstanding securities entitled to generally vote for directors;
2. our shareholders approve any plan or proposal for our liquidation, dissolution or winding up;
3. we consolidate with or merge into, or participate in a share exchange with any other corporation, partnership, limited liability company or other entity or any other corporation, partnership, limited liability company or other entity merges into us, and, in the case of any such merger, consolidation or share exchange, our outstanding common stock is changed or exchanged into other assets or securities as a result;

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4. we convey, transfer or lease all or substantially all of our assets to any person; or

5. the continuing directors do not constitute a majority of our board of directors at any time.

However, a change in control will not be deemed to have occurred if:

the last sale price of our common stock for any five trading days during the ten trading days immediately before the change in control is equal to at least 105% of the conversion price;

in the event of a transaction specified in (1), (3) or (4) above, if our shareholders immediately before such transaction constituting the change in control own, directly or indirectly, immediately following such transaction, at least 51% of the combined voting power of the outstanding voting securities resulting from such change in control in substantially the same proportion as their ownership of the voting stock immediately before such transaction; or

in the event of a transaction specified in (3) or (4) above, all of the consideration, excluding cash payments for fractional shares in the transaction constituting the change in control, consists of common stock traded on a United States national securities exchange or quoted on the NASDAQ National Market, and as a result of the transaction the notes become convertible solely into that common stock.

The term continuing director means at any date a member of our board of directors:

who was a member of our board of directors on August 15, 2003; or

who was nominated or elected by at least a majority of the directors who were continuing directors at the time of the nomination or election or whose election to our board of directors was recommended by at least a majority of the directors who were continuing directors at the time of the nomination or election or by the nominating committee comprised of our independent directors.

Under the above definition of continuing director, if the current board of directors approved a new director or directors and then resigned, no change in control would occur. The interpretation of the phrase all or substantially all used in the definition of change in control would likely depend on the facts and circumstances existing at such time. As a result, there may be uncertainty as to whether or not a sale or transfer of all or substantially all of our assets has occurred.

We will be required to mail holders of notes a notice within 15 days after the occurrence of a repurchase event. The notice must describe, among other things, the repurchase event, the holder's right to elect repurchase of the notes and the repurchase date. We must deliver a copy of the notice to the notes trustee and cause a copy, or a summary of the notice, to be published in a newspaper of general circulation in New York, New York. You may exercise your repurchase rights by delivering written notice to us and the notes trustee. The notice must be accompanied by the notes duly endorsed for transfer to us. You must deliver the exercise notice on or before the close of business on the thirty-fifth calendar day after the mailing date of the repurchase notice.

You may require us to repurchase all or any portion of your notes upon a repurchase event. We may not have sufficient cash funds to repurchase the notes upon a repurchase event. We may elect,

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subject to certain conditions, to pay the repurchase price in common stock. Certain of our existing debt agreements, as well as future debt agreements, may prohibit us from paying the repurchase price in either cash or common stock. If we are prohibited from repurchasing the notes, we could seek consent from our lenders to repurchase the notes. If we are unable to obtain their consent, we could attempt to refinance the notes. If we were unable to obtain a consent or refinance, we would be prohibited from repurchasing the notes. If we were unable to repurchase the notes upon a repurchase event, it would result in an event of default under the notes indenture. An event of default under the notes indenture could result in a further event of default under our other then-existing debt. In addition, the occurrence of the repurchase event may be an event of default under our other debt. As a result, we would be prohibited from paying amounts due on the notes under the subordination provisions of the notes indenture.

The change in control feature may not necessarily afford you with protection in the event of a highly leveraged transaction, a change in control or similar transactions involving us. We could, in the future, enter into transactions, including recapitalizations, that would not constitute a change in control but that would increase the amount of our senior indebtedness or other debt. We are not prohibited from incurring senior indebtedness or debt under the notes indenture. If we incur significant amounts of additional debt, this could have an adverse effect on our ability to make payments on the notes.

In addition, our management could undertake leveraged transactions that could constitute a change in control. The Board of Directors will not have the right under the notes indenture to limit or waive the repurchase right in the event of these types of leveraged transactions. Our requirement to repurchase notes upon a repurchase event could delay, defer or prevent a change of control. As a result, the repurchase right may discourage:

a merger, consolidation or tender offer;

the assumption of control by a holder of a large block of our shares; and

the removal of incumbent management.

