Alkermes plc.
Form 10-KT
February 27, 2014

Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended

OR

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

For the transition period from April 1, 2013 to December 31, 2013
Commission file number: 1-14131

ALKERMES PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

Ireland	**98-1007018**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Connaught House **1 Burlington Road** **Dublin 4, Ireland** (Address of principal executive offices)	(Zip code)

+353-1-772-8000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act:

Ordinary shares, $0.01 par value	**NASDAQ Global Select Stock Market**
Title of each class	**Name of each exchange on which registered**

Securities registered pursuant to Section 12(b) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting company o

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

The aggregate market value of the registrant's ordinary shares held by non-affiliates of the registrant (without admitting that any person whose shares are not included in such calculation is an affiliate) computed by reference to the price at which the ordinary shares was last sold on June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter (taking into account the registrant's change in fiscal year end), was $3,850,629,514.

As of February 13, 2014, 144,185,293 ordinary shares were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Transition Report on Form 10-K, to the extent not set forth herein, is incorporated by reference from portions of the definitive proxy statement for our Annual General Meeting of Shareholders to be held in 2014, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal period to which this Transition Report on Form 10-K relates.

Table of Contents

ALKERMES PLC AND SUBSIDIARIES
TRANSITION REPORT ON FORM 10-K
FOR THE NINE MONTHS ENDED DECEMBER 31, 2013
INDEX

Table of Contents

CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This document contains and incorporates by reference "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. In some cases, these statements can be identified by the use of forward-looking terminology such as "may," "will," "could," "should," "would," "expect," "anticipate," "continue," "believe," "plan," "estimate," "intend," or other similar words. These statements discuss future expectations, and contain projections of results of operations or of financial condition, or state trends and known uncertainties or other forward-looking information. Forward-looking statements in this Transition Report on Form 10-K ("Transition Report") include, without limitation, statements regarding:

- our expectations regarding our financial performance, including revenues, expenses, gross margins, liquidity, capital expenditures and income taxes;
- our expectations regarding our products, including the development, regulatory review (including expectations about regulatory approval and regulatory timelines) and therapeutic and commercial scope and potential of such products and the costs and expenses related thereto;
- our expectations regarding the initiation, timing and results of clinical trials of our products;
- our expectations regarding the competitive landscape, and changes therein, related to our products;
- our expectations regarding the financial impact of currency exchange rate fluctuations and valuations;
- our expectations regarding our collaborations and other significant agreements relating to our products;
- our expectations regarding the impact of new accounting pronouncements;
- our expectations regarding near-term changes in the nature of our market risk exposures or in management's objectives and strategies with respect to managing such exposures;
- our ability to comply with restrictive covenants of our indebtedness and our ability to fund our debt service obligations;
- our expectations regarding future capital requirements and capital expenditures and our ability to finance our operations and capital requirements; and
- other risk factors described in "Item 1A Risk Factors" in this Transition Report.

Actual results might differ materially from those expressed or implied by these forward-looking statements because these forward-looking statements are subject to risks, assumptions and uncertainties. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Transition Report. All written and oral forward-looking statements concerning the matters addressed in this Transition Report and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except as required by applicable law or regulation, we do not undertake any obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Transition Report might not occur. For more information regarding the risks and uncertainties of our business, see "Item 1A Risk Factors."

Unless otherwise indicated, information contained in this Transition Report concerning the disorders targeted by our products and the markets in which we operate is based on information from various sources (including, without limitation, industry publications, medical and clinical journals and studies, surveys and forecasts and our internal research), on assumptions that we have made, which we

Table of Contents

believe are reasonable, based on those data and other similar sources and on our knowledge of the markets for our marketed and development products. Our internal research has not been verified by any independent source, and we have not independently verified any third-party information. These projections, assumptions and estimates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Item 1A Risk Factors." These and other factors could cause results to differ materially from those expressed in the estimates included in this Transition Report.

NOTE REGARDING COMPANY REFERENCES

Use of the terms such as "us," "we," "our," "Alkermes" or the "Company" in this Transition Report is meant to refer to Alkermes plc and its consolidated subsidiaries, except where the context makes clear that the time period being referenced is prior to September 16, 2011, in which case such terms shall refer to Alkermes, Inc. and its consolidated subsidiaries. Prior to September 16, 2011, Alkermes, Inc. was an independent pharmaceutical company incorporated in the Commonwealth of Pennsylvania and traded on the NASDAQ Global Select Stock Market (the "NASDAQ") under the symbol "ALKS." For a more detailed discussion of the Business Combination, please refer to the notes to our consolidated financial statements, including Note 1, *Description of Business and Basis of Presentation*, and Note 3, *Acquisitions*, in the accompanying consolidated financial statements.

NOTE REGARDING TRADEMARKS

CODAS®, IPDAS®, LinkeRx®, MXDAS®, NanoCrystal®, SODAS®, VERELAN® and VIVITROL® are registered trademarks of Alkermes. The following are trademarks of the respective companies listed: ABILIFY® and ABILIFY MAINTENA® Otsuka Pharmaceutical Co., Ltd.; ADALAT® Bayer AG Corporation; AFEDITAB® Actavis, Inc.; AMPYRA®, FAMPYRA®, ZANAFLEX® and ZANAFLEX CAPSULES® Acorda Therapeutics, Inc.; ANTABUSE® Teva Women's Health, Inc.; AUBAGIO® Sanofi Societe Anonyme France; AVINZA® King Pharmaceuticals Research and Development, Inc.; AVONEX®, TECFIDERA® and TYSABRI® Biogen Idec MA, Inc.; BETASERON® Bayer Pharma AG; BYDUREON® and BYETTA® Amylin Pharmaceuticals, LLC; CAMPRAL® Merck Sante; CARDIZEM® Valeant International Bermuda; COPAXONE® Teva Pharmaceutical Industries Ltd.; DILZEM® Cephalon (UK) Limited or Warner-Lambert Company LLC (depending on the jurisdiction); DILTELAN® Elan Corporation plc or Cephalon Limited (depending on the jurisdiction); EMEND® Merck Sharp & Dohme Corp.; EXTAVIA®, FOCALIN XR®, GILENYA® and RITALIN LA® Novartis AG; INVEGA® SUSTENNA®, RISPERDAL® CONSTA® and XEPLION® Johnson & Johnson Corp. (or its affiliate); LUVOX CR® Abbott Laboratories; MEGACE® E.R. Squibb & Sons, LLC; NAPRELAN® Alvogen Pharma US Inc.; RAPAMUNE® Wyeth LLC; REBIF® Ares Trading S.A.; SUBOXONE® and SUBUTEX® Reckitt Benckiser Healthcare (UK) Ltd.; SUPRALIP® and TRICOR® Fournier Industrie et Sante Corporation; UNIVER® various non-Alkermes entities (depending on the jurisdiction); VICTOZA® Novo Nordisk A/S LLC; ZOHYDRO Zogenix, Inc.; and ZYPREXA® and ZYPREXA® RELPREVV® Eli Lilly and Company. Other trademarks, trade names and service marks appearing in this Transition Report are the property of their respective owners.

Table of Contents

PART I

Item 1. *Business*

The following discussion contains forward-looking statements. Actual results may differ significantly from those projected in the forward-looking statements. See "Cautionary Note Concerning Forward-Looking Statements" on pages 3 and 4 of this Transition Report. Factors that might cause future results to differ materially from those projected in the forward-looking statements also include, but are not limited to, those discussed in "Item 1A Risk Factors" and elsewhere in this Transition Report.

Overview

Alkermes plc is a fully integrated, global biopharmaceutical company that applies its scientific expertise and proprietary technologies to research, develop and commercialize, both with partners and on our own, pharmaceutical products that are designed to address unmet medical needs of patients in major therapeutic areas. We have a diversified portfolio of more than 20 commercial drug products and a clinical pipeline of product candidates that address central nervous system ("CNS") disorders such as addiction, schizophrenia and depression.

On September 16, 2011, the business of Alkermes, Inc. and the drug technologies business ("EDT") of Elan Corporation, plc ("Elan") were combined under Alkermes plc (this combination is referred to as the "Business Combination," the "acquisition of EDT" or the "EDT acquisition"). Our ordinary shares are listed on the NASDAQ Global Select Market, where our trading symbol is "ALKS." Our principal offices are located at Connaught House, 1 Burlington Road, Dublin 4, Ireland. We have a research and development ("R&D") center in Waltham, Massachusetts; R&D and manufacturing facilities in Athlone, Ireland; and manufacturing facilities in Gainesville, Georgia and Wilmington, Ohio.

On May 21, 2013, our Audit and Risk Committee, with such authority delegated to it by our Board of Directors, approved a change to our fiscal year-end from March 31 to December 31. This Transition Report on Form 10-K covers the nine month transition period ended December 31, 2013 and reflects our financial results for the nine month period from April 1, 2013 through December 31, 2013 (the "Transition Period"). Prior to this Transition Report, our two most recent Annual Reports on Form 10-K, as amended, cover the fiscal years ended March 31, 2013 and March 31, 2012, respectively, and reflect financial results for the respective twelve-month periods from April 1 to March 31. Unless otherwise noted, all references to "fiscal years" in this Transition Report refer to the twelve month fiscal years that, prior to the Transition Period ended December 31, 2013, ended on March 31.

Table of Contents

Products

Marketed Products

We earn manufacturing and/or royalty revenues on net sales of products marketed by our partners and earn revenue on net sales of VIVITROL, which is a proprietary product that we manufacture, market and sell in the U.S. Our marketed products are described in the table below, including, among other things, the territory in which the marketer has the right to sell the product and the source of revenues for us:

Product	Indication(s)	Technology	Territory	Revenue Source	Marketer
RISPERDAL CONSTA	Schizophrenia Bipolar I Disorder	Extended-release microsphere	Worldwide	Manufacturing and Royalty	Ortho-McNeil-Janssen Pharmaceuticals, Inc. and Janssen Pharmaceutica International, a division of Cilag International AG (taken together, "Janssen")
INVEGA SUSTENNA/ *XEPLION*	Schizophrenia	NanoCrystal	United States (U.S.) Rest of World ("ROW")	Royalty	Janssen
AMPYRA/ FAMPYRA	Treatment to improve walking in patients with multiple sclerosis ("MS"), as demonstrated by an increase in walking speed	Oral Controlled Release ("OCR") Matrix Drug Absorption System (MXDAS)	U.S. ROW	Manufacturing and Royalty	Acorda Therapeutics, Inc. ("Acorda") Biogen Idec International GmbH ("Biogen Idec"), under sublicense from Acorda
BYDUREON	Type 2 diabetes	Extended-release microsphere	Worldwide	Royalty	AstraZeneca plc ("AstraZeneca")
VIVITROL	Alcohol dependence Opioid dependence	Extended-release microsphere	U.S. Russia and Commonwealth of Independent States ("CIS")	Product sales Manufacturing and Royalty	Alkermes Cilag GmbH International ("Cilag")
TRICOR *LIPANTHYL*	Cholesterol lowering	NanoCrystal	Worldwide	Royalty	AbbVie Inc. Abbott Laboratories

LIPIDIL *SUPRALIP* (and other trade names under which *fenofibrate* 48 mg and 145 mg are sold)					
ZANAFLEX CAPSULES *ZANAFLEX TABLETS* *TIZANIDINE HYDROCHLORIDE (AB Rated to ZANAFLEX CAPSULES)*	Muscle spasticity	OCR Spheroidal Oral Drug Absorption System (SODAS)	U.S.	Manufacturing (capsules only) and Royalty	Acorda; Actavis, Inc. (formerly Watson Pharmaceutical)
AVINZA	Chronic moderate to severe pain	OCR (SODAS)	U.S.	Manufacturing and Royalty	Pfizer Inc. ("Pfizer")
EMEND	Nausea associated with chemotherapy and surgery	NanoCrystal	Worldwide	Manufacturing and Royalty	Merck & Co. Inc. ("Merck")
FOCALIN XR *RITALIN LA*	Attention Deficit Hyperactivity Disorder	OCR (SODAS)	Worldwide	Manufacturing and Royalty	Novartis AG ("Novartis")
MEGACE ES	Anorexia, Cachexia associated with AIDS	NanoCrystal	U.S.	Royalty	Strativa Pharmaceuticals (a business division of Par Pharmaceutical Companies, Inc.)

Table of Contents

Product	Indication(s)	Technology	Territory	Revenue Source	Marketer
LUVOX CR	Obsessive-compulsive disorder	OCR (SODAS)	U.S.	Royalty	Jazz Pharmaceuticals plc ("Jazz")
RAPAMUNE	Prevention of renal transplant rejection	NanoCrystal	Worldwide	Manufacturing	Pfizer
NAPRELAN	Various mild to moderate pain indications	OCR Intestinal Protective Drug Absorption System (IPDAS)	U.S. Canada	Manufacturing	Shionogi
VERAPAMIL SR *VERELAN* *VERELAN PM* *VERAPAMIL PM* *VERACAPS* *UNIVER*	Hypertension	OCR (SODAS)	Licensed on country/region basis throughout the world	Manufacturing and Royalty (on select formulations)	Kremers-Urban; Cephalon; Aspen Pharma; Actavis, Inc.
DILZEM SR *DILZEM XL* *DILTELAN* *CARDIZEM CD*	Hypertension and/or Angina	OCR (SODAS)	Licensed on country/region basis throughout the world	Manufacturing and Royalty (for CARDIZEM CD only)	Cephalon; Kun-Wha Pharmaceutical Co. Ltd; Sanofi; Valeant Pharmaceuticals International Inc.
AFEDITAB CR *(AB Rated to ADALAT CC)*	Hypertension	OCR (MXDAS)	U.S.	Manufacturing	Actavis, Inc.
ZOHYDRO ER	Severe pain	OCR (SODAS)	U.S.	Manufacturing and royalty	Zogenix, Inc.

Our key marketed products are expected to generate significant revenues for us in the near- and medium-term. They possess long patent lives, and we believe are singular or competitively advantaged products in their class. Refer to the "Patents and Proprietary Rights" section of this Transition Report for information with respect to the intellectual property protection for our marketed products. These products are

discussed below:

RISPERDAL CONSTA* and *INVEGA SUSTENNA/XEPLION

RISPERDAL CONSTA (risperidone long-acting injection) and INVEGA SUSTENNA/XEPLION (paliperidone palmitate extended-release injectable suspension) are long-acting atypical antipsychotics that incorporate our proprietary technologies. They are products of Janssen.

RISPERDAL CONSTA uses our polymer-based microsphere injectable extended-release technology to deliver and maintain therapeutic medication levels in the body through just one injection every two weeks. RISPERDAL CONSTA is exclusively manufactured by us and is marketed and sold by Janssen worldwide. It was first approved for the treatment of schizophrenia in the U.S. in 2003 and in countries in Europe in 2002. The U.S. Food and Drug Administration ("FDA") approved RISPERDAL CONSTA as both monotherapy and adjunctive therapy to lithium or valproate in the maintenance treatment of bipolar I disorder in May 2009. RISPERDAL CONSTA is also approved for the maintenance treatment of bipolar I disorder in over 25 other countries worldwide.

INVEGA SUSTENNA uses our nanoparticle injectable extended-release technology to increase the rate of dissolution and enable the formulation of an aqueous suspension for once-monthly intramuscular administration. INVEGA SUSTENNA was approved for the acute and maintenance treatment of schizophrenia in adults in the U.S. in 2009. Paliperidone palmitate extended-release for injectable suspension is also approved in the European Union ("EU") and other countries worldwide, and is marketed and sold in the EU under the trade name XEPLION. INVEGA SUSTENNA/XEPLION is manufactured and commercialized worldwide by Janssen.

Table of Contents

Revenues from Janssen accounted for approximately 44%, 35% and 48% of our consolidated revenues for the Transition Period and our fiscal years 2013 and 2012, respectively. See "*Collaborative Arrangements*" below for information about our relationship with Janssen.

What is schizophrenia?

Schizophrenia is a chronic, severe and disabling brain disorder. The disease is marked by positive symptoms (hallucinations and delusions) and negative symptoms (depression, blunted emotions and social withdrawal), as well as by disorganized thinking. An estimated 2.4 million Americans over the age of 18 have schizophrenia in a given year, with men and women affected equally. Worldwide, it is estimated that one person in every 100 develops schizophrenia. Studies have demonstrated that as many as 75% of patients with schizophrenia have difficulty taking their oral medication on a regular basis, which can lead to worsening of symptoms.

What is bipolar I disorder?

Bipolar disorder is a brain disorder that causes unusual shifts in a person's mood, energy and ability to function. It is often characterized by debilitating mood swings, from extreme highs (mania) to extreme lows (depression). Bipolar I disorder is characterized based on the occurrence of at least one manic episode, with or without the occurrence of a major depressive episode. Bipolar disorder is believed to affect approximately 5.7 million American adults, or about 2.6% of the U.S. population aged 18 and older in a given year. The median age of onset for bipolar disorder is 25 years.

AMPYRA/FAMPYRA

Dalfampridine extended-release tablets are marketed and sold in the U.S. under the trade name AMPYRA by Acorda. In January 2010, the FDA approved AMPYRA as a treatment to improve walking in patients with MS as demonstrated by an increase in walking speed. It is the first and, currently, only product to be approved for this indication. Prolonged-release fampridine tablets are marketed and sold outside the U.S. under the trade name FAMPYRA by Biogen Idec. In July 2011, the European Medicines Agency ("EMA") conditionally approved FAMPYRA in the EU for the improvement of walking in adults with MS. This authorization was renewed as of July 2013. The product incorporates our OCR technology. AMPYRA and FAMPYRA are manufactured by us.

What is multiple sclerosis?

MS is a chronic, usually progressive, disease in which the immune system attacks and degrades the function of nerve fibers in the brain and spinal cord. These nerve fibers consist of long, thin fibers, or axons, surrounded by a myelin sheath, which facilitates the transmission of electrical impulses. In MS, the myelin sheath is damaged by the body's own immune system, causing areas of myelin sheath loss, also known as demyelination. This damage, which can occur at multiple sites in the CNS, blocks or diminishes conduction of electrical impulses. People with MS may suffer impairments in any number of neurological functions. These impairments vary from individual to individual and over the course of time, depending on which parts of the brain and spinal cord are affected, and often include difficulty walking. Individuals vary in the severity of the impairments they suffer on a day-to-day basis, with impairments becoming better or worse depending on the activity of the disease on a given day.

