US Financial accounts reports

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Abgenix, Inc. (Nasdaq: ABGX): Results for the year to 31st December, 2000

Abgenix, Inc. is one of a number of companies in the antibody therapeutic field, a highly competitive arena that includes Cambridge Antibody Technology, Morphosys and Medarex. The Fremont, CA-based company uses Xenomouse technology to produce humanised antibodies, an alternative approach to Cambridge Antibody Technology's phage display technology.

Abgenix was formed in 1996 as a spin-out from Cell Genesys. It floated on NASDAQ in 1998 and during 2000 attained a valuation in excess of US$7bn, propelling it onto the NASDAQ 100 index. Like many of its US peers, the company took advantage of the buoyant market conditions during the year to raise approximately US$725m in a follow-on offering in Q1 2000 and US$230m in a private placement in Q4. Abgenix's former parent company, Cell Genesys, contributed US$256m to the total pot. As a result of the fundraising the company had over $700m in the bank at the end of the year.

Some of the cash raised was used to make two strategic acquisitions during 2000. In November, the company gained access to a novel intracellular drug delivery system with the acquisition of IntraImmune Therapies, Inc. for US$9m. Most of the purchase price was allocated to goodwill and other intangible assets. The IntraImmune technology provides Abgenix with the opportunity to greatly expand the reach of antibody therapies as normally these can only act extracellularly.

In addition, the company acquired the Canadian firm, ImmGenics, Inc., also in November. This transaction was originally billed as an all-share deal; however the Securities and Exchange Commission (SEC) rejected Abgenix's filing to register the shares issued to the ImmGenics shareholders because the registration statement was filed after the date on which the ImmGenics shareholders voted to approve the transaction. The company subsequently withdrew the registration statement and issued US$77m in cash to the ImmGenics shareholders instead. The acquisition resulted in an in-process R&D charge of US$5m and a further US$67m of the purchase price was allocated to intangible assets, most of which are being amortised over 15 years.

The ImmGenics technology is based on a novel antibody-screening platform and the first licence of the technology following the acquisition was made to Celltech in February 2001 in a deal worth US$17m. Aside from this, the company now has over 20 partnerships to develop antibody therapies for a wide range of disease conditions. Many of the top pharmaceutical and biotechnology companies are on the list of collaborators and contract revenues more than doubled year on year to US$27m.

Abgenix has moved from a technology licensing business model to a position where it is developing its own drug candidates. It currently has three products in clinical trials: ABX-IL8 for psoriasis and rheumatoid arthritis; ABX-EGF for a range of cancers; and ABX-CBL for graft versus host disease. The move into product development has been one of the reasons for a rapidly increasing R&D spend, up 143 per cent to US$51m in 2000. Other factors include a doubling of the workforce during the year. The company expects to expand its R&D efforts with more clinical trials planned in 2001 and an anticipated 100–150 per cent increase in research and development expenditure. This will outpace the expected growth in revenues and consequently the net loss is anticipated to

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increase from the current year's US$21m to between US$50–60m for 2001.

Along with most of the biotechnology sector, the company's share price has fallen significantly since the highs of 2000. The scope for using shares for further acquisitions is diminished therefore, although the company is obviously not averse to using some of its cash for small strategic transactions. We may well see further moves in this area as Abgenix attempts to consolidate its position as one of the leaders in the antibody therapy field.

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Human Genome Sciences, Inc. (NASDAQ: HGSI): Results for the year ending 31st December, 2000

Human Genome Sciences, Inc. (HGS), the Maryland-based genomics company, was one of the biggest winners in the biotechnology funding boom of 2000. The company raised approximately US$1.5bn, making it one of the wealthiest players in the sector. This fundraising, combined with a successful series of alliances and drug development announcements, contributed towards a near doubling in the valuation of HGS during the year to over US$7.8bn and catapulted the company into the big league of the NASDAQ-100 index, joining other biotechnology luminaries such as Amgen and Genentech. An impressive achievement for a company established only eight years ago.

The 2000 funding consisted of two debt issuances totalling US$525m and the issuance of 12.7 million shares for a total US$950m. HGS also converted two debt securities totalling US$318m into common stock. The conversion of the debt securities cost the company US$51m. These costs mainly related to a 'make-whole' payment to induce holders of the debt to convert. HGS now plans to use the proceeds of the fundraising to continue along the drug development path with its own products, with an expansion of clinical trials and a significant investment in its manufacturing capacity, and to in-license promising products from other organisations.

The results for the year ended 31st December, 2000, show R&D increased significantly from US$61m in 1999 to US$91m, mainly as a result of the increased clinical trial activity. At the end of 2000, the company had five drugs in clinical trials, more than any other genomics company. In anticipation of the expanded clinical activities HGS also made some key clinical appointments and is again expected to increase its overall R&D spend in 2001 by over 50 per cent.

The drive to develop therapeutic drugs in-house was behind a key acquisition undertaken by HGS during the year. Protein-based drugs, such as those being developed by HGS, need to overcome a number of issues with *in vivo* efficacy such as a tendency to be metabolised rapidly in the circulation. HGS used its increased share value to position itself to overcome some of these potential pitfalls through the acquisition of Pennsylvania-based Principia Pharmaceutical Corp in an all-share transaction worth £120m. Principia is able to fuse therapeutic proteins genetically to albumin in the blood, thereby prolonging their circulatory life. This acquisition gives HGS a drug delivery system for its genomic-based proteins. Albuferon™ is the first drug in clinical trails to be based on Principia's fusion gene technology. The company had a one-time charge of US$134m for the write-off of purchased in-process R&D from the Principia acquisition, suggesting the Securities Exchange Commission (SEC) will still allow certain significant in-process R&D write-offs despite its undisguised antipathy towards the accounting treatment.

In addition to the US$134m in-process R&D write-off and a US$51m charge for debt conversion expenses, HGS's loss for the year of US$244m includes a US$8m charge as a result of implementing Staff Accounting Bulletin (SAB) 101. SAB 101 sets out strict rules on revenue recognition and has caused a major headache for many biotechnology and other technology companies reporting under US GAAP.

HGS continued to receive revenue from

the licensing of its human gene technology and databases. Total revenue for the year-ended 2000 was US$22m compared to US$25m in 1999. The decline in revenue over recent years is the direct result of the company's commitment to move from out-licensing its genomic database to co-development of genomic-based protein drugs.

HGS has come a long way from being simply a cataloguer of genetic data. The company has had an extremely strong year in terms of clinical trials, building its management team and obtaining strategic partnerships with leading biotechnology and pharmaceutical companies. With over US$1.8m in cash and cash equivalents at the year end, HGS now has the resources to realise its goal of becoming a leading genomics-based fully integrated global pharmaceutical company.

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