The repurchase feature is not the result of any specific effort to accumulate shares of common stock or to obtain control of us by means of a merger, tender offer or solicitation, or part of a plan by us to adopt a series of anti-takeover provisions. We have no present intention to engage in a transaction involving a change of control, although it is possible that we would decide to do so in the future.

The Securities Exchange Act of 1934 and the Securities and Exchange Commission rules thereunder require the distribution of specific types of information to security holders in the event of issuer tender offers. These rules may apply in the event of a repurchase. We will comply with these rules to the extent applicable.

Subordination

The notes are unsecured and subordinated to the prior payment in full of all existing and future senior indebtedness as provided in the notes indenture. The notes are pari passu in right of payment with our 3.75% Convertible Subordinated Notes due 2007. Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, payments on the notes will be subordinated to the prior payment in full of all senior indebtedness. If the notes are accelerated following an event of default under the notes indenture, the holders of any senior indebtedness will be entitled to payment in full before the holders of the notes are entitled to receive any payment on the notes.

We may not make any payments on the notes if:

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we default in the payment on senior indebtedness beyond any grace period; or

any other default occurs and is continuing under any designated senior indebtedness that permits holders of the designated senior indebtedness to accelerate its maturity, and we and the trustee receive a notice, known as a payment blockage notice, from a person permitted to give this notice under the notes indenture.

We may resume making payments on the notes:

in the case of a payment default, when the default is cured or waived or ceases to exist; and

in the case of a nonpayment default, the earlier of when the default is cured or waived or ceases to exist or 179 days after receipt of the payment blockage notice.

No new period of payment blockage may be commenced unless:

365 days have elapsed since our receipt of the prior payment blockage notice; and

all scheduled payments on the notes have been paid in full, or the notes trustee or the holders of notes shall not have begun proceedings to enforce the right of the holders to receive payments.

No default that existed on any senior indebtedness on the date of delivery of any payment blockage notice may be the basis for a subsequent payment blockage notice.

The term **senior indebtedness** means the principal, premium, if any, and interest on, including bankruptcy interest, and any other payment on the following current or future incurred:

indebtedness for money borrowed or evidenced by notes, debentures, bonds or other securities;

reimbursement obligations under letters of credit, bank guarantees or bankers' acceptances;

indebtedness under interest rate and currency swap agreements, cap, floor and collar agreements, currency spot and forward contracts and other similar agreements and arrangements;

indebtedness consisting of commitment or standby fees under our credit facilities or letters of credit;

obligations under leases required or permitted to be capitalized under generally accepted accounting principles;

obligations of the type listed above that have been assumed or guaranteed by us or in effect guaranteed, directly or indirectly, by us through an agreement to purchase; and

any amendment, modification, renewal, extension, refunding or deferral of any indebtedness or obligation of the type listed in the bullet points above.

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Senior indebtedness will not include:

any indebtedness or amendment or modification that expressly provides that it is subordinate to or is not senior to or is on the same basis as the notes;

any indebtedness to any subsidiary;

indebtedness for trade payables or the deferred purchase price of assets or services incurred in the ordinary course of business; or

the notes.

If the trustee or any holder of the notes receives any payment or distribution of our assets of any kind on the notes in contravention of any of the terms of the notes indenture, then such payment or distribution will be held by the recipient in trust for the benefit of the holders of senior indebtedness, and will be immediately paid or delivered to the holders of senior indebtedness or their representative or representatives.

In the event of our insolvency, liquidation, reorganization or payment default on senior indebtedness, we will not be able to make payments on the notes until we have paid in full all of our senior indebtedness. We may, therefore, not have sufficient assets to pay the amounts due on the notes. Neither we nor our subsidiaries are prohibited from incurring debt under the notes indenture. If we incur additional debt, our ability to pay amounts due on the notes could be adversely affected. At June 30, 2003, we had approximately \$6.825 million of senior indebtedness. We may also incur additional debt in the future. The subordination provisions will not prevent the occurrence of any default or event of default or limit the rights of any holder of notes to pursue any other rights or remedies with respect to the notes.