BYDUREON

BYDUREON was approved by the FDA in January 2012, and received marketing authorization in the EU in June 2011, for the treatment of type 2 diabetes. BYDUREON, a once-weekly formulation of exenatide, the active ingredient in BYETTA (exenatide), uses our polymer-based microsphere injectable extended-release technology. From August 2012 until February 2014, Bristol-Myers Squibb Company

Table of Contents

("Bristol-Myers") and AstraZeneca co-developed and marketed BYDUREON through their diabetes collaboration. In February 2014, AstraZeneca assumed sole responsibility for the development and commercialization of BYDUREON.

What is type 2 diabetes?

Diabetes is a disease in which the body does not produce or properly use insulin. Diabetes can result in serious health complications, including cardiovascular, kidney and nerve disease. Diabetes is believed to affect nearly 26 million people in the U.S. and an estimated 382 million adults worldwide. Approximately 90-95% of those affected have type 2 diabetes. An estimated 80% of people with type 2 diabetes are overweight or obese. Data indicate that weight loss (even a modest amount) supports patients in their efforts to achieve and sustain glycemic control.

VIVITROL

VIVITROL is a once-monthly injectable medication approved by the FDA for the treatment of alcohol dependence in April 2006 and for the prevention of relapse to opioid dependence, following opioid detoxification, in October 2010. The medication uses our polymer-based microsphere injectable extended-release technology to deliver and maintain therapeutic medication levels in the body through just one injection every four weeks. We developed, and currently market and sell, VIVITROL in the U.S., and Cilag sells VIVITROL in Russia and the CIS. The Russian regulatory authorities approved VIVITROL for the treatment of alcohol dependence in 2008 and for the treatment of opioid dependence in 2011.

What are opioid dependence and alcohol dependence?

Opioid dependence is a serious and chronic brain disease characterized by compulsive, prolonged self-administration of opioid substances that are not used for a medical purpose. According to the 2012 U.S. National Survey on Drug Use and Health, an estimated 1.9 million people aged 18 or older were dependent on pain relievers or heroin in the U.S.

Alcohol dependence is a serious and chronic brain disease characterized by cravings for alcohol, loss of control over drinking, withdrawal symptoms and an increased tolerance for alcohol. Nearly 18 million people aged 18 or older in the U.S. are dependent on or abuse alcohol. Adherence to medication is particularly challenging with this patient population.

Other Marketed Products

Except for ZOHYDRO, which received FDA approval in October 2013, we generally expect revenues from our other commercial products, taken together, to decrease in the future due to existing and expected competition from generic manufacturers. For a more detailed discussion of current and expected future revenue contributions from such products, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations" elsewhere in this Transition Report.

On April 4, 2013, we approved a restructuring plan at our Athlone, Ireland manufacturing facility consistent with the evolution of our product portfolio and designed to improve operational performance in the future. The restructuring plan entailed the termination of manufacturing services for certain older products becoming uneconomic to produce due to decreasing demand from our customers resulting from generic competition, and the implementation of a corresponding reduction in headcount of up to 130 employees at our Athlone, Ireland manufacturing facility. We commenced this restructuring plan in April 2013, and expect it to be substantially complete by the end of 2015.

Table of Contents

Key Development Programs

We leverage our formulation expertise and proprietary product platforms to develop, both with partners and on our own, competitively advantaged medications designed to enhance patient outcomes in major therapeutic areas. As part of our ongoing research and development efforts, we have devoted significant resources to conducting clinical studies to advance the development of new pharmaceutical products. The discussion below highlights our current research and development programs for our product candidates. Drug development involves a high degree of risk and investment, and the status, timing and scope of our development programs are subject to change. Important factors that could adversely affect our drug development efforts are discussed in "Item 1A Risk Factors." Refer to the "Patents and Proprietary Rights" section of this Transition Report for information with respect to the intellectual property protection for our product candidates.

Aripiprazole Lauroxil

We are studying aripiprazole lauroxil for the treatment of schizophrenia. Aripiprazole lauroxil is designed to provide once-monthly dosing of a medication that converts *in vivo* into aripiprazole, a molecule that is commercially available under the name ABILIFY. Aripiprazole lauroxil is our first product candidate to leverage our proprietary LinkeRx technology. In October 2013, we announced the completion of patient enrollment in our phase 3 trial to assess the efficacy, safety and tolerability of aripiprazole lauroxil in patients experiencing acute exacerbation of schizophrenia. The clinical data from this study, expected in the first half of 2014, may form the basis of a New Drug Application ("NDA") to the FDA for aripiprazole lauroxil for the treatment of schizophrenia.

In January 2014, we announced plans to commence clinical testing of aripiprazole lauroxil two-month, a new product candidate for the treatment of schizophrenia, in 2014. If approved, aripiprazole lauroxil two-month would be the first and only long-acting atypical antipsychotic medication dosed every two months. The two-month form of aripiprazole lauroxil also utilizes our proprietary LinkeRx technology.

ALKS 33

ALKS 33 is a proprietary oral opioid modulator characterized by limited hepatic metabolism and durable pharmacologic activity in modulating brain opioid receptors. ALKS 33 has completed a phase 2 study in alcohol dependence and is currently being evaluated as a component of ALKS 5461 and ALKS 3831.

ALKS 5461

ALKS 5461 is a proprietary combination of ALKS 33 and buprenorphine that we are developing to be a non-addictive therapy for the treatment of major depressive disorder ("MDD") in patients who have an inadequate response to standard antidepressant therapies. In April 2013, we announced positive results from a phase 2 study in which ALKS 5461 met its primary endpoint, met key secondary endpoints and demonstrated significant reduction in depressive symptoms versus placebo. In October 2013, we announced that we had successfully completed our End-of-Phase 2 interactions with the FDA and that the FDA had granted ALKS 5461 Fast Track status for the adjunctive treatment of MDD in patients with an inadequate response to standard therapies. Fast Track is a process designed to facilitate the development, and expedite the review of drugs to treat serious conditions with the potential to address an unmet medical need. The phase 3 clinical program for ALKS 5461 is expected to commence in the first quarter of 2014. This pivotal clinical program will include three core phase 3 efficacy studies and is expected to enroll a total of approximately 1,500 patients with MDD who have had an inadequate response to standard therapies. The primary efficacy endpoint for all phase 3 studies will be the change in Montgomery-Åsberg Depression Rating Scale ("MADRS") scores from baseline. The pivotal program will also evaluate remission as a secondary endpoint. In addition to the three core

Table of Contents

efficacy studies, the program will also include studies to evaluate the long-term safety, pharmacokinetic profile, titration schedule and human abuse liability of ALKS 5461.

ALKS 3831

ALKS 3831 is a proprietary investigational medicine designed as a broad spectrum treatment for schizophrenia. ALKS 3831 is composed of ALKS 33, an oral opioid modulator, in combination with the established antipsychotic drug olanzapine, which is generally available under the name ZYPREXA (olanzapine). ALKS 3831 is designed to attenuate olanzapine-induced metabolic side effects, including weight gain, and to have utility in patients with schizophrenia exacerbated by alcohol use disorders. In July 2013, we announced the initiation of a double-blind, active-controlled, dose-ranging phase 2 study of ALKS 3831 in patients with schizophrenia. In addition to safety and tolerability, the phase 2 study is designed to evaluate the impact of ALKS 3831 on weight and other metabolic factors and to confirm the attenuation of olanzapine-induced weight gain observed in the phase 1 study of ALKS 3831. We expect to complete enrollment in this study in 2014. A second, planned phase 2 study will investigate the potential utility of ALKS 3831 for the large number of patients with schizophrenia exacerbated by alcohol use disorders.

MMF Prodrug ALKS 8700

ALKS 8700 is a proprietary, small-molecule prodrug of monomethyl fumarate ("MMF") for the treatment of multiple sclerosis. It is designed to rapidly and efficiently convert to MMF in the body and to offer differentiated dosing and tolerability as compared to the currently marketed dimethyl fumarate prodrug, TECFIDERA. We expect to file an Investigational New Drug ("IND") application with the FDA and initiate a phase 1 study of ALKS 8700 in mid-2014.

ALKS 7106

ALKS 7106 is our novel and proprietary small-molecule product candidate derived from our opioid modulator platform. ALKS 7106 is a potent oral opioid analgesic designed for the treatment of pain with intrinsically low potential for abuse and overdose death, two liabilities associated with opioid medicines. In July 2013, we presented preclinical data showing that ALKS 7106 had more potent analgesic properties than morphine and was well tolerated at doses far in excess of those required for analgesic action. Additional preclinical data for ALKS 7106 demonstrated a ceiling effect on neurotransmitter release over a broad concentration range, suggesting low potential for abuse and overdose death. We expect to file an IND and initiate clinical studies in mid-2014.

RDB 1419

In July 2013, we presented preclinical data showing that RDB 1419, a proprietary biologic cancer immunotherapy candidate based on interleukin-2 and its receptors, preferentially expanded the number of tumor-killing cells involved in immunotherapeutic effects on cancer. Additional preclinical data demonstrated that RDB 1419 inhibited lung metastases in a model of lung cancer. RDB 1419 was engineered using our proprietary fusion protein technology platform to modulate the natural mechanism of action of a biologic. We expect to conduct IND-enabling activities for RDB 1419 in 2014.

Other

A phase 3 clinical research program for a three-month formulation of INVEGA SUSTENNA was initiated by Janssen Research & Development, LLC in 2012. Two phase 3 studies are underway, involving approximately 1,800 patients with schizophrenia, to assess the efficacy, safety and tolerability of the three-month injectable formulation. Janssen is expected to submit an NDA to the FDA and an

Table of Contents

application with the EMA in 2015. This investigational product is being developed by Janssen Pharmaceutica, NV, licensee to our proprietary technology for nanoparticles.

AstraZeneca is developing line extensions for BYDUREON, including a dual-chamber pen device, and weekly and monthly suspension formulations using our proprietary technology for extended-release microspheres. In January 2014, AstraZeneca stated that they expect the BYDUREON dual-chamber pen to be approved in the U.S. in the second quarter of 2014 and in the EU in the fourth quarter of 2014, and that they plan to file for approval of the dual-chamber pen in Japan during the second quarter of 2014. In December 2013, AstraZeneca announced its expectation to file for approval of the BYDUREON once-weekly suspension in the U.S. and EU in 2015.

Our Research and Development Expenditures

We devote significant resources to R&D programs. We focus our R&D efforts on identifying novel therapeutics in areas of high unmet medical need. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations of Alkermes" for our R&D expenditures for the Transition Period and our fiscal years 2013 and 2012.

Collaborative Arrangements

Our business strategy includes forming collaborations to develop and commercialize our products and, in so doing, to access technological, financial, marketing, manufacturing and other resources. We have entered into several collaborative arrangements, as described below.

Janssen

RISPERDAL CONSTA

Under a product development agreement, we collaborated with Janssen on the development of RISPERDAL CONSTA. Under the development agreement, Janssen provided funding to us for the development of RISPERDAL CONSTA, and Janssen is responsible for securing all necessary regulatory approvals for the product.

Under license agreements, we granted Janssen and an affiliate of Janssen exclusive worldwide licenses to use and sell RISPERDAL CONSTA. Under our license agreements with Janssen, we receive royalty payments equal to 2.5% of Janssen's net sales of RISPERDAL CONSTA in each country where the license is in effect based on the quarter when the product is sold by Janssen. This royalty may be reduced in any country based on lack of patent coverage and significant competition from generic versions of the product. Janssen can terminate the license agreements upon 30 days' prior written notice to us. Either party may terminate the license agreements by written notice following a breach which continues for 90 days after the delivery of written notice thereof or upon the other party's insolvency. The licenses granted to Janssen expire on a country-by-country basis upon the later of (i) the expiration of the last patent claiming the product in such country or (ii) 15 years after the date of the first commercial sale of the product in such country, provided that in no event will the license granted to Janssen expire later than the twentieth anniversary of the first commercial sale of the product in such country, with the exception of certain countries where the fifteen-year limitation shall pertain regardless. After expiration, Janssen retains a non-exclusive, royalty-free license to manufacture, use and sell RISPERDAL CONSTA. We exclusively manufacture RISPERDAL CONSTA for commercial sale. Under our manufacturing and supply agreement with Janssen, we record manufacturing revenues when product is shipped to Janssen, based on 7.5% of Janssen's net unit sales price for RISPERDAL CONSTA for the calendar year.

The manufacturing and supply agreement terminates on expiration of the license agreements. In addition, either party may terminate the manufacturing and supply agreement upon a material breach by the other party, which is not resolved within 60 days after receipt of a written notice specifying the

Table of Contents

material breach or upon written notice in the event of the other party's insolvency or bankruptcy. Janssen may terminate the agreement upon six months' written notice to us. In the event that Janssen terminates the manufacturing and supply agreement without terminating the license agreements, the royalty rate payable to us on Janssen's net sales of RISPERDAL CONSTA would increase from 2.5% to 5.0%.

INVEGA SUSTENNA/XEPLION

Under our license agreement with Janssen Pharmaceutica N.V., we granted Janssen a worldwide exclusive license under our NanoCrystal technology to develop, commercialize and manufacture INVEGA SUSTENNA/XEPLION and related products.

Under our license agreement, we receive certain development milestone payments from Janssen and aggregate tiered royalty payments between 5% and 9% of INVEGA SUSTENNA net sales in each country where the license is in effect, with the exact royalty percentage determined based on worldwide net sales. The tiered royalty payments consist of a patent royalty and a know-how royalty, both of which are determined on a county-by-country basis. The patent royalty, which equals 1.5% of net sales, is payable until the expiration of the last of the patents claiming the product in such country. The know-how royalty is a tiered royalty of 3.5%, 5.5% and 7.5% on aggregate worldwide net sales of below $250 million, between $250 million and $500 million, and greater than $500 million, respectively. The know-how royalty is payable for the later of 15 years from first commercial sale of a product in each individual country or March 31, 2019, subject in each case to the expiry of the license agreement. These royalty payments may be reduced in any country based on patent litigation or on competing products achieving certain minimum sales thresholds. The license agreement expires upon the later of (i) March 31, 2019 or (ii) the expiration of the last of the patents subject to the agreement. After expiration, Janssen retains a non-exclusive, royalty-free license to develop, manufacture and commercialize the products.

Janssen may terminate the license agreement in whole or in part upon three months' notice to us. We and Janssen have the right to terminate the agreement upon a material breach of the other party, which is not cured within a certain time period, or upon the other party's bankruptcy or insolvency.

Acorda

Under an amended and restated license agreement, we granted Acorda an exclusive worldwide license to use and sell and, solely in accordance with our supply agreement, to make or have made, AMPYRA/FAMPYRA. We receive certain commercial and development milestone payments, license revenues and a royalty of approximately 10% based on sales of AMPYRA/FAMPYRA by Acorda or its sub-licensee, Biogen Idec. This royalty payment may be reduced in any country based on lack of patent coverage, competing products achieving certain minimum sales thresholds, and whether Alkermes manufactures the product.

In June 2009, we entered into an amendment of the amended and restated license agreement and the supply agreement with Acorda and, pursuant to such amendment, consented to the sublicense by Acorda to Biogen Idec of Acorda's rights to use and sell FAMPYRA in certain territories outside of the U.S. (to the extent that such rights were to be sublicensed to Biogen Idec pursuant to its separate collaboration and license agreement with Acorda). Under this amendment, we agreed to modify certain terms and conditions of the amended and restated license agreement and the supply agreement with Acorda to reflect the sublicense by Acorda to Biogen Idec.

Acorda has the right to terminate the license agreement upon 90 days' written notice. We have the right to terminate the license agreement for countries in which Acorda fails to launch a product within a specified time after obtaining the necessary regulatory approval or fails to file regulatory approvals within a commercially reasonable time after completion of, and receipt of positive data from, all preclinical and clinical studies required for filing a marketing authorization application. Either party has

Table of Contents

the right to terminate the license agreement by written notice following a material breach of the other party, which is not cured within a certain time period, or upon the other party's entry into bankruptcy or dissolution proceedings. If we terminate Acorda's license in any country, we are entitled to a license from Acorda of its patent rights and know-how relating to the product as well as the related data, information and regulatory files, and to market the product in the applicable country, subject to an initial payment equal to Acorda's cost of developing such data, information and regulatory files and to ongoing royalty payments to Acorda. Subject to the termination of the license agreement, licenses granted under the license agreement terminate on a country-by-country basis on the later of (i) September 2018 or (ii) the expiration of the last to expire of our patents or the existence of a threshold level of competition in the marketplace.

Under our commercial manufacturing supply agreement with Acorda, we manufacture and supply AMPYRA/FAMPYRA for Acorda (and its sub-licensees). Under the terms of the agreement, Acorda may obtain up to 25% of its total annual requirements of product from a second-source manufacturer. We receive manufacturing royalties equal to 8% of net selling price for all product manufactured by us and a compensating payment for product manufactured and supplied by a third party. We may terminate the supply agreement upon 12 months' prior written notice to Acorda, and either party may terminate the supply agreement following a material and uncured breach of the supply or license agreement or the entry into bankruptcy or dissolution proceedings by the other party. In addition, subject to early termination of the supply agreement noted above, the supply agreement terminates upon the expiry or termination of the license agreement.

In January 2011, we entered into a development and supplemental agreement to our amended and restated license agreement with Acorda. Under the terms of this agreement, we granted Acorda the right, either with us or with a third party, in each case in accordance with certain terms and conditions, to develop new formulations of dalfampridine or other aminopyridines. Under the terms of the agreement, Acorda has the right to select either a formulation developed by us or by a third party for commercialization. We are entitled to development fees we incur in developing formulations under the development and supplemental agreement and, if Acorda selects and commercializes any such formulation, to milestone payments (for new indications if not previously paid), license revenues and royalties in accordance with our amended and restated license agreement for the product, and either manufacturing fees as a percentage of net selling price for product manufactured by us or compensating fees for product manufactured by third parties. If, under the development and supplemental agreement, Acorda selects a formulation not developed by us, then we will be entitled to various compensation payments and have the first option to manufacture such third-party formulation. The development and supplemental agreement expires upon the expiry or termination of the amended and restated license agreement and may be earlier terminated by either party following an uncured breach of the agreement by the other party.

Acorda's financial obligations under this development and supplemental agreement continue for a minimum of ten years from the first commercial sale of such new formulation, and may extend for a longer period of time, depending on the intellectual property rights protecting the formulation, regulatory exclusivity and/or the absence of significant market competition. These financial obligations survive termination of the agreement.

