

## **Pacific Horizon Could Reap Illumigen Sale Windfall**

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Pacific Horizon Ventures stands to reap the bulk of the more than \$347 million in payments Cubist Pharmaceuticals Inc. could make through its acquisition of hepatitis-C drug maker Illumigen Biosciences Inc.

Pacific Horizon provided \$11 million of the \$13.5 million raised by Seattle-based Illumigen, which has developed a protein drug candidate designed to induce the immune system to attack hepatitis C. Cubist -- seller of the injectable antibiotic Cubicin -- expects to advance the drug into clinical trials sometime in 2008.

Pacific Horizon stands to obtain well over two-thirds of the payments that publicly traded Cubist could make to Illumigen shareholders, which also include individual investors. Cubist in October said it would pay \$4.7 million for an option to buy Illumigen, plus \$1 million to cover the costs of a study to facilitate the filing of an investigational new drug application for Illumigen's lead compound, and to cover Illumigen's operating expenses, during the option period

On Wednesday Cubist said it had acquired Illumigen. The deal calls for it to pay Illumigen shareholders \$9 million -- after adjusting for Illumigen's closing cash balance - - in cash to make Illumigen a wholly owned subsidiary. Cubist will make payments during the development of Illumigen's lead drug candidate of up to \$75.5 million upon the achievement of development and regulatory milestones.

If Cubist develops Illumigen products for the treatment of viruses other than hepatitis C, development and regulatory milestones of up to \$117 million could apply. Additional milestone payments of up to \$140 million, plus tiered royalties, could also apply, assuming that Illumigen's hepatitis C or other antiviral drugs are commercialized.

The deal minimizes risk for both sides. Donald J. Elmer, managing general partner of Pacific Horizon, said selling Illumigen frees the firm from the expense of building the business into one that could support clinical trials. And Cubist is committing only a small amount upfront; most of the payments will come after the drug proves itself in the clinic, and in the \$2 billion hepatitis C market.

The Illumigen drug stems from discovery of a genetic mutation that protects some people from hepatitis C, which affects four million people in the U.S. and 180 million worldwide, according to Cubist and Illumigen. Patients typically develop chronic liver infection, and sometimes liver cancer. Standard treatment consists of up to 48 weeks of pegylated interferon, plus ribavirin.

Illumigen's drug would replace interferon, an injectable treatment that can cause several side effects, such as flu-like symptoms. The Illumigen therapy -- which would be used with ribavirin -- triggers a more-targeted immune-system attack than interferon, according to Elmer, Illumigen's chairman, adding that the drug could complement treatments that inhibit the virus directly.

Cubist has yet to determine how the Illumigen drug would be administered, or how often, said spokeswoman Eileen McIntyre. Subcutaneous injection is one possible means of administration, she said.

Rachel McMinn, an analyst with Cowen & Co., said it's hard to gauge the potential of Illumigen's approach because the drug is early-stage, though strong demand exists for an alternative to interferon. "The goal right now for the field is to get rid of interferon, because it's a nasty drug," McMinn said.

The acquisition of Illumigen is the first for Cubist since its 2000 purchase of TerraGen Discovery Inc., a natural-products discovery company backed by MDS Capital and others, said McIntyre. The company, however, is aggressively looking for additional acute-care products that it could add to its pipeline, she said.

<http://www.illumigen.com>