As a result of the subordination provisions, in the event of the liquidation, bankruptcy, reorganization, insolvency, receivership or similar proceedings, holders of the notes may receive less than other creditors on a ratable basis.

Events of Default and Remedies

The following events constitute events of default under the notes indenture:

we fail to pay the principal or premium, if any, on any of the notes when due, whether or not prohibited by the subordination provisions of the notes indenture;

we fail to pay interest or additional interest or liquidated damages, if any, on the notes when due if such failure continues for 30 days, whether or not prohibited by the subordination provisions of the notes indenture;

we fail to perform any covenant in the notes indenture if such failure continues for 45 days after notice is given in accordance with the notes indenture;

we fail to repurchase any notes after a repurchase event or on a repurchase date;

we fail to provide timely notice of a repurchase event;

we fail or any of our significant subsidiaries fail to make any payment at maturity on any indebtedness, including any applicable grace periods, in an amount in excess of

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\$7,500,000, and such amount has not been paid or discharged within 30 days after notice is given in accordance with the notes indenture;

a default by us or any significant subsidiary on any indebtedness that results in the acceleration of indebtedness in an amount in excess of \$7,500,000, without this indebtedness being discharged or the acceleration being rescinded or annulled for 30 days after notice is given in accordance with the notes indenture; or

certain events involving bankruptcy, insolvency or reorganization of us or any significant subsidiary.

The notes trustee is generally required under the notes indenture, within 90 days after its becoming aware of a default, to provide holders written notice of all incurred default. However, the notes trustee may, except in the case of a payment default on the notes, withhold this notice of default if it determines that withholding the notice is in the best interest of the holders.

If an event of default has occurred and is continuing, the notes trustee or the holders of not less than 25% in principal amount of outstanding notes, may declare the principal and premium, if any, on the notes to be immediately due and payable. After acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of outstanding notes may, under circumstances set forth in the notes indenture, rescind the acceleration of the principal of and premium, if any, on the notes, other than the payment of principal of the notes that has become due other than because of the acceleration. If an event of default arising from events of bankruptcy, insolvency or reorganization occurs and is continuing with respect to us, all unpaid principal of and accrued interest on the outstanding notes would become due and payable immediately without any declaration or other act on the part of the notes trustee or holders of notes.

Holders of a majority in principal amount of outstanding notes may direct the time, method and place of conducting any proceeding for any remedy available to the notes trustee or exercising any trust or power conferred on the notes trustee, subject to specified limitations. Before exercising any right or power under the notes indenture at the direction of the holders, the notes trustee will be entitled to receive from such holders reasonable security or indemnity against any costs, expenses and liabilities that it might incur as a result.

Before the holder of a note may take any action to institute any proceeding relating to the notes indenture, or to appoint a receiver or a trustee, or for any other remedy, each of the following must occur:

the holder must have given the notes trustee written notice of a continuing event of default;

the holders of at least 25% of the aggregate principal amount of all outstanding notes must make a written request of the notes trustee to take action because of the default;

holders must have offered reasonable indemnification to the notes trustee against the cost, expenses and liabilities of taking action; and

the notes trustee must not have taken action for 60 days after receipt of such notice and offer of indemnification.

These limitations do not apply to a suit for the enforcement of payment of the principal of or any premium or interest on a note or the right to convert the note in accordance with the notes indenture.

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Generally, the holders of not less than a majority of the aggregate principal amount of outstanding notes may waive any default or event of default, except if:

we fail to pay the principal of, premium or interest on any note when due;

we fail to convert any note into common stock; or

we fail to comply with any of the provisions of the notes indenture that would require the consent of the holder of each outstanding note affected.

We will send the notes trustee annually a statement as to whether we are in default and the nature of any default under the notes indenture.

Consolidation, Merger or Transfer of Assets

We may not consolidate or merge into another person or sell, lease, convey or transfer all or substantially all of our assets to another person, whether in a single or series of related transactions, unless:

either (A) we are the surviving entity, or (B) the resulting entity is a United States corporation, limited liability company, partnership or trust and expressly assumes in writing all of our obligations under the notes and the notes indenture;

no default or event of default exists or would occur; and

other conditions specified in the notes indenture are satisfied.