AstraZeneca

In May 2000, we entered into a development and license agreement with Amylin Pharmaceuticals, LLC ("Amylin") for the development of exendin products falling within the scope of our patents, including the once-weekly formulation of exenatide marketed as BYDUREON. In August 2012, Bristol-Myers acquired Amylin. From August 2012 through January 2014, Bristol-Myers and AstraZeneca jointly developed and commercialized Amylin's exendin products, including BYDUREON, through their diabetes collaboration. In April 2013, Bristol-Myers completed its assumption of all global

Table of Contents

commercialization responsibility related to the marketing of BYDUREON from Amylin's former collaborative partner, Eli Lilly & Company. In February 2014, AstraZeneca acquired sole ownership of the intellectual property and global rights related to BYDUREON and Amylin's other exendin products, including Amylin's rights and obligations under our development and license agreement.

Pursuant to the development and license agreement, AstraZeneca has an exclusive, worldwide license to our polymer-based microsphere technology for the development and commercialization of injectable extended-release formulations of exendins and other related compounds. We receive funding for research and development and will also receive royalty payments based on future product sales. Upon the achievement of certain development and commercialization goals, we received milestone payments consisting of cash and warrants for Amylin common stock. In October 2005 and in July 2006, we amended the development and license agreement. Under the amended agreement (i) we are responsible for formulation and are principally responsible for non-clinical development of any products that may be developed pursuant to the agreement and for manufacturing these products for use in early-phase clinical trials, and (ii) we transferred certain of our technology related to the manufacture of BYDUREON to Amylin and agreed to the manufacture of BYDUREON by Amylin.

Under our agreement, AstraZeneca is responsible for conducting clinical trials, securing regulatory approvals and commercializing exenatide products, including BYDUREON on a worldwide basis.

Until December 31, 2021, we will receive royalties equal to 8% of net sales from the first 40 million units of BYDUREON sold in any particular calendar year and 5.5% of net sales from units sold beyond the first 40 million units for that calendar year. Thereafter, during the term of the development and license agreement, we will receive royalties equal to 5.5% of net sales of products sold. We received a $7.0 million milestone payment in July 2011 upon the first commercial sale of BYDUREON in the EU, and we received a $7.0 million milestone payment upon the first commercial sale of BYDUREON in the U.S. in February 2012.

The development and license agreement expires on the later of (i) ten years from the first commercial sale of the last of the products covered by the development and license agreement, or (ii) the expiration or invalidation of all of our patents covering such product. Upon expiration, all licenses become non-exclusive and royalty-free. AstraZeneca may terminate the development and license agreement for any reason upon 180 days' written notice to us. In addition, either party may terminate the development and license agreement upon a material default or breach by the other party that is not cured within 60 days after receipt of written notice specifying the default or breach. Alkermes may terminate the development and license agreement upon AstraZeneca's insolvency or bankruptcy.

Other Arrangements

Civitas Therapeutics, Inc.

In December 2010, we entered into an asset purchase and license agreement and equity investment agreement with Civitas Therapeutics, Inc. ("Civitas"). Under the terms of these agreements, we sold, assigned and transferred to Civitas our right, title and interest in our pulmonary patent portfolio and certain of our pulmonary drug delivery equipment, instruments, contracts and technical and regulatory documentation and licensed certain related know-how in exchange for 15% of the issued shares of the Series A Preferred Stock of Civitas and a royalty on future sales of any products developed using this pulmonary drug delivery technology. Civitas undertook a subsequent Series A Preferred Stock sale, in which we did not participate. Civitas also entered into an agreement to sublease our pulmonary manufacturing facility located in Chelsea, Massachusetts and has an option to purchase our pulmonary manufacturing equipment located at this facility. In addition, we have a seat on the Civitas board of directors. In December 2012, we paid Civitas $1.1 million for a promissory note which is convertible into shares of its Series B Preferred Stock. In September 2013, we paid Civitas $1.2 million for additional shares of its Series B Preferred Stock.

Table of Contents

Commencing six months after its effective date, Civitas may terminate the asset purchase and license agreement for any reason upon 90 days' written notice to us. We may terminate the asset purchase and license agreement for default in the event Civitas does not meet certain minimum development performance obligations. Either party may terminate the asset purchase and license agreement upon a material default or breach by the other party that is not cured within 45 days after receipt of written notice specifying the default or breach. Either party may also terminate the asset purchase and license agreement upon written notice in the event of the other party's insolvency or bankruptcy.

Proprietary Product Platforms

Our proprietary product platforms, which include technologies owned and exclusively licensed to us, address several important development opportunities. We have used these technologies as platforms to establish drug development, clinical development and regulatory expertise.

Injectable Extended-Release Microsphere Technology

Our injectable extended-release technology allows us to encapsulate small-molecule pharmaceuticals, peptides and proteins, in microspheres made of common medical polymers. The technology is designed to enable novel formulations of pharmaceuticals by providing controlled, extended release of drugs over time. Drug release from the microsphere is controlled by diffusion of the drug through the microsphere and by biodegradation of the polymer. These processes can be modulated through a number of formulation and fabrication variables, including drug substance and microsphere particle sizing and choice of polymers and excipients.

LinkeRx Technology

The long-acting LinkeRx technology platform is designed to enable the creation of extended-release injectable versions of antipsychotic therapies and may also be useful in other disease areas in which long action may provide therapeutic benefits. The technology uses proprietary linker-tail chemistry to create New Molecular Entities ("NMEs") derived from known agents.

NanoCrystal Technology

Our NanoCrystal technology is applicable to poorly water-soluble compounds and involves formulating and stabilizing drugs into particles that are nanometers in size. A drug in NanoCrystal form can be incorporated into a range of common dosage forms and administration routes, including tablets, capsules, inhalation devices and sterile forms for injection, with the potential for enhanced oral bioavailability, increased therapeutic effectiveness, reduced/eliminated fed/fasted variability and sustained duration of intravenous/intramuscular release.

Oral Controlled Release Technology

Our OCR technologies are used to formulate, develop and manufacture oral dosage forms of pharmaceutical products that control the release characteristics of standard dosage forms. Our OCR platform includes technologies for tailored pharmacokinetic profiles including SODAS technology, IPDAS technology, CODAS technology and the MXDAS drug absorption system, each as described below:

SODAS Technology: SODAS (Spheroidal Oral Drug Absorption System) technology involves producing uniform spherical beads of 1 mm to 2 mm in diameter containing drug plus excipients and coated with product-specific modified-release polymers. Varying the nature and combination of polymers within a selectively permeable membrane enables varying degrees of modified release depending upon the required product profile.

Table of Contents

CODAS Technology: CODAS (Chronotherapeutic Oral Drug Absorption System) enables the delayed onset of drug release incorporating the use of specific polymers, resulting in a drug release profile that more accurately complements circadian patterns.

IPDAS Technology: IPDAS (Intestinal Protective Drug Absorption System) technology conveys gastrointestinal protection by a wide dispersion of drug candidates in a controlled and gradual manner, through the use of numerous high-density controlled-release beads compressed into a tablet form. Release characteristics are modified by the application of polymers to the micro matrix and subsequent coatings, which form a rate-limiting semi-permeable membrane.

MXDAS Technology: MXDAS (Matrix Drug Absorption System) formulates the drug candidate in a hydrophilic matrix and incorporates one or more hydrophilic matrix-forming polymers into a solid oral dosage form, which controls the release of drug through a process of diffusion and erosion in the gastrointestinal tract.

Manufacturing and Product Supply

We own and occupy manufacturing, office and laboratory facilities in: Wilmington, Ohio; Athlone, Ireland; and Gainesville, Georgia. We either purchase active drug product from third parties or receive it from our third-party collaborators to formulate product using our technologies. The manufacture of our products for clinical trials and commercial use is subject to Current Good Manufacturing Practice ("cGMP") regulations and other regulatory agency regulations. Our manufacturing and development capabilities include formulation through process development, scale-up and full-scale commercial manufacturing and specialized capabilities for the development and manufacturing of controlled substances.

Although some materials for our drug products are currently available from a single source or a limited number of qualified sources, we attempt to acquire an adequate inventory of such materials, establish alternative sources and/or negotiate long-term supply arrangements. We believe we do not have any significant issues in finding suppliers. However, we cannot be certain that we will continue to be able to obtain long-term supplies of our manufacturing materials.

Our third-party service providers involved in the manufacture of our products are subject to inspection by the FDA or comparable agencies in other jurisdictions. Any delay, interruption or other issues that arise in the acquisition of active pharmaceutical ingredients ("API"), manufacture, fill-finish, packaging, or storage of our products or product candidates, including as a result of a failure of our facilities or the facilities or operations of third parties to pass any regulatory agency inspection, could significantly impair our ability to sell our products or advance our development efforts, as the case may be. For information about risks relating to the manufacture of our products and product candidates, see "Item 1A Risk Factors" and specifically those sections entitled " Our revenues largely depend on the actions of our third-party collaborators and, if they are not effective, our revenues could be materially adversely affected," " We rely heavily on collaborative partners in the commercialization and continued development of our products," " We are subject to risks related to the manufacture of our products," " We rely on third parties to provide services in connection with the manufacture and distribution of our products," " If we or our third-party providers fail to meet the stringent requirements of governmental regulation in the manufacture of our products, we could incur substantial remedial costs and a reduction in sales and/or revenues" and

Commercial Products

We manufacture RISPERDAL CONSTA, VIVITROL and polymer for BYDUREON in our Wilmington, Ohio facility. We are currently operating two RISPERDAL CONSTA lines and one VIVITROL line at commercial scale. Janssen has granted us an option, exercisable upon 30 days' advance written notice, to purchase the most recently constructed and validated RISPERDAL

Table of Contents

CONSTA manufacturing line at its then-current net book value. We source our packaging operations for VIVITROL to a third-party contractor. Janssen is responsible for packaging operations for RISPERDAL CONSTA. The facility has been inspected by U.S., European ("MHRA"), Japanese, Brazilian and Saudi Arabian regulatory authorities for compliance with required cGMP standards for continued commercial manufacturing.

We manufacture AMPYRA/FAMPYRA, RAPAMUNE and other products in our Athlone, Ireland facility. This facility has been inspected by U.S., Irish, Brazilian, Turkish, Saudi Arabian and Korean regulatory authorities for compliance with required cGMP standards for continued commercial manufacturing.

We manufacture FOCALIN XR, RITALIN LA, AVINZA, VERAPAMIL and other products in our Gainesville, Georgia facility. The facility has been inspected by U.S., Danish, Turkish and Brazilian regulatory authorities for compliance with required cGMP standards for continued commercial manufacturing.

For more information about our manufacturing facilities, see "Item 2 Properties."

Clinical Products

We have established, and are operating, facilities with the capability to produce clinical supplies of: our injectable extended-release products at our Wilmington, Ohio facility; our NanoCrystal and OCR technology products at our Athlone, Ireland facility; and our OCR technology products at our Gainesville, Georgia facility. We have also contracted with third-party manufacturers to formulate certain products for clinical use. We require that our contract manufacturers adhere to cGMP in the manufacture of products for clinical use.

Research & Development

We devote significant resources to R&D programs. We focus our R&D efforts on finding novel therapeutics in areas of high unmet medical need. Our R&D efforts include, but are not limited to, areas such as pharmaceutical formulation, analytical chemistry, process development, engineering, scale-up and drug optimization/delivery. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations of Alkermes" for our R&D expenditures for the Transition Period and our fiscal years 2013 and 2012.

Permits and Regulatory Approvals

We hold various licenses in respect of our manufacturing activities conducted in Wilmington, Ohio; Athlone, Ireland; and Gainesville, Georgia. The primary licenses held in this regard are FDA Registrations of Drug Establishment; and Drug Enforcement Administration of the U.S. Department of Justice ("DEA"), Controlled Substance Registration in respect of our Gainesville facility. We also hold a Manufacturers Authorization (No. M516), an Investigational Medicinal Products Manufacturers Authorization (No. IMP008) and Certificates of Good Manufacturing Practice Compliance of a Manufacturer (Ref. 2010-096 and 2010-097) from the Irish Medicines Board ("IMB") in respect of our Athlone facility, and a number of Controlled Substance Licenses granted by the IMB. Due to certain U.S. state law requirements, we also hold certain state licenses to cover distribution activities through certain states and not in respect of any manufacturing activities conducted in those states.

We do not generally act as the product authorization holder for products incorporating our drug delivery technologies that have been developed on behalf of a collaborator. In such cases, our collaborator usually holds the relevant authorization from the FDA or other national regulator, and we would support this authorization by furnishing a copy of the Drug Master File ("DMF"), or the chemistry, manufacturing and controls data to the relevant regulator to prove adequate manufacturing

Table of Contents

data in respect of the product. We would generally update this information annually with the relevant regulator. In other cases where we are developing proprietary product candidates, such as VIVITROL, we may hold the appropriate regulatory documentation ourselves.

Marketing, Sales and Distribution

We are responsible for the marketing of VIVITROL in the U.S. We focus our sales and marketing efforts on specialist physicians in private practice and in public treatment systems. We use customary pharmaceutical company practices to market our product and to educate physicians, such as sales representatives calling on individual physicians, advertisements, professional symposia, selling initiatives, public relations and other methods. We provide customer service and other related programs for our product, such as product-specific websites, insurance research services and order, delivery and fulfillment services. Our sales force for VIVITROL in the U.S. consists of approximately 70 individuals. VIVITROL is sold directly to pharmaceutical wholesalers, specialty pharmacies and a specialty distributor. Product sales of VIVITROL during the Transition Period to McKesson Corporation, CVS Caremark Corporation and AmerisourceBergen Drug Corporation represented approximately 16%, 13%, and 13%, respectively, of total VIVITROL sales.

Effective April 1, 2009, we entered into an agreement with Cardinal Health Specialty Pharmaceutical Services ("Cardinal SPS"), a division of Cardinal, to provide warehouse, shipping and administrative services for VIVITROL. Our expectation for 2014 is to continue to distribute VIVITROL through Cardinal SPS.

Under our collaboration agreements with Janssen, AstraZeneca, Acorda and other collaboration partners, these companies are responsible for the commercialization of any products developed thereunder if and when regulatory approval is obtained.

Competition

We face intense competition in the development, manufacture, marketing and commercialization of our products and product candidates from many and varied sources, such as academic institutions, government agencies, research institutions and biotechnology and pharmaceutical companies, including other companies with similar technologies. Some of these competitors are also our collaborative partners, who control the commercialization of products for which we receive manufacturing and royalty revenues. These competitors are working to develop and market other systems, products, vaccines and other methods of preventing or reducing disease, and new small-molecule and other classes of drugs that can be used with or without a drug delivery system.

The biotechnology and pharmaceutical industries are characterized by intensive research, development and commercialization efforts and rapid and significant technological change. Many of our competitors are larger and have significantly greater financial and other resources than we do. We expect our competitors to develop new technologies, products and processes that may be more effective than those we develop. The development of technologically improved or different products or technologies may make our product candidates or product platforms obsolete or noncompetitive before we recover expenses incurred in connection with their development or realize any revenues from any commercialized product.

There are other companies developing extended-release product platforms. In many cases, there are products on the market or in development that may be in direct competition with our products or product candidates. In addition, we know of new chemical entities that are being developed 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 around the world, there may be some that we do not now know of that may compete with our proprietary product platforms or

Table of Contents

product candidates. Our collaborative partners could choose a competing technology to use with their drugs instead of one of our product platforms and could develop products that compete with our products.

With respect to our proprietary injectable product platform, we are aware that there are other companies developing extended-release delivery systems for pharmaceutical products. RISPERDAL CONSTA and INVEGA SUSTENNA may compete with a number of other injectable products including ZYPREXA RELPREVV ((olanzapine) For Extended Release Injectable Suspension), which is marketed and sold by Lilly; a once-monthly injectable formulation of ABILIFY (aripiprazole) developed by Otsuka Pharmaceutical Co., Ltd. ("Otsuka"), which was approved by the FDA in February 2013 and is commercialized under the name ABILIFY MAINTENA; oral compounds currently on the market, including generic versions of many branded products; and other products currently in development.

In the treatment of alcohol dependence, VIVITROL competes with CAMPRAL (acamprosate calcium) sold by Forest Laboratories and ANTABUSE sold by Odyssey Pharmaceuticals ("Odyssey") as well as currently marketed drugs, including generic drugs, also formulated from naltrexone. Other pharmaceutical companies are developing product candidates that have shown some promise in treating alcohol dependence and that, if approved by the FDA, would compete with VIVITROL.

In the treatment of opioid dependence, VIVITROL competes with methadone, oral naltrexone, and SUBOXONE (buprenorphine HCl/naloxone HCl dehydrate sublingual tablets), SUBOXONE (buprenorphine/naloxone) Sublingual Film, and SUBUTEX (buprenorphine HCl sublingual tablets), each of which is marketed and sold by Reckitt Benckiser Pharmaceuticals, Inc. in the U.S. It also competes with generic versions of SUBUTEX and SUBOXONE sublingual tablets. Other pharmaceutical companies are developing product candidates that have shown promise in treating opioid dependence and that, if approved by the FDA, would compete with VIVITROL.

BYDUREON competes with established therapies for market share. Such competitive products include sulfonylureas, metformin, insulins, thiazolidinediones, glinides, dipeptidyl peptidase type IV inhibitors, insulin sensitizers, alpha-glucosidase inhibitors and sodium-glucose transporter-2 inhibitors. BYDUREON also competes with other glucagon-like peptide-1 ("GLP-1") agonists, including VICTOZA (liraglutide (rDNA origin) injection), which is marketed and sold by Novo Nordisk A/S. Other pharmaceutical companies are developing product candidates for the treatment of type 2 diabetes that, if approved by the FDA, would compete with BYDUREON.

AMPYRA/FAMPYRA is, to our knowledge, the first product that is approved as a treatment to improve walking in patients with MS. However, there are a number of FDA-approved therapies for MS disease management that seek to reduce the frequency and severity of exacerbations or slow the accumulation of physical disability for people with certain types of MS. These products include AVONEX, TYSABRI and TECFIDERA from Biogen Idec, BETASERON from Bayer HealthCare Pharmaceuticals, COPAXONE from Teva Pharmaceutical Industries Ltd., REBIF from Merck Serono, GILENYA and EXTAVIA from Novartis AG and AUBAGIO from Sanofi-Aventis.

