

Aquila arises from ashes of Cambridge Biotech

A US bankruptcy court's confirmation on July 18 of Cambridge Biotech Corporation's (CBC, Worcester, MA) reorganization plan will allow CBC to emerge from bankruptcy (after a temporary 21-day stay issued on July 29 has passed). A combination of belt-tightening budget cuts and revenues that continued to grow while CBC was in bankruptcy have stabilized the company and allowed it to turn a net loss of \$2.7 million for the first quarter of 1995 into a net profit of \$141,000 for the same period this year. In the court hearing on July 18, creditors tried to block the CBC plan, but the judge overruled all but three of their objections, confirming the reorganization and deferring the objections to separate later hearings scheduled. The phoenix has a new name, Aquila Biopharmaceuticals, but its technical and product objectives are intact.

Many other biotechnology companies that have faced financial pressures or product failures have disappeared, the objects of acquisition or merger. Theragen (Princeton, NJ) merged into GenVec (Rockville, MD) in April 1994; BioSurface Technology (Cambridge, MA) was absorbed by Genzyme (Cambridge, MA) in December 1994; Glycomed (Alameda, CA) was bought by Ligand Pharmaceuticals (San Diego, CA) in May 1995; Greenwich Pharmaceuticals (Fort Washington, PA) merged into Boston Life Sciences (Waltham, MA) in June 1995; Argus Pharmaceuticals, Triplex Pharmaceutical (both The Woodlands, TX), and Oncologix (Gaithersburg, MD) took on a singular identity as Aronex in September 1995; and Cellcor (Newton, MA) was acquired by Cytogen (Princeton, NJ) in October 1995.

Surprisingly perhaps, the only biotechnology company besides CBC to enter bankruptcy has been Telios Pharmaceuticals (San Diego, CA). Four days after the company published data showing that its lead product was ineffective, Telios announced in November 1994 that it was slashing expenses, subleasing its facilities, offering to purchase outstanding stock and warrants, and seeking a merger partner. It found one in Integra LifeSciences (Plainsboro, NJ) but had to file for bankruptcy protection before Integra acquired its assets in August 1995.

Sven Borho, an analyst at Mehta & Isaly (New York), has followed CBC's progress and believes that there is little comparison between the two companies, "Telios was a one-product company [whereas] CBC went into bankruptcy due to... the previous management and accounting irregularities, not a failure of their product." Borho joined the company's reorganization effort last fall as financial consultant and valuation expert.

Alison Taunton-Rigby, who took the reins of CBC in early 1995 and is now president and CEO of Aquila, contrasts CBC with Synergen (Boulder, CO), another

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company whose demise was directly attributable to a product failure. When, in June 1994, Antril didn't treat sepsis, Synergen's stock price dropped 68%, opening the door for the acquisition by Amgen

(Thousand Oaks, CA) later that year for \$260 million.

Taunton-Rigby calls the CBC board's July 1994 decision to file for bankruptcy "hard but absolutely correct. Bankruptcy court gives you the teeth to defend yourself," she says. But she was amazed at the "vulture attitude" of the companies and people who sued the company in an attempt to benefit from its weakened position. These lawsuits have delayed CBC's efforts to sell off assets and reorganize.

Borho credits Taunton-Rigby with turning CBC around and preparing a workable business plan for the new company. CBC retained, for instance, much of its R&D capacity. Although it eliminated 32 out of 185 positions immediately in 1994 and others as it divested businesses, it retained its key scientists, offering a stock bonus to employees willing to ride out the storm. And

The rise and fall and rise of CBC

CBC was founded in 1981 based on HIV technology licensed from Harvard University. The company developed and marketed retroviral and other viral diagnostic assays. In the mid-1980s, CBC developed recombinant animal vaccines and its first vaccine product—against feline leukemia virus—came to market in 1989.

The vaccine work led to the development of immune stimulants as adjuvants for recombinant protein-based vaccines. CBC purified a family of compounds, trademarked Stimulon, one of which (QS-21) it licensed to six corporate partners: SmithKline Beecham (London, UK) for influenza, herpes, hepatitis, and Lyme disease; Pasteur Mérieux (Lyon, France; influenza and HIV); Wyeth-Lederle (five undisclosed diseases); Progenics Pharmaceuticals (Tarrytown, NY; cancer); Genentech (S. San Francisco, CA; HIV-1); and North American Biologicals (Miami, FL; immunoglobulin for bacterial infections). CBC also developed its own human vaccine program targeting infectious disease and cancer.

CBC's troubles became visible in late 1993, when certain financial irregularities arose. One of these was the declaration in a 1992 third-quarter report of \$2 million revenue that had not been received; it was merely due to be paid under a letter of intent from Ortho Diagnostics (Raritan, NJ) and Chiron (Emeryville, CA). The company duly "restated" its accounts, but a shareholder suit followed nevertheless.

In March 1994, CBC's auditors, Deloitte and Touche, resigned, bringing the company's financial woes to public notice and sending CBC's stock price down from \$2.88 to \$1.38. Another shareholder lawsuit followed; the CEO, CFO, and chief legal counsel resigned in May; and the company filed for Chapter 11 bankruptcy in July 1994. However, according to Borho, the root of CBC's problem lay in the biotechnology bull market of 1991. The company had been marginally profitable in the first two quarters of 1991. Borho views "aggressive assumptions" and a blinding drive to be profitable in diagnostics as the internal pressures that led to the "funny accounting."

Ironically, it was the diagnostics business that CBC divested on its way back up to solvency. Before Alison Taunton-Rigby came on board, CBC had sold its Irish diagnostics manufacturing subsidiary, Cambridge Biotech Ltd, for \$2.1 million. As part of its subsequent reorganization plan, CBC sold its other diagnostics businesses. Its enteric product line went to Meridian Diagnostics (Cincinnati, OH) for \$5.5 million in cash and a \$200,000 advance of royalties, and its reference laboratory business to Boston Biomedica (West Bridgewater, MA). Its remaining diagnostic interests—in retroviral disease and Lyme disease—and the CBC name were bought by bioMérieux Vitek (Rockland, MA) for \$6.5 million.

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