Modification and Waiver

The consent of the holders of a majority in principal amount of the outstanding notes affected is required to make a modification or amendment to the notes indenture. However, a modification or amendment requires the consent of the holder of each outstanding note affected if it would:

extend the fixed maturity of any note;

reduce the interest rate or extend the time of payment of interest on any note;

reduce the principal amount or any premium of any note;

reduce any amount payable upon redemption or repurchase of any note;

adversely change our obligation to repurchase any note upon a repurchase event or a repurchase date;

adversely change the holder's right to institute suit for the payment of any note;

change the currency in which any note is payable;

adversely modify the right to convert the notes;

adversely modify the subordination provisions of the notes; or

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reduce the percentage required to consent to modifications and amendments.

Under the notes indenture, we may make certain modifications and amendments to the notes indenture without obtaining the prior consent of the holders of the notes.

Satisfaction and Discharge

We may discharge our obligations under the notes indenture while notes remain outstanding if:

all notes will become due in one year or are scheduled for redemption in one year; and

we deposit sufficient funds to pay all outstanding notes on their scheduled maturity or redemption date.

Registration Rights of Holders of the Notes

Under the registration rights agreement between us and the initial purchaser, we generally are required to:

file, within 60 days after August 22, 2003, a registration statement covering the resale of the notes and the common stock issuable upon conversion of the notes;

use our reasonable best efforts to cause the registration statement to be declared effective as promptly as practicable; and

use our reasonable best efforts to keep the registration statement effective until the earlier of the resale of all the transfer restricted securities or two years after the latest date of original issuance.

When we use the term "transfer restricted securities" in this section, we mean the notes and the common stock issued upon conversion of the notes until the earlier of the following events:

the date the note or common stock issued upon conversion has been effectively registered under the Securities Act of 1933 and sold or transferred pursuant to the registration statement; or

the date on which the note or common stock issued upon conversion is distributed to the public pursuant to Rule 144 under the Securities Act of 1933 or is saleable pursuant to Rule 144(k) under the Securities Act of 1933; or

the date the note or common stock issued upon conversion ceases to be outstanding.

We are required to pay predetermined liquidated damages if one of the following "registration defaults" occurs:

we do not file the registration statement within 60 days after the closing date of this offering;

the Securities and Exchange Commission does not declare the registration statement effective within 150 days after the closing date of this offering; or

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after it has been declared effective and during the period in which we are obligated to keep it effective, the registration statement ceases to be effective or available for more than 90 days in any period of 365 consecutive days.

If a registration default occurs, liquidated damages initially will accrue (a) for the notes that are transfer restricted securities, at the rate of \$.05 per week per \$1,000 principal amount of the notes and (b) for any common stock issued on conversion of the notes that are transfer restricted securities, at an equivalent rate based on the conversion price. If the registration default has not been cured within 90 days, the liquidated damages rate will increase by \$.05 per week per \$1,000 principal amount of the notes that are transfer restricted securities (and an equivalent amount for any common stock issued upon conversion of the notes that are transfer restricted securities) for each subsequent continuing 90-day non-compliance period, up to a maximum rate of \$.25 per week per \$1,000 principal amount of the notes that are transfer restricted securities (and an equivalent amount for any common stock issued upon conversion of the notes that are restricted securities). Liquidated damages generally will be payable at the same time as interest payments on the notes.

We may suspend the use of the prospectus, which is a part of the registration statement, in certain circumstances described in the registration rights agreement upon notice to the holders of the transfer restricted securities. We will provide copies of the prospectus and notify registered holders of notes and common stock issued upon conversion when the registration statement is filed and when it becomes effective.

Under the registration rights agreement, you will be required to deliver a prospectus to purchasers and will be bound by the provisions of the agreement.

Governing Law

The notes, the notes indenture and the registration rights agreement are governed by the laws of the State of New York.

Concerning the Trustee

We have appointed the notes trustee as the initial paying agent, conversion agent, registrar and custodian for the notes. We may maintain deposit accounts and conduct other banking transactions with the notes trustee or its affiliates in the ordinary course of business. In addition, the notes trustee and its affiliates may in the future provide banking and other services to us in the ordinary course of their business.

If the notes trustee becomes one of our creditors, the notes indenture and the Trust Indenture Act of 1939 may limit the right of the notes trustee to obtain payment on or realize on security for its claims. If the notes trustee develops any conflicting interest with the holders of notes or us, it must eliminate the conflict or resign.