With respect to our NanoCrystal technology, we are aware that other technology approaches similarly address poorly water-soluble drugs. These approaches include nanoparticles, cyclodextrins, lipid-based self-emulsifying drug delivery systems, dendrimers and micelles, among others, any of which could limit the potential success and growth prospects of products incorporating our NanoCrystal technology. In addition, there are many competing technologies to our OCR technology, some of which are owned by large pharmaceutical companies with drug delivery divisions and other, smaller drug-delivery-specific companies.

Table of Contents

Patents and Proprietary Rights

Our success will be dependent, in part, on our ability to obtain and maintain patent protection for our products, including those marketed and sold by our collaborators, to maintain trade secret protection and to operate without infringing upon the proprietary rights of others. We have a proprietary portfolio of patent rights and exclusive licenses to patents and patent applications. We have filed numerous patent applications in the U.S. and in other countries directed to compositions of matter as well as processes of preparation and methods of use, including applications relating to each of our delivery technologies. We own more than 200 issued U.S. patents. In the future, we plan to file additional patent applications in the U.S. and in other countries directed to new or improved products and processes. We intend to file additional patent applications when appropriate and defend our patent position aggressively.

Our OCR technology is protected by a patent estate including patents and patent applications filed worldwide. Some of our OCR patent families are product-specific whereas others cover generic delivery platforms (e.g. different release profiles, taste masking, etc.). The latest of the patents covering AMPYRA/FAMPYRA, which incorporates our OCR technology, expires in 2027 in the U.S. and 2025 in Europe.

Our NanoCrystal technology patent portfolio contains a number of patents granted throughout the world, including the U.S. and countries outside of the U.S. We also have a significant number of pending patent applications covering our NanoCrystal technology. The latest of the patents covering INVEGA SUSTENNA expires in 2019 in the U.S. and 2022 in the EU. Additional pending applications may provide a longer period of patent coverage, if granted, and in certain countries, such as Australia and South Korea, patent coverage extends until 2023.

We have filed patent applications worldwide that cover our microsphere technology and have a significant number of patents and pending patent applications covering our microsphere technology. The latest of our patents covering VIVITROL, RISPERDAL CONSTA and BYDUREON expire in 2029, 2023 and 2025 in the U.S., respectively, and 2021, 2021 and 2024 in Europe, respectively.

We also have patent protection for our Key Development Programs. U.S. Patent No. 8,431,576, which issued in April 2013, covers a class of compounds that includes aripiprazole lauroxil and expires in 2030. U.S. Patent No. 7,262,298, which covers a class of compounds that includes the opioid modulators in each of the ALKS 5461 and ALKS 3831 combination products, expires in 2025. U.S. Patent Application 11/760,039, for which a Notice of Allowance was granted by the U.S. Patent and Trademark Office ("USPTO"), contains method of treatment claims that will cover ALKS 5461, ALKS 3831 and ALKS 7106 and will expire in 2029. U.S. Patent Application 14/032,736 for which a Notice of Allowance was granted by the USPTO, contains composition of matter claims that will cover ALKS 8700 and will expire in 2033.

We have exclusive rights through licensing agreements with third parties to issued U.S. patents, pending patent applications and corresponding patents or patent applications in countries outside the U.S, subject in certain instances to the rights of the U.S. government to use the technology covered by such patents and patent applications. Under certain licensing agreements, we are responsible for patent expenses, and we pay annual license fees and/or minimum annual royalties. In addition, under these licensing agreements, we are obligated to pay royalties on future sales of products, if any, covered by the licensed patents.

We know of several U.S. patents issued to other parties that may relate to our products and product candidates. The manufacture, use, offer for sale, sale or import of some of our product candidates might be found to infringe on the claims of these patents. A party might file an infringement action against us. The cost of defending such an action is likely to be high, and we might not receive a favorable ruling.

Table of Contents

We also know of patent applications filed by other parties in the U.S. and various other countries that may relate to some of our product candidates if issued in their present form. The patent laws of the U.S. and other countries are distinct, and decisions as to patenting, validity of patents and infringement of patents may be resolved differently in different countries. If patents are issued to any of these applicants, we or our collaborators may not be able to manufacture, use, offer for sale or sell some of our product candidates without first getting a license from the patent holder. The patent holder may not grant us a license on reasonable terms, or it may refuse to grant us a license at all. This could delay or prevent us from developing, manufacturing or selling those of our product candidates that would require the license.

We try to protect our proprietary position by filing patent applications in the U.S. and in other countries related to our proprietary technology, inventions and improvements that are important to the development of our business. Because the patent position of biotechnology and pharmaceutical companies involves complex legal and factual questions, enforceability of patents cannot be predicted with certainty. The ultimate degree of patent protection that will be afforded to products and processes, including ours, in the U.S. and in other important markets, remains uncertain and is dependent upon the scope of protection decided upon by the patent offices, courts and lawmakers in these countries. Patents, if issued, may be challenged, invalidated or circumvented. Thus, any patents that we own or license from others may not provide any protection against competitors. Our pending patent applications, those we may file in the future, or those we may license from third parties, may not result in patents being issued. If issued, they may not provide us with proprietary protection or competitive advantages against competitors with similar technology. Furthermore, others may independently develop similar technologies or duplicate any technology that we have developed outside the scope of our patents. The laws of certain countries do not protect our intellectual property rights to the same extent as do the laws of the U.S.

There are currently a few Paragraph IV litigations in the U.S. and other proceedings in Europe involving our patents in respect of FOCALIN XR, TRICOR, RITALIN LA and MEGACE ES.

We also rely on trade secrets, know-how and technology, which are not protected by patents, to maintain our competitive position. We try to protect this information by entering into confidentiality agreements with parties that have access to it, such as our corporate partners, collaborators, employees and consultants. Any of these parties may breach the agreements and disclose our confidential information or our competitors might learn of the information in some other way. If any trade secret, know-how or other technology not protected by a patent were to be disclosed to, or independently developed by, a competitor, such event could materially adversely affect our business, results of operations, cash flows and financial condition. For more information, see "Item 1A Risk Factors."

Our trademarks, including VIVITROL, are important to us and are generally covered by trademark applications or registrations in the USPTO and the patent or trademark offices of other countries. Our partnered products also use trademarks that are owned by our partners, such as the marks RISPERDAL CONSTA and INVEGA SUSTENNA, which are registered trademarks of Johnson & Johnson Corp., BYDUREON, which is a trademark of Amylin, and AMPYRA and FAMPYRA, which are registered trademarks of Acorda. Trademark protection varies in accordance with local law, and continues in some countries as long as the mark is used and in other countries as long as the mark is registered. Trademark registrations generally are for fixed but renewable terms.

Table of Contents

Revenues and Assets by Region

For the Transition Period ended December 31, 2013 and fiscal years 2013 and 2012, our revenue and assets are presented below by geographical area.

(In thousands)	Nine Months Ended December 31, 2013	Twelve Months Ended March 31, 2013	2012
Revenue by region:			
U.S.	$ 269,005	$ 380,565	$ 212,859
Ireland	5,722	14,455	12,695
Rest of world	158,184	180,528	164,423
Assets by region:			
Current assets:			
U.S.	$ 382,571	$ 248,441	$ 209,683
Ireland	187,023	159,544	122,077
Rest of world	544	603	7,393
Long-term assets:			
U.S.:			
Intangible assets	$	$	$
Goodwill	3,677	3,677	3,677
Other	225,559	229,691	213,729
Ireland:			
Intangible assets	$ 537,565	$ 575,993	$ 617,845
Goodwill	89,063	89,063	89,063
Other	151,586	163,279	171,750

Regulatory

Regulation of Pharmaceutical Products

United States

Our current and contemplated activities, and the products and processes that result from such activities, are subject to substantial government regulation. Before new pharmaceutical products may be sold in the U.S., preclinical studies and clinical trials of the products must be conducted and the results submitted to the FDA for approval. Clinical trial programs must establish substantial evidence of effectiveness, determine an appropriate dose and regimen and define the conditions for safe use. This is a high-risk process that requires stepwise clinical studies in which the candidate product must successfully meet pre-determined endpoints.

Non-Clinical Testing: Before beginning testing of any compounds with potential therapeutic value in human subjects in the U.S., stringent government requirements for pre-clinical data must be satisfied. Pre-clinical testing includes both *in vitro*, or in an artificial environment outside of a living organism, and *in vivo*, or within a living organism, laboratory evaluation and characterization of the safety and efficacy of a drug and its formulation.

Investigational New Drug ("IND") Exemption: Pre-clinical testing results obtained from *in vivo* studies in several animal species, as well as from *in vitro* studies, are submitted to the FDA, as part of an IND, and are reviewed by the FDA prior to the commencement of human clinical trials. The pre-clinical data must provide an adequate basis for evaluating both the safety and the scientific rationale for the initial clinical studies in human volunteers.

Clinical Trials: Clinical trials involve the administration of the drug to healthy human volunteers or to patients under the supervision of a qualified investigator pursuant to an FDA-reviewed

Table of Contents

protocol. Human clinical trials are typically conducted in three sequential phases, although the phases may overlap with one another. Clinical trials must be conducted under protocols that detail the objectives of the study, the parameters to be used to monitor safety, and the efficacy criteria, if any, to be evaluated. Each protocol must be submitted to the FDA as part of the IND.

Phase 1 clinical trials test for safety, dose tolerance, absorption, bio-distribution, metabolism, excretion and clinical pharmacology and, if possible, to gain early evidence regarding efficacy.

Phase 2 clinical trials involve a small sample of the actual intended patient population and seek to assess the efficacy of the drug for specific targeted indications, to determine dose-response and the optimal dose range and to gather additional information relating to safety and potential adverse effects.

Phase 3 clinical trials consist of expanded, large-scale studies of patients with the target disease or disorder to obtain definitive statistical evidence of the efficacy and safety of the proposed product and dosing regimen.

In the U.S., the results of the pre-clinical and clinical testing of a product are then submitted to the FDA in the form of a Biologics License Application ("BLA"), or an NDA. The NDA or BLA also includes information pertaining to the preparation of the new drug, analytical methods, details of the manufacture of finished products and proposed product packaging and labeling. The submission of an application is not a guarantee that the FDA will find the application complete and accept it for filing. The FDA may refuse to file the application if it is not considered sufficiently complete to permit a review and inform the applicant of the reason for the refusal. The applicant may then resubmit the application and include the supplemental information.

Once an application for an NME is accepted for filing, the FDA has 10 months, under its standard review process, within which to review the application (for some applications, the review process is longer than 10 months). In some cases, the FDA has available pathways to expedite development and review of new drugs that are intended to treat serious or life-threatening conditions and demonstrate the potential to address unmet medical needs; there are currently four defined pathways for such review, depending on the results of clinical testing of the product, the condition(s) treated, and the currently available therapies for such conditions: Fast Track, Breakthrough Therapy, Accelerated Approval and Priority Review.

As part of its review, the FDA may refer the application to an advisory committee for independent advice on questions related to the development of the drug and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee, however, historically, it has followed such recommendations. The FDA may determine that a Risk Evaluation and Mitigation Strategy ("REMS") is necessary to ensure that the benefits of a new product outweigh its risks. If required, a REMS may include various elements, such as publication of a medication guide, patient package insert, a communication plan to educate health care providers of the drug's risks, limitations on who may prescribe or dispense the drug, or other measures that the FDA deems necessary to assure the safe use of the drug.

In reviewing a BLA or NDA, the FDA may grant marketing approval, deny the application if it determines the application does not provide an adequate basis for approval, or issue a complete response letter to communicate to the applicant the reason the application cannot be approved in the current form and provide input on the changes that must be made before an application can be approved. Even if such additional information and data are submitted, the FDA may ultimately decide that the BLA or NDA does not satisfy the criteria for approval. The receipt of regulatory approval often takes a number of years, involves the expenditure of substantial resources and depends on a number of factors, including the severity of the disease in question, the availability of alternative

Table of Contents

treatments, potential safety signals observed in preclinical or clinical tests, and the risks and benefits demonstrated in clinical trials. It is impossible to predict with any certainty whether and when the FDA will grant marketing approval. Even if a product is approved, the approval may be subject to limitations based on the FDA's interpretation of the data. For example, the FDA may require, as a condition of approval, restricted distribution and use, enhanced labeling, special packaging or labeling, expedited reporting of certain adverse events, pre-approval of promotional materials or restrictions on direct-to-consumer advertising, any of which could negatively impact the commercial success of a drug. In addition, the FDA may require a sponsor to conduct additional post-marketing studies as a condition of approval to provide data on safety and effectiveness. In addition, prior to commercialization, centrally acting pharmaceutical products are generally subject to review and potential scheduling by the DEA.

The FDA tracks information on side effects and adverse events reported during clinical studies and after marketing approval. Non-compliance with regulatory authorities' safety reporting requirements may result in civil or criminal penalties. Side effects or adverse events that are identified during clinical trials can delay, impede or prevent marketing approval. Based on new safety information that emerges after approval, the FDA can mandate product labeling changes, impose a new REMS or the addition of elements to an existing REMS, require new post-marketing studies (including additional clinical trials), or suspend or withdraw approval of the product. These requirements may affect our ability to maintain marketing approval of our products or require us to make significant expenditures to obtain or maintain such approvals.

If we seek to make certain types of changes to an approved product, such as adding a new indication, making certain manufacturing changes, or changing manufacturers or suppliers of certain ingredients or components, the FDA will need to review and approve such changes in advance. In the case of a new indication, we are required to demonstrate with additional clinical data that the product is safe and effective for a use other than that initially approved. Such regulatory reviews can result in denial or modification of the planned changes, or requirements to conduct additional tests or evaluations that can substantially delay or increase the cost of the planned changes.

In addition, the FDA regulates all advertising and promotion activities for products under its jurisdiction both before and after approval. A company can make only those claims relating to safety and efficacy that are approved by the FDA. However, physicians may prescribe legally available drugs for uses that are not described in the drug's labeling. Such off-label uses are common across medical specialties and often reflect a physician's belief that the off-label use is the best treatment for patients. The FDA does not regulate the behavior of physicians in their choice of treatments, but the FDA regulations do impose stringent restrictions on manufacturers' communications regarding off-label uses. Failure to comply with applicable FDA requirements may subject a company to adverse publicity, enforcement action by the FDA, corrective advertising and the full range of civil and criminal penalties available to the FDA.

Controlled Substances Act: The DEA regulates pharmaceutical products that are controlled substances. Controlled substances are those drugs that appear on one of the five schedules promulgated and administered by the DEA under the Controlled Substances Act (the "CSA"). The CSA governs, among other things, the inventory, distribution, recordkeeping, handling, security and disposal of controlled substances. Any pharmaceutical product that acts on the CNS has the potential to become a controlled substance, and scheduling by the DEA is a separate process that may delay the commercial launch of a pharmaceutical product even after FDA approval of the NDA. Companies with a scheduled pharmaceutical product are subject to periodic and ongoing inspections by the DEA and similar state drug enforcement authorities to assess ongoing compliance with the DEA's regulations. Any failure to comply with these regulations could lead to a variety of sanctions, including the revocation or a denial of renewal of any DEA registration, injunctions, or civil or criminal penalties.

Table of Contents

Outside the U.S.

Our products are marketed in numerous jurisdictions outside the U.S. Most of these jurisdictions have product approval and post-approval regulatory processes that are similar in principle to those in the U.S. In Europe, there are several tracks for marketing approval, depending on the type of product for which approval is sought. Under the centralized procedure, a company submits a single application to the EMA. The marketing application is similar to the NDA in the U.S. and is evaluated by the Committee for Medicinal Products for Human Use ("CHMP"), the expert scientific committee of the EMA. If the CHMP determines that the marketing application fulfills the requirements for quality, safety, and efficacy, it will submit a favorable opinion to the European Commission ("EC"). The CHMP opinion is not binding, but is typically adopted by the EC. A marketing application approved by the EC is valid in all member states.

In addition to the centralized procedure, Europe also has: (i) a nationalized procedure, which requires a separate application to, and approval determination by each country; (ii) a decentralized procedure, whereby applicants submit identical applications to several countries and receive simultaneous approval; and (iii) a mutual recognition procedure, where applicants submit an application to one country for review and other countries may accept or reject the initial decision. Regardless of the approval process employed, various parties share responsibilities for the monitoring, detection, and evaluation of adverse events post-approval, including national authorities, the EMA, the EC and the marketing authorization holder.

Good Manufacturing Processes

The FDA, the EMA, the competent authorities of the EU Member States and other regulatory agencies regulate and inspect equipment, facilities and processes used in the manufacturing of pharmaceutical and biologic products prior to approving a product. If, after receiving clearance from regulatory agencies, a company makes a material change in manufacturing equipment, location, or process, additional regulatory review and approval may be required. Companies also must adhere to cGMP and product-specific regulations enforced by the FDA following product approval. The FDA, the EMA and other regulatory agencies also conduct regular, periodic visits to re-inspect equipment, facilities and processes following the initial approval of a product. If, as a result of these inspections, it is determined that our equipment, facilities or processes do not comply with applicable regulations and conditions of product approval, regulatory agencies may seek civil, criminal or administrative sanctions and/or remedies against us, including the suspension of our manufacturing operations.

Good Clinical Practices

The FDA, the EMA and other regulatory agencies promulgate regulations and standards, commonly referred to as Good Clinical Practices ("GCP"), for designing, conducting, monitoring, auditing and reporting the results of clinical trials to ensure that the data and results are accurate and that the trial participants are adequately protected. The FDA, the EMA and other regulatory agencies enforce GCP through periodic inspections of trial sponsors, principal investigators, trial sites, contract research organizations ("CROs") and institutional review boards. If our studies fail to comply with applicable GCP, the clinical data generated in our clinical trials may be deemed unreliable, and relevant regulatory agencies may require us to perform additional clinical trials before approving our marketing applications. Noncompliance can also result in civil or criminal sanctions. We rely on third parties, including CROs, to carry out many of our clinical trial-related activities. Failure of such third party to comply with GCP can likewise result in rejection of our clinical trial data or other sanctions.

