

DRASTIC CUTS AMONG SOME BIOTECH COMPANIES

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The San Francisco Chronicle

December 1, 2008

Taking a cue from nature, some biotechnology companies are reacting to the funding drought by becoming like spores - forms of suspended life that can wait until future rains of new money allow them to reconstitute themselves and grow again.

Among the companies that have shrunk to essentials during the financial turmoil is Advanced Cell Technology, a headline-grabbing stem cell company that lacks funding for clinical trials. The company, which had expanded a unit in Alameda after California voters approved a \$3 billion stem cell funding program for research inside the state, has retreated to its Worcester, Mass., base to conserve cash.

"They've been cutting back and hunkering down," said spokesman Daniel Schustak.

Another Alameda company, Avigen Inc., said this month it will eliminate more than 70 percent of its workforce and put clinical studies on hold while it regroups after receiving disappointing data on its experimental drug for multiple sclerosis. By reducing the staff to a core team, Avigen will be able to survive for four years on the \$49 million it expects to have left by the end of the year, chief executive Kenneth Chahine estimated.

Such tactics might limit the number of biotech bankruptcies that could result from the financial turmoil that has made funding harder to get and more expensive for small biotechs. Some of those firms, while not quite becoming "spores," are putting some of their scientific projects in suspended animation or selling them to other companies to raise cash.

Maxygen of Redwood City, which gained \$90 million by selling its hemophilia program to Bayer Healthcare, is cutting 30 percent of its workforce. It will concentrate most of its efforts on an experimental rheumatoid arthritis drug that is already supported by a partner,

Astellas Pharma Inc. Its breast cancer project will have to wait until another partner agrees to share costs.

Stressed companies also merge with others, pooling what's left of their cash to develop the most promising products they have between them. Novacea Inc. of South San Francisco, which abandoned work on its prostate cancer drug after unfavorable results, is merging with privately held Transcept Pharmaceuticals Inc. Under the reverse merger, Transcept will acquire a Nasdaq listing and about \$90 million to develop its insomnia drug Intermezzo and other products.

These survival strategies are part of the standard toolbox for biotech companies even in good economic periods, said Matthew Gardner, president of BayBio, a life sciences trade association for Northern California. While the current financial instability has depressed stock prices even for companies whose business is going well, Gardner said, life sciences companies are showing less strain than other sectors.

Avigen had already been planning to go into a stripped-down mode in case its multiple sclerosis trial failed, said chief business officer Michael Coffee. The company is now looking for buyers for its two experimental drugs for nerve pain and hemophilia. With the money, Avigen will shop among other biotech firms to acquire projects that a company its size can handle. Coffee said Avigen is in a good position.

"A lot of people are calling us about opportunities," he said. "It's a buyer's market."