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BOOK-ENTRY SYSTEM THE DEPOSITORY TRUST COMPANY

The Depository Trust Company (DTC) acts as depository for the notes. The certificates representing the notes are in fully registered, global form without interest coupons registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC (participants) or persons who hold interests through participants. Ownership of beneficial interests in a global note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC or its nominee is the registered owner or holder of the global notes, DTC or such nominee, as the case may be, will be considered the sole record owner or holder of the notes represented by such global notes for all purposes under the notes indenture. No beneficial owner of an interest in the global notes will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the notes indenture.

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds the notes that its participants deposit with DTC. DTC also facilitates the settlement among participants of notes transactions, such as transfers and pledges, in deposited notes through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of notes certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

Purchases of notes under the DTC system must be made by or through participants, which will receive a credit for the notes on DTC's records. The beneficial ownership interest of each actual purchaser of each new note is in turn to be recorded on the participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but they are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in notes, except in the event that use of the book-entry system for the notes is discontinued.

To facilitate subsequent transfers, all notes deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

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Conveyance of notices and other communications by DTC to participants and by participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial owners of notes may wish to take certain steps to augment transmission to them of notices of significant events with respect to the notes, such as redemptions, tenders, defaults, and proposed amendments to the notes documents. Beneficial owners of notes may wish to ascertain that the nominee holding the notes for their benefit has agreed to obtain and transmit notices to beneficial owners, or in the alternative, beneficial owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Payments of the principal of and interest on the global notes will be made to DTC or its nominee, as the case may be, as the registered owner thereof. We understand that DTC's practice is to credit participants' accounts, upon DTC's receipt of funds and corresponding detail information from us or the notes trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participant and not of DTC, the notes trustee, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is our responsibility or the responsibility of the notes trustee, disbursement of such payments to participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of participants.

We will send any redemption notices to Cede & Co. We understand that if less than all of the notes are being redeemed, DTC's practice is to determine by lot the amount of the holdings of each participant to be redeemed. We also understand that neither DTC nor Cede & Co. will consent or vote with respect to the notes. We have been advised that under its usual procedures, DTC will mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those participants to whose accounts the notes are credited on the record date identified in a listing attached to the omnibus proxy.

A beneficial owner shall give notice to elect to have its notes purchased or tendered, through its participant, to the notes trustee, and shall effect delivery of such notes by causing the participant to transfer the participant's interest in the notes, on DTC's records, to the notes trustee. The requirement for physical delivery of notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the notes are transferred by participants on DTC's records and followed by a book-entry credit of tendered notes to the notes trustee DTC account.

DTC may discontinue providing its services as notes depository with respect to the notes at any time by giving reasonable notice to us or the notes trustee. If DTC is at any time unwilling or unable to continue as a depository for the global notes and a successor depository is not appointed within 90 days, we will issue definitive, certificated original notes in exchange for the global notes.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

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We originally issued the notes in a transaction exempt from the registration requirements of the Securities Act to the initial purchaser. The initial purchaser reasonably believed that the persons to whom it resold the notes were qualified institutional buyers as defined in Rule 144A under the Securities Act. As used in this prospectus, the term selling securityholders includes their transferees, pledgees, donees and their successors. The selling securityholders may from time to time offer and sell pursuant to this prospectus any or all of the notes and the shares of common stock initially issued or issuable under the notes indenture, if issued.

The following table sets forth information regarding (1) the beneficial ownership of the notes and the maximum principal amount of the notes that each selling securityholder may offer and (2) the number of shares of common stock that each selling securityholder may sell under this prospectus. Because the selling securityholders may offer all or a portion of the notes and the common stock, if issued, under this prospectus, we cannot estimate the amount of notes or the common stock that the selling securityholders will hold upon termination of any sale. The following table is based upon information furnished to us by the selling securityholders, unless otherwise indicated.