Table of Contents

Hatch-Waxman Act

Under the U.S. Drug Price Competition and Patent Term Restoration Act of 1984 (the "Hatch-Waxman Act"), Congress created an abbreviated FDA review process for generic versions of pioneer, or brand-name, drug products. The law also provides incentives by awarding, in certain circumstances, non-patent-related marketing exclusivities to pioneer drug manufacturers. Newly approved drug products and changes to the conditions of use of approved products may benefit from periods of non-patent-related marketing exclusivity in addition to any patent protection the drug product may have. The Hatch-Waxman Act provides five years of new chemical entity ("NCE") marketing exclusivity to the first applicant to gain approval of a NDA for a product that contains an active ingredient not found in any other approved product. The FDA is prohibited from accepting any abbreviated NDA ("ANDA") for a generic drug or 505(b)(2) application for five years from the date of approval of the NCE, or four years in the case of an ANDA or 505(b)(2) application containing a patent challenge. A 505(b)(2) application is an NDA wherein the applicant relies in part on data from clinical studies not conducted by or for it and for which the applicant has not obtained a right of reference; this type of application allows the sponsor to rely, at least in part, on the FDA's findings of safety and/or effectiveness for a previously approved drug. This exclusivity will not prevent the submission or approval of a full NDA, as opposed to an ANDA or 505(b)(2) application, for any drug, including, for example, a drug with the same active ingredient, dosage form, route of administration, strength and conditions of use.

The Hatch-Waxman Act also provides three years of exclusivity for applications containing the results of new clinical investigations, other than bioavailability studies, essential to the FDA's approval of new uses of approved products, such as new indications, dosage forms, strengths, or conditions of use. However, this exclusivity only protects against the approval of ANDAs and 505(b)(2) applications for the protected use and will not prohibit the FDA from accepting or approving ANDAs or 505(b)(2) applications for other products containing the same active ingredient.

The Hatch-Waxman Act requires NDA applicants and NDA holders to provide certain information about patents related to the drug for listing in the Orange Book. ANDA and 505(b)(2) applicants must then certify regarding each of the patents listed with the FDA for the reference product. A certification that a listed patent is invalid or will not be infringed by the marketing of the applicant's product is called a "Paragraph IV certification." If the ANDA or 505(b)(2) applicant provides such a notification of patent invalidity or noninfringement, then the FDA may accept the ANDA or 505(b)(2) application four years after approval of the NDA. If a Paragraph IV certification is filed and the ANDA or 505(b)(2) application has been accepted as a reviewable filing by the FDA, the ANDA or 505(b)(2) applicant must then, within 30 days, provide notice to the NDA holder and patent owner stating that the application has been submitted and providing the factual and legal basis for the applicant's opinion that the patent is invalid or not infringed. The NDA holder or patent owner may file suit against the ANDA or 505(b)(2) applicant for patent infringement. If this is done within 45 days of receiving notice of the Paragraph IV certification, a one-time, 30-month stay of the FDA's ability to approve the ANDA or 505(b)(2) application is triggered. The 30-month stay begins at the end of the NDA holder's data exclusivity period, or, if data exclusivity has expired, on the date that the patent holder is notified. The FDA may approve the proposed product before the expiration of the 30-month stay if a court finds the patent invalid or not infringed, or if the court shortens the period because the parties have failed to cooperate in expediting the litigation.

Sales and Marketing

We are subject to various U.S. federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws and false claims laws. Anti-kickback laws make it illegal for a prescription drug manufacturer to solicit, offer, receive, or pay any remuneration in exchange for, or to induce, the referral of business, including the purchase or prescription of a particular drug. Due to the broad scope

Table of Contents

of the U.S. statutory provisions, the general absence of guidance in the form of regulations, and few court decisions addressing industry practices, it is possible that our practices might be challenged under anti-kickback or similar laws. False claims laws prohibit anyone from knowingly and willingly presenting, or causing to be presented, for payment to third-party payers (including Medicare and Medicaid) claims for reimbursed drugs or services that are false or fraudulent, claims for items or services not provided as claimed, or claims for medically unnecessary items or services. Activities relating to the sale and marketing of our products may be subject to scrutiny under these laws. Violations of fraud and abuse laws may be punishable by criminal and/or civil sanctions, including fines and civil monetary penalties, as well as the possibility of exclusion from federal healthcare programs (including Medicare and Medicaid). In addition, federal and state authorities are paying increased attention to enforcement of these laws within the pharmaceutical industry and private individuals have been active in alleging violations of the laws and bringing suits on behalf of the government under the federal civil False Claims Act. If we were subject to allegations concerning, or were convicted of violating, these laws, our business could be harmed. See "Item 1A Risk Factors" and specifically those sections entitled " If we fail to comply with the extensive legal and regulatory requirements affecting the healthcare industry, we could face increased costs, penalties and a loss of business," " Revenues generated by sales of our products depend on the availability of reimbursement from third-party payers, and a reduction in payment rate or reimbursement or an increase in our financial obligation to governmental payers could result in decreased sales of our products and decreased revenues" and " Product liability claims may adversely affect our business."

Laws and regulations have been enacted by the federal government and various states to regulate the sales and marketing practices of pharmaceutical manufacturers. The laws and regulations generally limit financial interactions between manufacturers and healthcare providers or require disclosure to the government and public of such interactions. The laws include federal "sunshine" provisions enacted in 2010 as part of the comprehensive federal healthcare reform legislation; Centers for Medicare and Medicaid Services ("CMS") issued a final rule with respect to such provisions in February 2013, with manufacturer reporting to commence in March 2014. The sunshine provisions apply to pharmaceutical manufacturers with products reimbursed under certain government programs and require those manufacturers to disclose annually to the federal government (for re-disclosure to the public) certain payments made to, or at the request of or on behalf of, physicians or to teaching hospitals. Certain state laws also require disclosure of pharmaceutical pricing information and marketing expenditures. Given the ambiguity found in many of these laws and their implementation, our reporting actions could be subject to the penalty provisions of the pertinent federal and state laws and regulations.

Pricing and Reimbursement

United States

In the U.S. and internationally, sales of our products, including those sold by our collaborators, and our ability to generate revenues on such sales are dependent, in significant part, on the availability and level of reimbursement from third-party payers such as state and federal governments, including Medicare and Medicaid, managed care providers and private insurance plans. Third-party payers are increasingly challenging the prices charged for medical products and services and examining the medical necessity and cost-effectiveness of medical products and services, in addition to their safety and efficacy.

Medicaid is a joint federal and state program that is administered by the states for low-income and disabled beneficiaries. Under the Medicaid rebate program, we are required to pay a rebate for each unit of product reimbursed by the state Medicaid programs. The amount of the rebate for each product is set by law as the greater of 23.1% of average manufacturer price ("AMP") or the difference between AMP and the best price available from us to any commercial or non-federal governmental customer. The rebate amount must be adjusted upward where the AMP for a product's first full quarter of sales,

Table of Contents

when adjusted for increases in the Consumer Price Index Urban, is less than the AMP for the current quarter, with this difference being the amount by which the rebate is adjusted upwards. The rebate amount is required to be recomputed each quarter based on our report of current AMP and best price for each of our products to the CMS. The terms of our participation in the rebate program imposes a requirement for us to report revisions to AMP or best price within a period not to exceed 12 quarters from the quarter in which the data was originally due. Any such revisions could have the impact of increasing or decreasing our rebate liability for prior quarters, depending on the direction of the revision. In addition, if we were found to have knowingly submitted false information to the government, the statute provides for civil monetary penalties per item of false information in addition to other penalties available to the government.

Medicare is a federal program that is administered by the federal government that covers individuals age 65 and over as well as those with certain disabilities. Medicare Part B pays physicians who administer our products under a payment methodology using average sales price ("ASP") information. Manufacturers, including us, are required to provide ASP information to the CMS on a quarterly basis. This information is used to compute Medicare payment rates, with rates for Medicare Part B drugs outside the hospital outpatient setting and in the hospital outpatient setting consisting of ASP plus a specified percentage. These rates are adjusted periodically. If a manufacturer is found to have made a misrepresentation in the reporting of ASP, the statute provides for civil monetary penalties for each misrepresentation for each day in which the misrepresentation was applied.

Medicare Part D provides coverage to enrolled Medicare patients for self-administered drugs (i.e. drugs that do not need to be injected or otherwise administered by a physician). Medicare Part D is administered by private prescription drug plans approved by the U.S. government and each drug plan establishes its own Medicare Part D formulary for prescription drug coverage and pricing, which the drug plan may modify from time-to-time. The prescription drug plans negotiate pricing with manufacturers and may condition formulary placement on the availability of manufacturer discounts. Manufacturers, including us, are required to provide a 50% discount on brand name prescription drugs utilized by Medicare Part D beneficiaries when those beneficiaries reach the coverage gap in their drug benefits.

The availability of federal funds to pay for our products under the Medicaid Drug Rebate Program and Medicare Part B requires that we extend discounts to certain purchasers under the Public Health Services ("PHS") pharmaceutical pricing program. Purchasers eligible for discounts include a variety of community health clinics, other entities that receive health services grants from PHS, and hospitals that serve a disproportionate share of financially needy patients.

We also make our products available for purchase by authorized users of the Federal Supply Schedule ("FSS") of the General Services Administration pursuant to our FSS contract with the Department of Veterans Affairs. Under the Veterans Health Care Act of 1992 (the "VHC Act"), we are required to offer deeply discounted FSS contract pricing to four federal agencies: the Department of Veterans Affairs; the Department of Defense; the Coast Guard; and the PHS (including the Indian Health Service), for federal funding to be made available for reimbursement of any of our products by such federal agencies and certain federal grantees. Coverage under Medicaid, the Medicare Part B program and the PHS pharmaceutical pricing program is also conditioned upon FSS participation. FSS pricing is negotiated periodically with the Department of Veterans Affairs. FSS pricing is intended not to exceed the price that we charge our most-favored non-federal customer for a product. In addition, prices for drugs purchased by the Veterans Administration, Department of Defense (including drugs purchased by military personnel and dependents through the TriCare retail pharmacy program), Coast Guard and PHS are subject to a cap on pricing equal to 76% of the non-federal average manufacturer price ("non-FAMP"). An additional discount applies if non-FAMP increases more than inflation (measured by the Consumer Price Index Urban). In addition, if we are found to have knowingly

Table of Contents

submitted false information to the government, the VHC Act provides for civil monetary penalties per false item of information in addition to other penalties available to the government.

The U.S. government and governments outside the U.S. regularly consider reforming healthcare coverage and lessening healthcare costs. Such reforms may include changes to the coverage and reimbursement of our products, which may have a significant impact on our business. In addition, emphasis on managed care in the U.S. has increased and we expect will continue to increase the pressure on drug pricing. Private insurers regularly seek to manage drug cost and utilization by implementing coverage and reimbursement limitations through means including, but not limited to, formularies, increased out-of-pocket obligations and various prior authorization requirements. Even if favorable coverage and reimbursement status is attained for one or more products for which we receive regulatory approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

Outside the U.S.

Within the EU, products are paid for by a variety of payers, with governments being the primary source of payment. Governments may determine or influence reimbursement of products. Governments may also set prices or otherwise regulate pricing. Negotiating prices with governmental authorities can delay commercialization of products. Governments may use a variety of cost-containment measures to control the cost of products, including price cuts, mandatory rebates, value-based pricing and reference pricing (i.e. referencing prices in other countries and using those reference prices to set a price). Recent budgetary pressures in many EU countries are causing governments to consider or implement various cost-containment measures, such as price freezes, increased price cuts and rebates, and expanded generic substitution and patient cost-sharing. If budget pressures continue, governments may implement additional cost-containment measures.

Other Regulations

Foreign Corrupt Practices Act: We are subject to the U.S. Foreign Corrupt Practices Act ("FCPA"), which prohibits U.S. corporations and their representatives from paying, offering to pay, promising, authorizing, or making payments of anything of value to any foreign government official, government staff member, political party, or political candidate in an attempt to obtain or retain business or to otherwise influence a person working in an official capacity. In many countries, the healthcare professionals with whom we regularly interact may meet the FCPA's definition of a foreign government official. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect their transactions and to devise and maintain an adequate system of internal accounting controls.

UK Bribery Act: We are also subject to the UK Bribery Act, which proscribes giving and receiving bribes in the public and private sectors, bribing a foreign public official and failing to have adequate procedures to prevent employees and other agents from giving bribes. Foreign corporations that conduct business in the UK generally will be subject to the Bribery Act. Penalties under the Bribery Act include potentially unlimited fines for corporations and criminal sanctions for corporate officers under certain circumstances.

Environmental, Health and Safety Laws: Our operations are subject to complex and increasingly stringent environmental, health and safety laws and regulations in the countries where we operate and, in particular, where we have manufacturing facilities, namely the U.S. and Ireland. Environmental and health and safety authorities in the relevant jurisdictions, including the Environmental Protection Agency and the Occupational Safety and Health Administration in the U.S. and the Environmental Protection Agency and the Health and Safety Authority in Ireland, administer laws which regulate, among other matters, the emission of pollutants into the air (including the workplace), the discharge of

Table of Contents

pollutants into bodies of water, the storage, use, handling and disposal of hazardous substances, the exposure of persons to hazardous substances, and the general health, safety and welfare of employees and members of the public. In certain cases, such laws and regulations may impose strict liability for pollution of the environment and contamination resulting from spills, disposals or other releases of hazardous substances or waste and/or any migration of such hazardous substances or waste. Costs, damages and/or fines may result from the presence, investigation and remediation of such contamination at properties currently or formerly owned, leased or operated by us and/or off-site locations, including where we have arranged for the disposal of hazardous substances or waste. In addition, we may be subject to third-party claims, including for natural resource damages, personal injury and property damage, in connection with such contamination.

Other Laws: We are subject to a variety of financial disclosure and securities trading regulations as a public company in the U.S., including laws relating to the oversight activities of the Securities and Exchange Commission ("SEC") and the regulations of the NASDAQ, on which our shares are traded. We are also subject to various laws, regulations and recommendations relating to safe working conditions, laboratory practices, the experimental use of animals, and the purchase, storage, movement, import and export and use and disposal of hazardous or potentially hazardous substances used in connection with our research work.

Employees

As of February 13, 2014, we had approximately 1,250 full-time employees. A significant number of our management and professional employees have prior experience with pharmaceutical, biotechnology or medical product companies. We believe that we have been successful in attracting skilled and experienced scientific and senior management personnel; however, competition for such personnel is intense. None of our employees is covered by a collective bargaining agreement. We consider our relations with our employees to be good.

Available Information

We were incorporated in Ireland on May 4, 2011 as a private limited company, under the name Antler Science Two Limited (registration number 498284). On July 25, 2011, Antler Science Two Limited was re-registered as a public limited company under the name Antler Science Two plc. On September 14, 2011, Antler Science Two plc was re-named Alkermes plc. On September 16, 2011, the business of Alkermes, Inc. and the drug technologies business of Elan were combined under Alkermes plc.

Our principal executive offices are located at Connaught House, 1 Burlington Road, Dublin 4, Ireland. Our telephone number is +353-1-772-8000 and our website address is www.alkermes.com. Information that is contained in, and can be accessed through, our website is not incorporated into, and does not form a part of, this Transition Report. We make available free of charge through the Investors section of our website our Transition Report on Form 10-K, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. We also make available on our website (i) the charters for the committees of our Board of Directors, including the Audit and Risk Committee, Compensation Committee, and Nominating and Corporate Governance Committee, and (ii) our Code of Business Conduct and Ethics governing our directors, officers and employees. We intend to disclose on our website any amendments to, or waivers from, our Code of Business Conduct and Ethics that are required to be disclosed pursuant to the rules of the SEC. You may read and copy materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Table of Contents

Item 1A. ***Risk Factors***

Investing in our company involves a high degree of risk. In deciding whether to invest in our ordinary shares, you should consider carefully the risks described below in addition to the financial and other information contained in this Transition Report, including the matters addressed under the caption "Forward-Looking Statements." If any events described by the following risks actually occur, they could materially adversely affect our business, financial condition, cash flows or operating results. This could cause the market price of our ordinary shares to decline, and could cause you to lose all or a part of your investment.

Our revenues largely depend on the actions of our third-party collaborators and, if they are not effective, our revenues could be materially adversely affected.

The revenues from the sale of our products may fall below our expectations, the expectations of our partners or those of investors, which could have a material adverse effect on our results of operations and the price of our ordinary shares. Such revenues will depend on numerous factors, many of which are outside our control.

RISPERDAL CONSTA, AMPYRA/FAMPYRA, BYDUREON AND INVEGA SUSTENNA/XEPLION

While we manufacture RISPERDAL CONSTA and AMPYRA/FAMPYRA, we are not involved in the commercialization efforts for these products or for BYDUREON or INVEGA SUSTENNA. RISPERDAL CONSTA is commercialized by Janssen. AMPYRA/FAMPYRA is commercialized by Acorda in the U.S. and by Biogen Idec outside the U.S. BYDUREON and INVEGA SUSTENNA are developed, manufactured and commercialized by AstraZeneca and Janssen, respectively. Our revenues, from manufacturing fees and/or royalties, depend upon sales of these products by or on behalf of our partners. Accordingly, our revenues will depend in large part on the efforts of our partners, which are outside of our control. For these and other reasons outside of our control, our revenues from the sale of RISPERDAL CONSTA, AMPYRA/FAMPYRA, BYDUREON and INVEGA SUSTENNA/XEPLION may not meet our or our partners' expectations, or those of investors.

VIVITROL

In December 2007, we exclusively licensed the right to commercialize VIVITROL for the treatment of alcohol dependence and opioid dependence in Russia and other countries in the CIS to Cilag. Cilag has primary responsibility for securing all necessary regulatory approvals for VIVITROL, and Janssen-Cilag, an affiliate of Cilag, has full responsibility for the commercialization of the product in these countries. We receive manufacturing revenues, and royalty revenues based upon product sales. Our revenues from the sale of VIVITROL in Russia and countries of the CIS may not be significant and will depend on numerous factors, many of which are outside of our control.

REMAINING COMMERCIAL PORTFOLIO

In addition, we are not responsible for, or involved with, the sales and marketing efforts for our other marketed products and, in many instances, we are also not involved in their manufacture.

We receive substantial revenues from certain of our products and collaborative partners.

We depend substantially upon continued sales of RISPERDAL CONSTA and INVEGA SUSTENNA by our partner, Janssen, and upon continued sales of AMPYRA/FAMPYRA by our partner Acorda, and its sublicensee, Biogen. Any significant negative developments relating to these products, or to our collaborative relationships, could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Table of Contents

We rely heavily on collaborative partners in the commercialization and continued development of our products.

Our arrangements with collaborative partners are critical to bringing our products to the market and successfully commercializing them. We rely on these parties in various respects, including: providing funding for development programs and conducting preclinical testing and clinical trials with respect to new formulations or other development activities for our marketed products; managing the regulatory approval process; and commercializing our products.

