

Cephalon agrees to buy alcohol-treatment drug

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Cephalon Inc., maker of the sleep-disorder drug Provigil, agreed to pay as much as \$490 million to Alkermes Inc. for the development and U.S. commercial rights to Vivitrex, an experimental treatment for alcohol dependence.

The deal calls for payment of \$160 million in cash now and \$110 million more when U.S. regulators approve Vivitrex for sale, Frazer, Penn.-based Cephalon said Friday. Alkermes may also get as much as \$220 million by meeting certain sales targets.

Cephalon produces several products in Salt Lake City, including Actiq, a drug for relieving cancer pain.

Vivitrex is a once-a-month injection of naltrexone, a non-addictive agent that binds to opioid receptors in the brain and is believed to diminish the craving for alcohol, Cephalon said. The drug may receive U.S. marketing approval before the end of this year, and annual sales may reach \$350 million, according to estimates by analysts at SG Cowen.

"This deal makes sense for both companies," New York-based Morgan Stanley analyst Marc Goodman said in a note to clients Friday. "For Alkermes, it now has a partner that is focused on the right doctors." Alkermes "is basically getting paid for Vivitrex during the unprofitable launch phase, and then receives 50 percent of the profits."

Shares of Cephalon fell 23 cents to close at \$38.21 in Nasdaq Stock Market composite trading. Cambridge, Mass.-based Alkermes rose 11 cents to \$13.21.

Cephalon will benefit as it gets a drug in the late stage of development, with a launch expected in early 2006, said Goodman, who rates Cephalon "underweight."

The U.S. Food and Drug Administration is expected to respond to Alkermes' request for clearance by Sept. 30. Alkermes will be responsible for getting Vivitrex approved and making it.

Cephalon will have the primary responsibility of marketing the medicine, with Alkermes contributing a specialized sales force. The companies are planning to introduce a consumer advertising campaign after educating doctors about the drug, Cephalon Executive Vice President Robert Roche said on a call with analysts Friday.

Eighteen million people in the U.S. are dependent on or abuse alcohol and an estimated 2.3 million adults seek treatment each year, Cephalon said.

"The market is large and underserved," Cephalon Chief Executive Frank Baldino said on the call. "Alcohol dependence is one of the most prevalent mental health disorders, second only to depression. We believe Vivitrex will be an important source of future earnings for Cephalon."

While Alkermes won't update financial forecasts until it releases results for its first quarter ending June 30, the "agreement should have a favorable impact on our 2006 guidance," Alkermes CEO Richard Pops said on the call.

In May, Alkermes said it will have a fiscal 2006 net loss of \$55 million to \$65 million, or 60 cents to 71 cents a share, on sales of \$110 million to \$125 million.