Name of Selling Securityholder	Principal Amounts of Notes		Number of Shares of Common Stock Issued Upon Conversion of the Notes that May be Offered(1)	Percentage of Common Stock Outstanding (2)
	Beneficially Owned and Offered	Percentage of Notes Outstanding		
Advent Convertible Master (Cayman) LP	\$ 4,095,000	3.3%	295,668	*
Alpha U.S. Sub Fund 4 LLC	\$ 183,000	*	13,213	*
Barclays Global Investor Equity Hedge Fund II	\$ 29,000	*	2,093	*
Context Convertible Arbitrage Fund, LP	\$ 800,000	*	57,761	*
Context Convertible Arbitrage Offshore, LTD	\$ 1,200,000	*	86,642	*
DKR Saturn Event Driven Holding Fund LTD	\$ 500,000	*	36,101	*
Delaware PERS	\$ 1,875,000	1.5%	135,379	*
Fidelity Commonwealth Trust: Fidelity Mid-Cap Stock Fund	\$ 6,500,000	5.2%	469,314	*
F.R. Conv. Sec. Fn	\$ 180,000	*	12,996	*
Gaia Offshore Master Fund Ltd.	\$ 2,400,000	1.9%	173,285	*
Grace Convertible Arbitrage Fund, LTD	\$ 3,500,000	2.8%	252,707	*

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HFR Arbitrage Fund	\$ 198,000	*	14,296	*
Highbridge International LLC	\$35,000,000	28.0%	2,527,077	2.8%
ICI American Holdings Trust	\$ 425,000	*	30,685	*
KD Convertible Arbitrage Fund L.P.	\$ 2,000,000	1.6%	144,404	*
Langley Partners, L.P.	\$ 2,500,000	2.0%	180,505	*

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Name of Selling Securityholder	Principal Amounts of Notes Beneficially Owned and Offered	Percentage of Notes Outstanding	Number of Shares of Common Stock Issued Upon Conversion of the Notes that May be Offered(1)	Percentage of Common Stock Outstanding (2)
Linden Advisors (3)	\$ 2,500,000	2.0%	180,505	*
Lyxor	\$ 486,000	*	35,090	*
Lyxor/Gaia II Fund Ltd.	\$ 600,000	*	43,321	*
Millenco, L.P.	\$ 2,000,000	1.6%	144,404	*
MPM Bioequities Fund GMBH & Co. KG	\$ 50,000	*	3,610	*
MPM Bioequities Master Fund LP	\$ 4,950,000	4.0	357,400	*
Pandora Select Partners, LP	\$ 1,000,000	*	72,202	*
Polaris Vega Fund, L.P.	\$ 2,250,000	1.8%	162,455	*
Prudential Insurance Co. of America	\$ 115,000	*	8,303	*
Relay 3 Asset Holdings	\$ 31,000	*	2,238	*
Scorpion Offshore Investment Fund Ltd.	\$ 178,000	*	12,851	*
SP Holdings LTD	\$ 31,000	*	2,238	*
Standard Global Equity Partners LP	\$ 763,000	*	55,090	*
Standard Global Equity Partners SA LP	\$ 298,000	*	21,516	*
Standard Global Equity Partners II LP	\$ 30,000	*	2,166	*
Standard Pacific Capital Offshore Fund LTD	\$ 2,517,000	2.0%	181,732	*
Standard Pacific MAC 16 LTD	\$ 123,000	*	8,880	*
	\$10,250,000	8.2%	740,072	*

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Sunrise Partners Limited
Partnership

Syngenta AG	\$ 320,000	*	23,104	*
Tag Associates	\$ 38,000	*	2,743	*
Tribeca Investments, Ltd.	\$ 16,500,000	13.2%	1,191,336	1.3%
U.S. Bancorp Piper Jaffray Inc.	\$ 13,500,000	10.8%	974,729	1.1%
UBS O Connor	\$ 2,000,000	1.6%	144,404	*
Wachovia Securities International Ltd.	\$ 6,000,000	4.8%	433,213	*
Whitebox Convertible Arbitrage Partners, LP	\$ 11,000,000	8.8%	794,224	*
Zeneca Holdings Trust	\$ 585,000	*	42,238	*

* Less than 1%.

(1) Assumes conversion of all of the holder's notes at a conversion rate of approximately 72.2022 shares of our common stock for each \$1,000 principal amount of notes. However, this conversion rate will be subject to

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adjustment as described under Description of Notes Conversion by Holders. As a result, the amount of common stock issuable upon conversion of notes may increase or decrease in the future.

(2) Assumes that the outstanding common stock is 89,003,737.