Our collaborative partners may choose to use their own or other technology to develop an alternative product and withdraw their support of our product, or to compete with our jointly developed product. Alternatively, proprietary products we may develop in the future could compete directly with products we developed with our collaborative partners. Disputes may also arise between us and a collaborative partner and may involve the ownership of technology developed during a collaboration or other issues arising out of collaborative agreements. Such a dispute could delay the related program or result in expensive arbitration or litigation, which may not be resolved in our favor.

Most of our collaborative partners can terminate their agreements with us without cause, and we cannot guarantee that any of these relationships will continue. Failure to make or maintain these arrangements or a delay in, or failure of, a collaborative partner's performance, or factors that may affect a partner's sales, may materially adversely affect our business, financial condition, cash flows and results of operations.

Our revenues may be lower than expected as a result of failure by the marketplace to accept our products or for other factors.

We cannot be assured that our products will be, or will continue to be, accepted in the U.S. or in any markets outside the U.S. or that sales of our products will not decline or cease in the future. A number of factors may cause revenues from sales of our products to grow at a slower than expected rate, or even to decrease or cease, including:

- perception of physicians and other members of the healthcare community as to our products' safety and efficacy relative to that of competing products;
- the cost-effectiveness of our products;
- patient and physician satisfaction with our products;
- the successful manufacture of our products on a timely basis;
- the cost and availability of raw materials necessary for the manufacture of our products;
- the size of the markets for our products;
- reimbursement policies of government and third-party payers;
- unfavorable publicity concerning our products, similar classes of drugs or the industry generally;
- the introduction, availability and acceptance of competing treatments, including treatments marketed and sold by our collaborators;
- the reaction of companies that market competitive products;

adverse event information relating to our products or to similar classes of drugs;

changes to the product labels of our products, or of products within the same drug classes, to add significant warnings or restrictions on use;

our continued ability to access third parties to vial, package and distribute our products on acceptable terms;

Table of Contents

- the unfavorable outcome of patent litigation, including so-called "Paragraph IV" litigation, related to any of our products;
- regulatory developments related to the manufacture or continued use of our products, including the issuance of a REMS by the FDA;
- the extent and effectiveness of the sales and marketing and distribution support our products receive, including from our collaborators;
- our collaborators' decisions as to the timing of product launches, pricing and discounting;
- disputes with our collaborators relating to the marketing and sale of partnered products;
- exchange rate valuations and fluctuations; and
- any other material adverse developments with respect to the commercialization of our products.

Our revenues will also fluctuate from quarter to quarter based on a number of other factors, including the acceptance of our products in the marketplace, our partners' orders, the timing of shipments, our ability to manufacture successfully, our yield and our production schedule. The unit costs to manufacture our products may be higher than anticipated if certain volume levels are not achieved. In addition, we may not be able to supply the products in a timely manner or at all.

We are subject to risks related to the manufacture of our products.

The manufacture of pharmaceutical products is a highly complex process in which a variety of difficulties may arise from time to time including, but not limited to, product loss due to material failure, equipment failure, vendor error, operator error, labor shortages, inability to obtain material, equipment or transportation, physical or electronic security breaches, natural disasters and many other factors. Problems with manufacturing processes could result in product defects or manufacturing failures, which could require us to delay shipment of products or recall products previously shipped, or could impair our ability to expand into new markets or supply products in existing markets. We may not be able to resolve any such problems in a timely fashion, if at all.

We rely solely on our manufacturing facility in Wilmington, Ohio for the manufacture of RISPERDAL CONSTA, VIVITROL, polymer for BYDUREON and some of our product candidates. We rely on our manufacturing facility in Athlone, Ireland for the manufacture of AMPYRA/FAMPYRA and some of our other products using our NanoCrystal and OCR technologies. We rely on our manufacturing facility in Gainesville, Georgia for the manufacture of RITALIN LA/FOCALIN XR and some of our other products using our OCR technologies.

Due to regulatory and technical requirements, we have limited ability to shift production among our facilities or to outsource any part of our manufacturing to third parties. If we cannot produce sufficient commercial quantities of our products to meet demand, there are currently very few, if any, third-party manufacturers capable of manufacturing our products as contract suppliers. We cannot be certain that we could reach agreement on reasonable terms, if at all, with those manufacturers. Even if we were to reach agreement, the transition of the manufacturing process to a third party to enable commercial supplies could take a significant amount of time and money, and may not be successful.

Our manufacturing facilities also require specialized personnel and are expensive to operate and maintain. Any delay in the regulatory approval or market launch of product candidates, or suspension of the sale of our products, to be manufactured in our facilities, may cause operating losses as we continue to operate these facilities and retain specialized personnel. In addition, any interruption in manufacturing could result in delays in meeting contractual obligations and could damage our relationships with our collaborative partners, including the loss of manufacturing and supply rights.

Table of Contents

We rely on third parties to provide services in connection with the manufacture and distribution of our products.

We rely on third parties for the timely supply of specified raw materials, equipment, contract manufacturing, formulation or packaging services, product distribution services, customer service activities and product returns processing. Although we actively manage these third-party relationships to ensure continuity and quality, some events beyond our control could result in the complete or partial failure of these goods and services. Any such failure could materially adversely affect our business, financial condition, cash flows and results of operations.

The manufacture of products and product components, including the procurement of bulk drug product, packaging, storage and distribution of our products, requires successful coordination among us and multiple third-party providers. For example, we are responsible for the entire supply chain for VIVITROL, up to the sale of final product and including the sourcing of key raw materials and active pharmaceutical agents from third parties. We have limited experience in managing a complex product distribution network. Issues with our third-party providers, including our inability to coordinate these efforts, lack of capacity available at such third-party providers or any other problems with the operations of these third-party contractors, could requ 56,172

Managed-only
12,466 10,497

Total facility contribution
80,425 66,669

Other revenue (expense):

Rental and other revenue
4,584 4,793
Other operating expense
(5,029) (5,325)
General and administrative
(14,377) (12,538)
Depreciation and amortization
(15,703) (14,037)

Operating income
$49,900 $39,562

The following table summarizes capital expenditures for the reportable segments for the three months ended March 31, 2006 and 2005 (in thousands):

	For the Three Months Ended March 31,	
	2006	2005
Capital expenditures:		
Owned and managed	**$ 21,915**	$ 16,458
Managed-only	**1,814**	957
Corporate and other	**5,085**	3,388
Total capital expenditures	**$ 28,814**	$ 20,803

The assets for the reportable segments are as follows (in thousands):

	March 31, 2006

		December 31, 2005
Assets:		
Owned and managed	**$ 1,648,689**	$ 1,672,941
Managed-only	**95,744**	92,101
Corporate and other	**365,617**	321,271
Total assets	**$ 2,110,050**	$ 2,086,313

13. SUPPLEMENTAL CASH FLOW DISCLOSURE

During the three months ended March 31, 2005, $30.0 million of convertible subordinated notes were converted into 3.4 million shares of common stock. As a result, long term debt was reduced by, and common stock and additional paid-in capital were increased by, $30.0 million.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

This quarterly report on Form 10-Q contains statements as to our beliefs and expectations of the outcome of future events that are forward-looking statements as defined within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of current or historical fact contained herein, including statements regarding our future financial position, business strategy, budgets, projected costs and plans, and objectives of management for future operations, are forward-looking statements. The words anticipate, believe, continue, estimate expect, intend, may, plan, projects, will, and similar expressions, as they relate to us, are intended to identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. These include, but are not limited to, the risks and uncertainties associated with:

- fluctuations in operating results because of changes in occupancy levels, competition, increases in cost of operations, fluctuations in interest rates, and risks of operations;
- changes in the privatization of the corrections and detention industry and the public acceptance of our services;
- our ability to obtain and maintain correctional facility management contracts, including as the result of sufficient governmental appropriations, inmate disturbances, and the timing of the opening of new facilities and the commencement of new management contracts to utilize current available beds and new capacity as development and expansion projects are completed;
- increases in costs to develop or expand correctional facilities that exceed original estimates, or the inability to complete such projects on schedule as a result of various factors, many of which are beyond our control, such as weather, labor conditions, and material shortages, resulting in increased construction costs;
- changes in governmental policy and in legislation and regulation of the corrections and detention industry that adversely affect our business;
- the availability of debt and equity financing on terms that are favorable to us; and
- general economic and market conditions.

Any or all of our forward-looking statements in this quarterly report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and assumptions, including the risks, uncertainties and assumptions described in Risk Factors disclosed in detail in our annual report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission (the SEC) on March 7, 2006 (File No. 001-16109) (the 2005 Form 10-K) and in other reports we file with the SEC from time to time. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly revise these forward-looking statements to reflect events

Table of Contents

or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this report and in the 2005 Form 10-K.

OVERVIEW

The Company

As of March 31, 2006, we owned 42 correctional, detention and juvenile facilities, three of which we leased to other operators. As of March 31, 2006, we operated 63 facilities, including 39 facilities that we owned, with a total design capacity of approximately 71,000 beds in 19 states and the District of Columbia. We also are constructing two additional correctional facilities in Eloy, Arizona, one that is expected to be completed during the third quarter of 2006 and the other that is expected to be completed during the second half of 2007.

We specialize in owning, operating, and managing prisons and other correctional facilities and providing inmate residential and prisoner transportation services for governmental agencies. In addition to providing the fundamental residential services relating to inmates, our facilities offer a variety of rehabilitation and education programs, including basic education, religious services, life skills and employment training and substance abuse treatment. These services are intended to reduce recidivism and to prepare inmates for their successful re-entry into society upon their release. We also provide health care (including medical, dental and psychiatric services), food services and work and recreational programs.

Our website address is www.correctionscorp.com. We make our Form 10-K, Form 10-Q, Form 8-K, and Section 16 reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), available on our website, free of charge, as soon as reasonably practicable after these reports are filed with or furnished to the SEC.

CRITICAL ACCOUNTING POLICIES

The condensed consolidated financial statements in this report are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments, and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. A summary of our significant accounting policies is described in our 2005 Form 10-K. The significant accounting policies and estimates which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Asset impairments. As of March 31, 2006, we had $1.7 billion in long-lived assets. We evaluate the recoverability of the carrying values of our long-lived assets, other than goodwill, when events suggest that an impairment may have occurred. Such events primarily include, but are not limited to, the termination of a management contract or a significant decrease in inmate populations within a correctional facility we own or manage. In these circumstances, we utilize estimates of undiscounted cash flows to determine if an impairment

Table of Contents

exists. If an impairment exists, it is measured as the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

Goodwill impairments. As of March 31, 2006, we had $15.2 million of goodwill. We evaluate the carrying value of goodwill during the fourth quarter of each year, in connection with our annual budgeting process, and whenever circumstances indicate the carrying value of goodwill may not be recoverable. Such circumstances primarily include, but are not limited to, the termination of a management contract or a significant decrease in inmate populations within a reporting unit. We test for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using a collaboration of various common valuation techniques, including market multiples, discounted cash flows, and replacement cost methods. Each of these techniques requires considerable judgment and estimations which could change in the future.

Income taxes. Income taxes are accounted for under the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 generally requires us to record deferred income taxes for the tax effect of differences between book and tax bases of our assets and liabilities.

Deferred income taxes reflect the available net operating losses and the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including our past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of our deferred tax assets, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset.

We currently expect to utilize our remaining federal net operating losses in 2006. We also have approximately $11.5 million in net operating losses applicable to various states that we expect to carry forward in future years to offset taxable income in such states. These net operating losses have begun to expire. Accordingly, we have a valuation allowance of $3.3 million for the estimated amount of the net operating losses that will expire unused, in addition to a $6.7 million valuation allowance related to state tax credits that are also expected to expire unused. Although our estimate of future taxable income is based on current assumptions that we believe to be reasonable, our assumptions may prove inaccurate and could change in the future, which could result in the expiration of additional net operating losses or credits. We would be required to establish a valuation allowance at such time that we no longer expected to utilize these net operating losses or credits, which could result in a material impact on our results of operations in the future.

Self-funded insurance reserves. As of March 31, 2006, we had $34.2 million in accrued liabilities for employee health, workers compensation, and automobile insurance claims. We are significantly self-insured for employee health, workers compensation, and automobile liability insurance claims. As such, our insurance expense is largely dependent on claims experience and our ability to control our claims. We have consistently accrued the estimated liability for employee health insurance claims based on our history of claims experience and the time lag between the incident date and the date the cost is paid by us. We have accrued the estimated liability for workers compensation and automobile insurance

Table of Contents

claims based on a third-party actuarial valuation of the outstanding liabilities. These estimates could change in the future. It is possible that future cash flows and results of operations could be materially affected by changes in our assumptions, new developments, or by the effectiveness of our strategies.

Legal reserves. As of March 31, 2006, we had $13.1 million in accrued liabilities related to certain legal proceedings in which we are involved. We have accrued our estimate of the probable costs for the resolution of these claims based on a range of potential outcomes. In addition, we are subject to current and potential future legal proceedings for which little or no accrual has been reflected because our current assessment of the potential exposure is nominal. These estimates have been developed in consultation with our General Counsel s office and, as appropriate, outside counsel handling these matters, and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible that future cash flows and results of operations could be materially affected by changes in our assumptions, new developments, or by the effectiveness of our strategies.

RESULTS OF OPERATIONS

Our results of operations are impacted by the number of facilities we owned and managed, the number of facilities we managed but did not own, the number of facilities we leased to other operators, and the facilities we owned that were not yet in operation. The following table sets forth the changes in the number of facilities operated for the periods presented.

	Effective Date	Owned and Managed	Managed Only	Leased	Incomplete	Total
Facilities as of December 31, 2004		38	25	3	1	67
Expiration of the management contract for the David L. Moss Criminal Justice Center	July 1, 2005		(1)			(1)
Completion of construction at the Stewart County Correctional Facility	October 10, 2005	1			(1)	
Facilities as of December 31, 2005		39	24	3		66
Facilities as of March 31, 2006		**39**	**24**	**3**		**66**

We also have two additional facilities located in Eloy, Arizona that are under construction. These facilities are not counted in the foregoing table because they currently have no impact on our results of operations.

Three Months Ended March 31, 2006 Compared to the Three Months Ended March 31, 2005

Net income available to common stockholders was $21.3 million, or $0.52 per diluted share, for the three months ended March 31, 2006, compared with net loss available to common stockholders of $8.9 million, or $0.24 per diluted share, for the three months ended March 31, 2005.

Table of Contents

Net income available to common stockholders during the first quarter of 2006 was favorably impacted by the increase in operating income of $10.3 million, from $39.6 million during the first quarter of 2005 to $49.9 million during the first quarter of 2006. Contributing to the increase in operating income during 2006 compared with the previous year was an increase in occupancy levels and the commencement of new management contracts, partially offset by an increase in general and administrative expenses and depreciation and amortization.

Net loss available to common stockholders during the first quarter of 2005 was negatively impacted by a $35.0 million charge associated with debt refinancing transactions completed during the first quarter of 2005, as further described hereafter, which consisted of a tender premium paid to the holders of the 9.875% senior notes who tendered their notes to us at a price of 111% of par pursuant to a tender offer we made for their notes in March 2005, estimated fees and expenses associated with the tender offer, and the write-off of existing deferred loan costs associated with the purchase of the 9.875% senior notes and a lump sum pay-down of our old senior bank credit facility.

Facility Operations

A key performance indicator we use to measure the revenue and expenses associated with the operation of the facilities we own or manage is expressed in terms of a compensated man-day, which represents the revenue we generate and expenses we incur for one inmate for one calendar day. Revenue and expenses per compensated man-day are computed by dividing facility revenue and expenses by the total number of compensated man-days during the period. A compensated man-day represents a calendar day for which we are paid for the occupancy of an inmate. We believe the measurement is useful because we are compensated for operating and managing facilities at an inmate per-diem rate based upon actual or minimum guaranteed occupancy levels. We also measure our ability to contain costs on a per-compensated man-day basis, which is largely dependent upon the number of inmates we accommodate. Further, per man-day measurements are also used to estimate our potential profitability based on certain occupancy levels relative to design capacity. Revenue and expenses per compensated man-day for all of the facilities we owned or managed, exclusive of those discontinued (see further discussion below regarding discontinued operations), were as follows for the three months ended March 31, 2006 and 2005:

	For the Three Months Ended March 31,	
	2006	2005
Revenue per compensated man-day	**$ 52.03**	$ 49.90
Operating expenses per compensated man-day:		
Fixed expense	**28.86**	28.98
Variable expense	**9.73**	8.87
Total	**38.59**	37.85
Operating margin per compensated man-day	**$ 13.44**	$ 12.05
Operating margin	**25.8%**	24.1%
Average compensated occupancy	**93.7%**	89.6%

Table of Contents

Average compensated occupancy for the quarter increased to 93.7% from 89.6% in the first quarter of 2005 primarily as a result of the commencement of the new management contract in June 2005 with the Federal Bureau of Prisons, or the BOP, at our Northeast Ohio Correctional Center, an increase in the population at our Prairie Correctional Facility largely as a result of additional inmates from the states of Minnesota, Washington and Idaho, and an increase in the population at the Lake City Correctional Facility as a result of a 543-bed expansion that was completed during March 2005.

Business from our federal customers, including primarily the BOP, the U.S. Marshals Service, or the USMS, and the U.S. Immigration and Customs Enforcement, or the ICE, continues to be a significant component of our business. Our federal customers generated approximately 40% of our total management revenue for each of the three months ended March 31, 2006 and 2005. We currently expect business from our federal customers to continue to result in increasing revenue, based on our belief that the federal government s enhanced focus on illegal immigration and initiatives to secure the nation s borders will result in increased demand for federal detention services.

Operating expenses totaled $236.0 million and $214.8 million for the three months ended March 31, 2006 and 2005, respectively. Operating expenses consist of those expenses incurred in the operation and management of adult and juvenile correctional and detention facilities and for our inmate transportation subsidiary.

The decrease in fixed expenses per compensated man-day from $28.98 to $28.86 was primarily the result of a decrease in salaries and benefits of $0.38 per compensated man-day, partially offset by an increase in utilities of $0.18 per compensated man-day resulting from increasing energy costs.

Salaries and benefits represent the most significant component of fixed operating expenses and represent approximately 63% of total operating expenses. During the three months ended March 31, 2006, facility salaries and benefits expense increased $9.0 million. However, salaries and benefits expense decreased by $0.38 per compensated man-day, compared with the same period in the prior year, as we were able to leverage our salaries and benefits over a larger inmate population. Additionally, the decrease in salaries and benefits per compensated man-day was caused by increased staffing levels at certain facilities in the prior year quarter in anticipation of increased inmate populations that arrived subsequent to March 31, 2005, including at the Northeast Ohio Correctional Center due to the commencement of the new BOP contract June 1, 2005, and at several other facilities where expansions had recently been completed.

Facility variable operating expenses increased $9.1 million, or $0.86 per compensated man-day, from the prior year quarter. The increase in variable expenses per compensated man-day includes an increase in legal expenses resulting from the successful negotiation of a number of outstanding legal matters in the prior year quarter, as well as a modest increase in inmate medical expenses.

With regard to legal expenses, during the first quarter of 2005, we settled a number of outstanding legal matters for amounts less than reserves previously established for such matters. As a result, operating expenses associated with legal settlements increased by $2.1 million during the first quarter of 2006 compared with the same quarter in the prior year.

Table of Contents

Expenses associated with legal proceedings may fluctuate from quarter to quarter based on changes in our assumptions, new developments, or by the effectiveness of our litigation and settlement strategies.

Inmate medical expenses increased by $1.6 million during the first quarter of 2006 compared with the first quarter of 2005. The increase in inmate medical was primarily the result of an increase in the amount of offsite medical care and pharmaceutical services being provided to inmates compounded by an inflationary environment for health care costs, partially offset by a decline in the costs associated with the use of outsourced nursing as a result of an improvement in the retention of nursing staff and tighter expense controls over the use of outsourced nursing.

The operation of the facilities we own carries a higher degree of risk associated with a management contract than the operation of the facilities we manage but do not own because we incur significant capital expenditures to construct or acquire facilities we own. Additionally, correctional and detention facilities have a limited or no alternative use. Therefore, if a management contract is terminated on a facility we own, we continue to incur certain operating expenses, such as real estate taxes, utilities, and insurance, that we would not incur if a management contract were terminated for a managed-only facility. As a result, revenue per compensated man-day is typically higher for facilities we own and manage than for managed-only facilities. Because we incur higher expenses, such as repairs and maintenance, real estate taxes, and insurance, on the facilities we own and manage, our cost structure for facilities we own and manage is also higher than the cost structure for the managed-only facilities. The following tables display the revenue and expenses per compensated man-day for the facilities we own and manage and for the facilities we manage but do not own:

	For the Three Months Ended March 31,	
	2006	2005
Owned and Managed Facilities:		
Revenue per compensated man-day	**$ 60.15**	$ 58.32
Operating expenses per compensated man-day:		
Fixed expense	**31.52**	32.38
Variable expense	**10.51**	9.33
Total	**42.03**	41.71
Operating margin per compensated man-day	**$ 18.12**	$ 16.61
Operating margin	**30.1%**	28.5%
Average compensated occupancy	**92.2%**	85.5%

Table of Contents

	For the Three Months Ended March 31,	
	2006	2005
Managed Only Facilities:		
Revenue per compensated man-day	**$ 38.40**	$ 36.66
Operating expenses per compensated man-day:		
Fixed expense	**24.40**	23.63
Variable expense	**8.42**	8.16
Total	**32.82**	31.79
Operating margin per compensated man-day	**$ 5.58**	$ 4.87
Operating margin	**14.5%**	13.3%
Average compensated occupancy	**96.3%**	96.9%

The following discussions under Owned and Managed Facilities and Managed-Only Facilities address significant events that impacted our results of operations for the respective periods, and events that are expected to affect our results of operations in the future.

Owned and Managed Facilities

On December 23, 2004, we received a contract award from the BOP to house approximately 1,195 federal inmates at our 2,016-bed Northeast Ohio Correctional Center. The contract, awarded as part of the Criminal Alien Requirement Phase 4 Solicitation (CAR 4), provides for an initial four-year term with three two-year renewal options. The terms of the contract provide for a 50% guaranteed rate of occupancy for 90 days following a Notice to Proceed, and a 90% guaranteed rate of occupancy thereafter. The contract commenced June 1, 2005. As of March 31, 2006, we housed 1,309 BOP inmates at this facility. Total revenue at this facility increased by $10.0 million during the three months ended March 31, 2006 compared with the same period in the prior year. This increase also included an increase in management revenue of $1.4 million as a result of an increase in USMS inmates held at this facility during the first quarter of 2006 compared with the first quarter of 2005.

During October 2005, we entered into a new agreement with the state of Idaho to house a portion of that state s male, medium security inmates at our Prairie Correctional Facility located in Appleton, Minnesota. As of March 31, 2006, we managed an estimated 300 inmates under the new agreement with the Idaho Department of Corrections at this facility. During the first quarter of 2006, the Prairie facility housed a daily average of approximately 1,550 male inmates as a result of new contract awards in mid-2004 and subsequent increasing demand for beds from the states of Minnesota, Washington, and North Dakota, and under the new contract with Idaho, compared with a daily average of approximately 400 inmates during the same period in the prior year. Total revenue increased by $6.1 million at this facility during the three months ended March 31, 2006 compared with the same period in the prior year. We have recently been notified by the state of Idaho of their intention to withdraw their inmates from the Prairie facility. However, we expect to replace this inmate population with inmate populations from the other existing customers at this facility, although we can provide no such assurance. A delay in the replacement of the Idaho inmates would result in a reduction in revenue and profitability from current levels at this facility.

Table of Contents

Due to an increase in inmate populations from the state of Washington and the USMS at our 1,824-bed Florence Correctional Center and from the state of Arizona at our 2,160-bed Diamondback Correctional Facility, total management and other revenue increased at these facilities by $4.3 million during the three-month period ended March 31, 2006 from the comparable period in 2005. The increase in inmate populations at the Florence Correctional Center was largely the result of a 224-bed expansion completed during the fourth quarter of 2004.

During January 2006, we received notification from the BOP of its intent not to exercise its renewal option at our 1,500-bed Eloy Detention Center, located in Eloy, Arizona. At December 31, 2005, the Eloy facility housed approximately 500 inmates from the BOP and approximately 800 detainees from the ICE, pursuant to a subcontract between the BOP and the ICE. The BOP completed the transfer of its inmates from the Eloy facility to other BOP facilities by February 28, 2006. During February 2006, we reached an agreement with the City of Eloy to manage detainees from the ICE at this facility under an inter-governmental service agreement between the City of Eloy and the ICE, effectively providing the ICE the ability to fully utilize Eloy Detention Center for existing and potential future requirements. Under our agreement with the City of Eloy, we are eligible for periodic rate increases that were not provided in the previous contract with the BOP. Although the new contract does not provide for a guaranteed occupancy, we expect over time that the facility will be substantially occupied by the ICE detainees. As of March 31, 2006, this facility housed 978 ICE detainees and 165 inmates from the state of Washington. Total revenue decreased by $1.1 million during the three months ended March 31, 2006 compared with the same period in the prior year as a result of the loss of the BOP inmates.

During the first quarter of 2006, we re-opened our 1,440-bed North Fork Correctional Facility located in Sayre, Oklahoma, with a small population of inmates from the state of Vermont. Although we expect to accommodate additional inmate populations from the state of Vermont at the North Fork Correctional Facility due to that state s overcrowding, the facility was re-opened in anticipation of additional inmate population needs from various existing state and federal customers. Prior to its re-opening, this facility had been vacant since the third quarter of 2003, when all of the Wisconsin inmates housed at the facility were transferred out of the facility in order to satisfy a contractual provision mandated by the state of Wisconsin. Although we expect increasing inmate populations to contribute to increases in revenue at this facility in future quarters, we can provide no assurance that such populations will increase.

During October 2005, construction was completed on the Stewart County Correctional Facility located in Stewart County, Georgia and the facility became available for occupancy. Accordingly, we began depreciating the new facility in the fourth quarter of 2005 and ceased capitalizing interest on this project. During the first quarter of 2005, we capitalized $1.0 million in interest costs incurred on this facility. The book value of the facility was approximately $72.5 million upon completion of construction. Because we currently do not have a contract to house inmates at this facility, our overall occupancy percentage was negatively impacted as a result of the additional vacant beds available at the Stewart facility. Although we are optimistic that we will begin utilizing these available beds some time during

Table of Contents

2006, we can provide no assurance that we will be successful in utilizing the increased bed capacity.

During April 2006, we modified an agreement with Williamson County, Texas to house non-criminal detainees from the ICE under an Inter-Governmental Service Agreement between Williamson County and the ICE. The agreement will enable the ICE to accommodate non-criminal aliens being detained for deportation at our T. Don Hutto Residential Center in Taylor, Texas. We originally announced an agreement in December 2005 to house up to 600 male detainees for the ICE. However, for various reasons, the initial intake of detainees originally scheduled to occur in February 2006 was delayed. The modified agreement, which is effective beginning May 8, 2006, provides for an indefinite term and a fixed monthly payment. This new agreement is expected to contribute to an increase in revenue and profitability.

Managed-Only Facilities

Our operating margins increased at managed-only facilities during the first quarter of 2006 to 14.5% from 13.3% during the same period in 2005 primarily as a result of an increase in inmate populations at the newly expanded Lake City Correctional Facility located in Lake City, Florida. The Lake City Correctional Facility was expanded from 350 beds to 893 beds late in the first quarter of 2005. The average daily inmate population during the first quarter of 2005 was approximately 350 inmates compared with approximately 890 inmates during the same period in 2006.

During November 2005, the Florida Department of Management Services (DMS) solicited proposals for the management of the Lake City Correctional Facility beginning July 1, 2006. We have responded to the proposal and were notified in April 2006 of the Florida DMS s intent to award a contract to us. We expect to negotiate a longer-term contract, in exchange for a reduced per diem compared to current levels, which will result in a reduction in revenue and operating margin at this facility in the future.

In December 2005, the Florida DMS announced that we were awarded the project to design, construct, and operate expansions at the Bay Correctional Facility located in Panama City, Florida by 235 beds and the Gadsden Correctional Institution located in Quincy, Florida by 384 beds. Both of these expansions will be funded by the state of Florida and construction is expected to be complete during the third quarter of 2007.

During October 2005, Hernando County, Florida completed an expansion by 382 beds of the Hernando County Jail we manage in Brooksville, Florida, increasing the design capacity to 730 beds. As a result of the expansion, the average daily inmate population during the first quarter of 2006 was approximately 600 inmates compared with approximately 435 inmates during the same period in 2005, contributing to an increase in revenue of $0.8 million during the first quarter of 2006 from the first quarter of 2005. However, the facility experienced an increase in operating expenses during the first quarter of 2006 to manage the increasing population levels and as a result of an increase in expenses associated with outstanding litigation, mitigating the increase in revenue.

Table of Contents

During June 2005, Bay County, Florida solicited proposals for the management of the Bay County Jail beginning October 1, 2006. During April 2006, we were selected for the continued management and construction of both new and replacement beds at the facility, subject to the execution of final contracts. The construction of the new and replacement beds at the facility will be paid by Bay County at a fixed price, and is expected to be complete during the second quarter of 2008. We do not expect a material change in inmate populations resulting from these new agreements.

During May 2006, we announced that we were awarded a contract with the New Mexico Department of Corrections to operate and manage the State-owned Camino Nuevo Female Correctional Facility. The 192-bed facility located in Albuquerque, New Mexico will house overflow offenders from our New Mexico Women s Correctional Facility located in Grants, New Mexico. Eventually, the facility will also function as a pre-release center for female offenders that will be re-entering the community. The Camino facility is currently vacant, and we anticipate receiving an initial population of females in July 2006.

General and administrative expense

For the three months ended March 31, 2006 and 2005, general and administrative expenses totaled $14.4 million and $12.5 million, respectively. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. General and administrative expenses increased from the first three months of 2005 primarily due to an increase in salaries and benefits, including an increase of $0.5 million of restricted stock-based compensation awarded to employees who have historically been awarded stock options, and $0.1 million of stock option expense.

In 2005, the Company made changes to its historical business practices with respect to awarding stock-based employee compensation as a result of, among other reasons, the issuance of Statement of Financial Accounting Standards No. 123R, Share-Based Payment, or SFAS 123R. During the year ended December 31, 2005, we recognized $1.7 million of general and administrative expense for the amortization of restricted stock issued during 2005 to employees whose compensation was charged to general and administrative expense, including $0.2 million during the first quarter of 2005. For the year ending December 31, 2006, we currently expect to recognize approximately $3.2 million of general and administrative expense for the amortization of restricted stock granted to these employees in both 2005 and 2006, since the amortization period spans the three-year vesting period of each restricted share award. During the first quarter of 2006, we recognized $0.7 million for such expense. Further, on January 1, 2006, we began recognizing general and administrative expenses for the amortization of employee stock options granted after January 1, 2006 to employees whose compensation is charged to general and administrative expense, which heretofore have not been recognized in our income statement, except with respect to a compensation charge of $1.0 million reported in the fourth quarter of 2005 for the acceleration of vesting of outstanding options as further described hereafter. For the year ending December 31, 2006, we currently expect to recognize $1.3 million of general and administrative expense for the amortization of employee stock options granted after January 1, 2006. As of March 31, 2006, $2.8 million of total unrecognized compensation cost related

Table of Contents

to stock options is expected to be recognized over a weighted-average period of 3.4 years from the grant date. Effective December 30, 2005, our board of directors approved the acceleration of the vesting of outstanding options previously awarded to executive officers and employees under our Amended and Restated 1997 Employee Share Incentive Plan and our Amended and Restated 2000 Stock Incentive Plan. As a result of the acceleration, approximately 980,000 unvested options became exercisable, 45% of which would have vested in February 2006 under the original terms. The purpose of the accelerated vesting of stock options was to enable us to avoid recognizing compensation expense associated with these options in future periods as required by SFAS 123R, estimated at the date of acceleration to be $3.8 million in 2006, $2.0 million in 2007, and $0.5 million in 2008. In order to limit unintended benefits to the holders of these stock options, we imposed resale restrictions to prevent the sale of any shares acquired from the exercise of an accelerated option prior to the original vesting date of the option. The resale restrictions automatically expire upon the individual s termination of employment. All other terms and conditions applicable to such options, including the exercise prices, remained unchanged. As a result of the acceleration, we recognized a non-cash, pre-tax charge of $1.0 million in the fourth quarter of 2005 for the estimated value of the stock options that would have otherwise been forfeited.

Our general and administrative expenses were also higher as a result of an increase in corporate staffing levels. We continued to re-evaluate our organizational structure during 2005 and expanded our infrastructure to help ensure the quality and effectiveness of our facility operations. This intensified focus on quality assurance contributed to the increase in salaries and benefits expense, as well as a number of other general and administrative expense categories. We have also experienced increasing expenses to implement and support numerous technology initiatives.

Depreciation and amortization

For the three months ended March 31, 2006 and 2005, depreciation and amortization expense totaled $15.7 million and $14.0 million, respectively. The increase in depreciation and amortization from the comparable period in 2005 resulted from the combination of additional depreciation expense recorded on the various facility expansion and development projects completed and the additional depreciation on our investments in technology. The investments in technology are expected to provide long-term benefits enabling us to provide enhanced quality service to our customers while creating scalable operating efficiencies.

Interest expense, net

Interest expense is reported net of interest income and capitalized interest for the three months ended March 31, 2006 and 2005. Gross interest expense, net of capitalized interest, was $16.9 and $18.6 million, respectively, for the three months ended March 31, 2006 and 2005. Gross interest expense is based on outstanding borrowings under our senior bank credit facility, our outstanding senior notes, convertible subordinated notes payable balances (until converted), and amortization of loan costs and unused facility fees. Interest expense declined from the first quarter of 2005 as a result of the aforementioned refinancing and recapitalization transactions completed during the first quarter of 2005 and additional

Table of Contents

refinancing transactions completed during the first quarter of 2006, as further described hereafter.

Gross interest income was $1.8 million and $1.2 million for the three months ended March 31, 2006 and 2005, respectively. Gross interest income is earned on cash collateral requirements, a direct financing lease, notes receivable, investments, and cash and cash equivalents.

Capitalized interest was $1.3 million and $1.1 million during the first quarter of 2006 and 2005, respectively, and was associated with various construction and expansion projects further described under Liquidity and Capital Resources hereafter.

Expenses associated with debt refinancing and recapitalization transactions

For the three months ended March 31, 2006 and 2005, expenses associated with debt refinancing and recapitalization transactions were $1.0 million and $35.0 million, respectively. The charges in the first quarter of 2006 consisted of the write-off of existing deferred loan costs associated with the pay-off and retirement of the old senior bank credit facility. The charges in the first quarter of 2005 consisted of a tender premium paid to the holders of the $250.0 million 9.875% senior notes who tendered their notes to us at a price of 111% of par pursuant to a tender offer we made for their notes in March 2005, the write-off of existing deferred loan costs associated with the purchase of the $250.0 million 9.875% senior notes and lump sum pay-down of the term portion of our senior bank credit facility made with the proceeds from the issuance of $375.0 million of 6.25% senior notes, and estimated fees and expenses associated with each of the foregoing transactions.

Income tax (expense) benefit

We incurred an income tax expense of $12.5 million and generated an income tax benefit of $4.5 million for the three months ended March 31, 2006 and 2005, respectively.

Our effective tax rate was 36.9% during the first quarter of 2006 compared with 34.9% during the same period in the prior year. The lower effective tax rate during 2005 resulted from certain tax planning strategies implemented during the fourth quarter of 2004, that were magnified by the recognition of deductible expenses associated with our debt refinancing transactions completed during the first quarter of 2005. Our effective tax rate is estimated based on our current projection of taxable income, and could fluctuate based on changes in these estimates, as well as changes in the valuation allowance applied to our deferred tax assets that are based primarily on the amount of state net operating losses and tax credits that could expire unused.

Discontinued operations

On March 21, 2005, the Tulsa County Commission in Oklahoma provided us notice that, as a result of a contract bidding process, the County elected to have the Tulsa County Sheriff s Office assume management of the David L. Moss Criminal Justice Center upon expiration of the contract on June 30, 2005. Operations were transferred to the Sheriff s Office on July 1, 2005. Total revenue during the first quarter of 2005 was $5.0 million and total operating

Table of Contents

expenses were $5.8 million. After depreciation expense and an income tax benefit, the loss at this facility amounted to $0.6 million during the first quarter of 2005.