(3) This information was taken from the Non-Objecting Beneficial Holders (NOBO) list furnished to us by ADP.

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PLAN OF DISTRIBUTION FOR THE RESALE OF THE SECURITIES

A selling securityholder may from time to time, in one or more transactions, sell all or a portion of the securities in negotiated transactions, in underwritten transactions or otherwise or, with respect to the common stock, on the Nasdaq National Market, at prices then prevailing or related to the then current market price or at negotiated prices. The offering price of the securities from time to time will be determined by a selling securityholder, and, with respect to the common stock, at the time of such determination, may be higher or lower than the market price of our common stock on the Nasdaq National Market. The securities may be sold directly or through broker-dealers acting as principal or agent. The methods by which the securities may be sold include:

a block trade in which the broker-dealer so engaged will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by such broker-dealer for its account pursuant to this prospectus;

ordinary brokerage transactions and transactions in which the broker solicits purchasers; and

privately negotiated transactions.

In effecting sales, brokers or dealers engaged by a selling securityholder may arrange for other brokers or dealers to participate. These brokers or dealers may receive commissions or discounts from a selling securityholder as applicable, in amounts to be negotiated immediately prior to the sale. A selling securityholder and any underwriters, dealers or agents participating in the distribution of the securities may be deemed to be underwriters within the meaning of the Securities Act, and any profit on the sale of the securities by a selling securityholder and any commissions received by any broker-dealers may be deemed to be underwriting commissions under the Securities Act. In addition, any securities covered by this prospectus that qualify for sale pursuant to Rule 144 might be sold under Rule 144 rather than pursuant to this prospectus.

Additionally, in connection with the sale of the securities, a selling securityholder may enter into hedging transactions with broker-dealers and the broker-dealers may engage in short sales of the securities in the course of hedging the positions they assume with the selling securityholder. A selling securityholder may also enter into option or other transactions with broker-dealers that involve the delivery of the shares to the broker-dealers, who may then resell or otherwise transfer the shares. A selling securityholder may also loan or pledge the shares to a broker-dealer and the broker-dealer may sell the securities so loaned or upon a default may sell or otherwise transfer the pledged securities.

When a selling securityholder elects to make a particular offer of securities, we will distribute a prospectus supplement, if required, that will identify any underwriters, dealers or agents and any discounts, commissions and other terms constituting compensation from a selling securityholder, as applicable, and any other required information.

In order to comply with the securities laws of certain states, if applicable, the securities may be sold only through registered or licensed brokers or dealers. In addition, in certain states, the securities may not be sold unless they have been registered or qualified for sale in such state or an exemption from such registration or qualification requirement is available and is complied with.

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We also have agreed to indemnify the selling securityholders in certain circumstances, against certain liabilities arising under the Securities Act. Each selling securityholder has agreed to indemnify us and our directors and officers who sign the registration statement against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to pay all costs and expenses relating to the registration of the securities (other than fees and expenses, if any, of counsel or other advisors to the selling securityholders). Any commissions, discounts or other fees payable to broker-dealers in connection with any sale of the securities will be borne by the selling securityholder selling such shares.

All references to selling securityholders in this section of the prospectus shall also be deemed to include any transferees, assignees and pledgees of the selling securityholders.

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LEGAL MATTERS

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

EXPERTS

The consolidated financial statements incorporated in this prospectus by reference from the Alkermes, Inc. Annual Report on Form 10-K for the year ended March 31, 2003, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of Reliant Pharmaceuticals, LLC as of and for the year ended December 31, 2002, incorporated in this Registration Statement and Prospectus by reference from Alkermes, Inc. s Annual Report on Form 10-K for the year ended March 31, 2003, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon the authority of such firm as experts in accounting and auditing.

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

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. Other Expenses of Issuance and Distribution.**

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

SEC registration fee	\$ 10,113
Nasdaq listing fee	22,500
Printing and engraving expenses	20,000
Accounting fees and expenses	60,000
Blue Sky fees and expense (including legal fees)	1,000
Legal fees and expenses	60,000
Miscellaneous fees and expenses	6,387
	<hr/>
Total	\$ 180,000
	<hr/>

Item 15. Indemnification of Directors and Officers.

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

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

Item 16. Exhibits and Financial Statement Schedules.