LIQUIDITY AND CAPITAL RESOURCES

Our principal capital requirements are for working capital, capital expenditures, and debt service payments. Capital requirements may also include cash expenditures associated with our outstanding commitments and contingencies, as further discussed in the notes to the financial statements and as further described in our 2005 Form 10-K. Additionally, we may incur capital expenditures to expand the design capacity of certain of our facilities (in order to retain management contracts) and to increase our inmate bed capacity for anticipated demand from current and future customers. We may acquire additional correctional facilities that we believe have favorable investment returns and increase value to our stockholders. We will also consider opportunities for growth, including potential acquisitions of businesses within our line of business and those that provide complementary services, provided we believe such opportunities will broaden our market share and/or increase the services we can provide to our customers.

During September 2005, we announced that Citrus County renewed our contract for the continued management of the Citrus County Detention Facility located in Lecanto, Florida. The contract has a ten-year base term with one five-year renewal option. The terms of the new agreement include a 360-bed expansion that commenced during the fourth quarter of 2005 and is expected to be completed during the first quarter of 2007. The expansion of the facility, which is owned by the County, is currently anticipated to cost approximately $18.5 million, which we will fund by utilizing our cash on hand. The estimated remaining cost to complete the expansion is $16.2 million as of March 31, 2006. If the County terminates the management contract at any time prior to twenty years following completion of construction, the County would be required to pay us an amount equal to the construction cost less an allowance for the amortization over a twenty-year period.

During February 2005, we commenced construction of the Red Rock Correctional Center, a new 1,596-bed correctional facility located in Eloy, Arizona. The facility is expected to cost approximately $82.6 million and is slated for completion during the third quarter of 2006 with an estimated remaining cost to complete of $8.7 million as of March 31, 2006. We expect to relocate approximately 800 Alaskan inmates from our Florence Correctional Center into this new facility. The beds that will be made available at Florence are expected to be used to satisfy anticipated federal demand for detention beds in the Arizona area. The balance of beds available at the Red Rock facility is expected to be substantially occupied by the states of Hawaii and Alaska by December 2006.

In order to maintain an adequate supply of available beds to meet anticipated demand, while offering the state of Hawaii the opportunity to consolidate its inmates into fewer facilities, we commenced construction during the fourth quarter of 2005 of the Saguaro Correctional Facility, a new 1,896-bed correctional facility located adjacent to the Red Rock Correctional Center in Eloy, Arizona. The Saguaro Correctional Facility is expected to be completed during the second half of 2007 at an estimated cost of approximately $100 million with a remaining cost to complete of approximately $93.5 as of March 31, 2006. We currently expect to consolidate inmates from the state of Hawaii from several of our other facilities to this new facility. Although we can provide no assurance, we currently expect that growing

Table of Contents

state and federal demand for beds will ultimately absorb the beds vacated by Hawaii. As of March 31, 2006, we housed approximately 1,830 inmates from the state of Hawaii.

Based on our expectations for increased federal demand for detention space along the Texas border with Mexico, we are proceeding with the expansion of our 480-bed Webb County Detention Center located in Laredo, Texas by 722 beds. The expansion, estimated to cost approximately $38.9 million, is expected to be complete by the first quarter of 2008.

The following table summarizes the aforementioned construction and expansion projects expected to be completed through the first quarter of 2008:

Facility	No. of beds	Estimated completion date	Estimated remaining cost to complete as of March 31, 2006 (in thousands)
Red Rock Correctional Center Eloy, AZ	1,596	Third quarter 2006	$ 8,713
Citrus County Detention Facility Lecanto, FL	360	First quarter 2007	16,248
Saguaro Correctional Facility Eloy, AZ	1,896	Second half 2007	93,482
Webb County Detention Center Lardeo, TX	722	First quarter 2008	38,872
Total	4,574		$ 157,315

In order to retain federal inmate populations we currently manage in the San Diego Correctional Facility, we may be required to construct a new facility in the future. The San Diego Correctional Facility is subject to a ground lease with the County of San Diego. Under the provisions of the lease, the facility is divided into three different properties (Initial, Existing and Expansion Premises), all of which have separate terms ranging from June 2006 to December 2015, subject to extension by the County. Upon expiration of any lease term, ownership of the applicable portion of the facility automatically reverts to the County. The County has the right to buy out the Initial and Expansion portions of the facility at various times prior to the end term of the ground lease at a price generally equal to the cost of the premises, less an allowance for the amortization over a 20-year period. The third portion (Existing Premises) includes 200 beds at a current annual rent of approximately $1.3 million and expires in June 2006. The County has provided us notice of its intention not to renew the lease for the Exiting Premises. However, we do not currently expect to lose any inmates at this facility as a result of the expiration, as we have the ability to consolidate inmates from the Existing Premises to the Initial and Expansion Premises, if necessary. Ownership of the 200-bed Expansion Premises reverts to the County in December 2007. The Company is currently negotiating with the County to extend the reversion date of the Expansion Premises, or to provide the County with alternate beds to meet their demand. However, if we are unsuccessful, we may be required to relocate a portion of the existing federal inmate population to other available beds within or outside the San Diego Correctional Facility, which could include the acquisition of an alternate site for the construction of a new facility.

Table of Contents

We may also pursue additional expansion opportunities to satisfy the needs of an existing or potential customer or when the economics of an expansion are compelling.

Additionally, we believe investments in technology can enable us to operate safe and secure facilities with more efficient, highly skilled and better-trained staff, and to reduce turnover through the deployment of innovative technologies, many of which are unique and new to the corrections industry. During the first quarter of 2006, we capitalized $4.7 million of expenditures related to technology. These investments in technology are expected to provide long-term benefits enabling us to provide enhanced quality service to our customers while creating scalable operating efficiencies. We expect to incur approximately $12.3 million in information technology expenditures during the remainder of 2006.

We have the ability to fund our capital expenditure requirements, including our construction projects, information technology expenditures, working capital, and debt service requirements, with investments and cash on hand, net cash provided by operations, and borrowings available under our new revolving credit facility.

The term loan portion of our old senior bank credit facility was scheduled to mature on March 31, 2008, while the revolving portion of the old facility, which as of December 31, 2005 had an outstanding balance of $10.0 million along with $36.5 million in outstanding letters of credit under a subfacility, was scheduled to mature on March 31, 2006. During January 2006, we completed the sale and issuance of $150.0 million aggregate principal amount of 6.75% senior notes due 2014, the proceeds of which were used in part to completely pay-off the outstanding balance of the term loan portion of our old senior bank credit facility after repaying the $10.0 million balance on the revolving portion of the old facility with cash on hand. Further, during February 2006, we closed on a new revolving credit facility with various lenders providing for a new $150.0 million revolving credit facility to replace the revolving portion of the old credit facility. The new revolving credit facility has a five-year term and currently has no outstanding balance other than $36.5 million in outstanding letters of credit under a subfacility. We have an option to increase the availability under the new revolving credit facility by up to $100.0 million (consisting of revolving credit, term loans or a combination of the two) subject to, among other things, the receipt of commitments for the increased amount. Interest on the new revolving credit facility is based on either a base rate plus a margin ranging from 0.00% to 0.50% or a LIBOR plus a margin ranging from 0.75% to 1.50%, subject to adjustment based on our leverage ratio. The new revolving credit facility currently bears interest at a base rate plus a margin of 0.25% or a LIBOR plus a margin of 1.25%.

During the three months ended March 31, 2005, we were not required to pay income taxes, other than primarily for the alternative minimum tax and certain state taxes, as a result of the utilization of existing net operating loss carryforwards to offset our taxable income. However, we were required to repay $13.5 million in taxes associated with excess refunds we received in 2002 and 2003. During 2006, we expect to generate sufficient taxable income to utilize our remaining federal net operating loss carryforwards, except for certain annual limitations imposed under the Internal Revenue Code. As a result, we expect to begin paying federal income taxes during 2006, with an obligation to pay a full year s taxes beginning in 2007. During the first quarter of 2006, our cash payments for federal income taxes were immaterial, partially as a result of the receipt of income tax refunds from certain states. We

Table of Contents

currently expect to pay approximately $10.0 million to $15.0 million in federal and state income taxes during the remainder of 2006.

As of March 31, 2006, our liquidity was provided by cash on hand of $64.9 million, investments of $49.5 million, and $113.5 million available under our $150.0 million revolving credit facility. During the three months ended March 31, 2006 and 2005, we generated $59.6 million and $28.5 million, respectively, in cash through operating activities, and as of March 31, 2006 and 2005, we had net working capital of $189.3 million and $150.5 million, respectively. We currently expect to be able to meet our cash expenditure requirements for the next year utilizing these resources. In addition, we have an effective shelf registration statement under which we may issue an indeterminate amount of securities from time to time when we determine that market conditions and the opportunity to utilize the proceeds from the issuance of such securities are favorable.

As a result of the completion of numerous recapitalization and refinancing transactions over the past several years, we have significantly reduced our exposure to variable rate debt, substantially eliminated our subordinated indebtedness, lowered our after tax interest obligations associated with our outstanding debt, further increasing our cash flow, and extended our total weighted average debt maturities. Also as a result of the completion of these capital transactions, covenants under our senior bank credit facility were amended to provide greater flexibility for, among other matters, incurring unsecured indebtedness, capital expenditures, and permitted acquisitions. With the most recent pay-off of our senior bank credit facility in January 2006 and the completion of our new revolving credit facility in February 2006, we removed the requirement to secure the senior bank credit facility with liens on our real estate assets and, instead, collateralized the facility primarily with security interests in our accounts receivable and deposit accounts. At March 31, 2006, the interest rates on all our outstanding indebtedness are fixed, with a weighted average stated interest rate of 6.9%, while our total weighted average maturity was 6.2 years. As an indication of the improvement of our operational performance and financial flexibility, Standard & Poor s Ratings Services has raised our corporate credit rating from B at December 31, 2000 to BB- currently (an improvement by two ratings levels), and our senior unsecured debt rating from CCC+ to BB- (an improvement by four ratings levels). Moody s Investors Service has upgraded our senior unsecured debt rating from Caa1 at December 31, 2000 to Ba3 currently (an improvement by four ratings levels).

Operating Activities

Our net cash provided by operating activities for the three months ended March 31, 2006 was $59.6 million, compared with $28.5 million for the same period in the prior year. Cash provided by operating activities represents the year to date net income plus depreciation and amortization, changes in various components of working capital, and adjustments for expenses associated with debt refinancing and recapitalization transactions and various non-cash charges, including primarily deferred income taxes. The increase in cash provided by operating activities for the three months ended March 31, 2006 was due to the increase in operating income, interest expense savings resulting from our refinancing activities, as well as a reduction in cash taxes paid from the first quarter of 2005 for the aforementioned repayment during 2005 of excess tax refunds received in 2003 and 2002. Positive fluctuations in working capital during the first quarter of 2006 compared with the same

Table of Contents

quarter in the prior year also contributed to the increase in cash provided by operating activities.

Investing Activities

Our cash flow used in investing activities was $59.2 million for the three months ended March 31, 2006 and was primarily attributable to capital expenditures during the quarter of $29.0 million and included expenditures for acquisitions and development of $19.2 million primarily related to the aforementioned facility expansion and development projects during the quarter. Cash flow used in investing activities during the first quarter of 2006 was also attributable to $30.5 million of additional purchases of investments in auction rate certificates. Our cash flow used in investing activities was $13.3 million for the three months ended March 31, 2005 and was primarily attributable to capital expenditures during the quarter of $16.3 million and included expenditures for acquisitions and development of $8.6 million related to the various facility expansion and development projects.

Financing Activities

Our cash flow used in financing activities was $0.3 million for the three months ended March 31, 2006 and was primarily attributable to the aforementioned refinancing and recapitalization transactions completed during the first quarter. Our cash flow used in financing activities was $17.8 million for the three months ended March 31, 2005 and was primarily attributable to refinancing and recapitalization transactions completed during the quarter. Proceeds from the issuance of the $375 million 6.25% senior notes along with cash on hand were used to purchase all of the outstanding $250 million 9.875% senior notes, make a lump sum prepayment on the old senior bank credit facility of $110 million and pay fees and expenses related thereto. These transactions resulted in fees and expenses of $34.9 million paid during the quarter.

Contractual Obligations

The following schedule summarizes our contractual cash obligations by the indicated period as of March 31, 2006 (in thousands):

	Payments Due By Year Ended December 31,						
	2006 (remainder)	2007	2008	2009	2010	Thereafter	Total
Long-term debt	$ 90	$	$	$	$	$ 975,000	$ 975,090
Environmental remediation	1,579						1,579
Citrus County Detention Facility expansion	15,523	725					16,248
Operating leases	106						106
Total contractual cash obligations	$ 17,298	$ 725	$	$	$	$ 975,000	$ 993,023

The cash obligations in the table above do not include future cash obligations for interest associated with our outstanding indebtedness. During the three months ended March 31, 2006, we paid $13.6 million in interest, including capitalized interest. We had $36.5 million of letters of credit outstanding at March 31, 2006 primarily to support our requirement to

Table of Contents

repay fees under our workers compensation plan in the event we do not repay the fees due in accordance with the terms of the plan. The letters of credit are renewable annually. We did not have any draws under any outstanding letters of credit during the three months ended March 31, 2006 or 2005.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board issued SFAS 123R, which is a revision of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

In accordance with the SEC s April 2005 ruling, SFAS 123R must be adopted for annual periods that begin after June 15, 2005. We adopted SFAS 123R on January 1, 2006 using the modified perspective method. The modified prospective method requires compensation cost to be recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date.

Prior to adoption of SFAS 123R on January 1, 2006, we accounted for equity incentive plans under the recognition and measurement principles of APB 25. As such, no employee compensation cost for our stock options is reflected in net income prior to January 1, 2006, except for $1.0 million recognized in the fourth quarter of 2005 as a result of the accelerated vesting of outstanding options on December 30, 2005 as previously described herein. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments in the future. However, because we made changes in 2005 to our historical business practices with respect to awarding stock-based employee compensation, the impact of the standard is expected to be less than the historical pro forma impact as described in the disclosure of pro forma net income and earnings per share in the footnote, Accounting for Stock-Based Compensation , in our Notes to Consolidated Financial Statements herein, and in Note 2 to the financial statements included with our 2005 Form 10-K. Further, the pro forma data for 2005 presented in the 2005 Form 10-K also includes $6.3 million of compensation expense associated with the accelerated vesting of all stock options outstanding effective December 30, 2005.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under previous literature.

Table of Contents

INFLATION

We do not believe that inflation has had or will have a direct adverse effect on our operations. Many of our management contracts include provisions for inflationary indexing, which mitigates an adverse impact of inflation on net income. However, a substantial increase in personnel costs, workers compensation or food and medical expenses could have an adverse impact on our results of operations in the future to the extent that these expenses increase at a faster pace than the per diem or fixed rates we receive for our management services.

SEASONALITY AND QUARTERLY RESULTS

Our business is somewhat subject to seasonal fluctuations. Because we are generally compensated for operating and managing facilities at an inmate per diem rate, our financial results are impacted by the number of calendar days in a fiscal quarter. Our fiscal year follows the calendar year and therefore, our daily profits for the third and fourth quarters include two more days than the first quarter (except in leap years) and one more day than the second quarter. Further, salaries and benefits represent the most significant component of operating expenses. Significant portions of the Company s unemployment taxes are recognized during the first quarter, when base wage rates reset for state unemployment tax purposes. Finally, quarterly results are affected by government funding initiatives, the timing of the opening of new facilities, or the commencement of new management contracts and related start-up expenses which may mitigate or exacerbate the impact of other seasonal influences. Because of these seasonality factors, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our primary market risk exposure is to changes in U.S. interest rates. In the event we have an outstanding balance under our revolving credit facility, we would be exposed to market risk because the interest rate on our revolving credit facility is subject to fluctuations in the market. As of March 31, 2006, there were no amounts outstanding under our revolving credit facility (net of $36.5 million in outstanding letters of credit). Therefore, a hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on our financial statements.

As of March 31, 2006, we had outstanding $450.0 million of senior notes with a fixed interest rate of 7.5%, and $375.0 million of senior notes with a fixed interest rate of 6.25%, and $150.0 million of senior notes with a fixed interest rate of 6.75%. Because the interest rates with respect to these instruments are fixed, a hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on our financial statements.

We may, from time to time, invest our cash in a variety of short-term financial instruments. These instruments generally consist of highly liquid investments with original maturities at the date of purchase of three months or less. While these investments are subject to interest rate risk and will decline in value if market interest rates increase, a hypothetical 100 basis point increase or decrease in market interest rates would not materially affect the value of these investments.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES.

An evaluation was performed under the supervision and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this quarterly report. Based on that evaluation, our senior management, including our Chief Executive Officer and Chief Financial Officer, concluded that as of the end of the period covered by this quarterly report our disclosure controls and procedures are effective in causing material information relating to us (including our consolidated subsidiaries) to be recorded, processed, summarized and reported by management on a timely basis and to ensure that the quality and timeliness of our public disclosures complies with SEC disclosure obligations. There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See the information reported in Note 10 to the financial statements included in Part I, which information is incorporated hereunder by this reference.

ITEM 1A. RISK FACTORS.

There have been no material changes in our Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

ITEM 5. OTHER INFORMATION.

Audit Committee Matters.

Section 10A(i)(1) of the Exchange Act, as added by Section 202 of the Sarbanes-Oxley Act of 2002, requires that the Company s Audit Committee (or one or more designated members

Table of Contents

of the Audit Committee who are independent directors of the Company s board of directors) pre-approve all audit and non-audit services provided to the Company by its external auditor, Ernst & Young LLP. Section 10A(i)(2) of the Exchange Act further requires that the Company disclose in its periodic reports required by Section 13(a) of the Exchange Act any non-audit services approved by the Audit Committee to be performed by Ernst & Young. Consistent with the foregoing requirements, during the first quarter, the Company s Audit Committee pre-approved the engagement of Ernst & Young for audit and audit-related services, as defined by the SEC, for assistance with (1) the review of the Company s financial statements for the first quarter of 2006; (2) certain refinancing transactions; and (3) certain loan covenant requirements.

ITEM 6. EXHIBITS.

The following exhibits are filed herewith:

Exhibit Number	Description of Exhibits
31.1	Certification of the Company s Chief Executive Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Company s Chief Financial Officer pursuant to Securities and Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Company s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Company s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

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.

CORRECTIONS CORPORATION OF AMERICA

Date: May 8, 2006

/s/ John D. Ferguson

John D. Ferguson
President and Chief Executive Officer

/s/ Irving E. Lingo, Jr.

Irving E. Lingo, Jr.
Executive Vice President, Chief Financial Officer,
Assistant Secretary and Principal Accounting Officer