- (a) Exhibits:
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- 3.1 Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on June 7, 2001. (Incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)
- 3.1(a) Amendment to Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on December 16, 2002 (2002 Preferred Stock Terms). (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 16, 2002.)
- 3.1(b) Amendment to Third Amended and Restated Articles of Incorporation as filed with the Pennsylvania Secretary of State on May 14, 2003 (included as Exhibit A to Exhibit 4.6.)
- 3.2 By-Laws of Alkermes, Inc., as amended, effective as of February 11, 2001. (Incorporated by reference to Exhibit 3.2 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 2001.)
- 4.1 Specimen of Common Stock Certificate of Alkermes, Inc. (Incorporated by reference to Exhibit 4 to the Registrant's Registration Statement on Form S-1, as amended (File No. 33-40250).)
- 4.2 Specimen of Non-Voting Common Stock Certificate of Alkermes, Inc. (Incorporated by reference to Exhibit 4.4 to the Registrant's Report on Form 10-K for the fiscal year ended March 31, 1999.)
- 4.3 Specimen of 2002 Preferred Stock Certificate of Alkermes, Inc. (Incorporated by reference to Exhibit 4.1 to the Registrant's Report on Form 8-K filed on December 13, 2002.)
- 4.4 Indenture, dated as of February 18, 2000, between Alkermes, Inc. and State Street Bank and Trust Company, as Trustee. (3.75% Subordinated Notes) (Incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-3, as amended (File No. 333-31354).)
- 4.5 Form of 3.75% Subordinated Note (included in Exhibit 4.4.)
- 4.6 Rights Agreement, dated as of February 7, 2003, as amended, between Alkermes, Inc. and EquiServe Trust Co., N.A., as Rights Agent. (Incorporated by reference to Exhibit 4.1 to the Registrant's Report on Form 8-A filed on May 2, 2003.)
- 4.7» Indenture, dated August 22, 2003, between Alkermes, Inc. and U.S. Bank National Association, as Trustee (2 1/2% Subordinated Notes.)
- 4.8» Form of 2 1/2% Subordinated Note (included in Exhibit 4.7.)
- 5.1» Opinion of Ballard Spahr Andrews & Ingersoll, LLP.
- 12.1# Computation of Ratio of Earnings to Fixed Charges.
- 23.1# Independent Auditors' Consent of Deloitte & Touche, LLP.
- 23.2# Consent of Ernst & Young LLP.

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- 23.3» Consent of Ballard Spahr Andrews & Ingersoll, LLP (included in Exhibit 5.1)
- 24.1» Power of Attorney (included in signature page)
- 25.1» Form T-1 Statement of Eligibility and Qualification of Trustee.

- » Previously filed
- # Filed herewith

* Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted August 19, 1999. Such provisions have been filed separately with the Commission.

** Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted September 27, 2001. Such provisions have been filed separately with the Commission.

*** Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted September 3, 1996. Such provisions have been filed separately with the Commission.

§ Confidential status has been granted for certain portions thereof pursuant to a Commission Order granted September 16, 2002. Such provisions have been separately filed with the Commission.

+ Constitutes a management contract or compensatory plan required to be filed as an Exhibit to this Report pursuant to Item 14(c) of Form 10-K.

Item 17. Undertakings.

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

The undersigned Registrant hereby undertakes:

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

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

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission

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pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

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

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

- (2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offering therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Cambridge, Commonwealth of Massachusetts, on November 14, 2003.

ALKERMES, INC.

By: /s/ Richard F. Pops

Richard F. Pops, Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
* Michael A. Wall	Director and Chairman of the Board	November 14, 2003
/s/ Richard F. Pops Richard F. Pops	Director and Chief Executive Officer (Principal Executive Officer)	November 14, 2003
/s/ James M. Frates James M. Frates	Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	November 14, 2003
* Floyd E. Bloom	Director	November 14, 2003
* Robert A. Breyer	Director	November 14, 2003
* Gerri Henwood	Director	November 14, 2003

*

Paul J. Mitchell

Director

November 14,
2003

*

Alexander Rich

Director

November 14,
2003

*

Paul Schimmel

Director

November 14,
2003

*By: /s/ James M. Frates

James M. Frates, Attorney-in-Fact

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