

ViRexx Partnership with Sigma-tau

November 6, 2006

1:10pm EST

On Monday morning, November 6, 2006, **ViRexx (REX)** announced a partnership with Sigma-tau to market and distribute OvaRex to the remaining (previously) unlicensed Major European markets. This includes the United Kingdom, Ireland, France, Sweden, Finland and more. The partnership also includes a manufacturing and supply agreement.

If Sigma-tau sounds familiar, it should. It is **SciClone's (SCLN)** European partner for Zadaxin.

The partnership will involve two of Sigma-tau's subsidiaries and the creation of "ViRexx Ireland". We'll get the exact situation clarified, but ViRexx's European subsidiary (ViRexx Ireland) will take the actual receipt of royalties on net sales for this transaction).

The "effective net royalty rate" is 25% of net sales in Europe and the Middle East. We're fairly sure this "effective net royalty rate" combines a margin on supply as well as actual net sales.

Sigma-tau Subsidiaries in Partnership	
Defiante Farmaceutica, Lda.	Marketing & Distribution to U.K., Ireland, France, Sweden, Finland and other European countries
Tecnogen S.C.p.A	Manufacture and supply for all of the European partners.

ViRexx receives immediate cash as Defiante purchases about 1.82 units of ViRexx at a price of C\$1.10 per unit, for proceeds of C\$2.0 million. Each unit consists of one common share and one non-transferable common share purchase warrant. Each warrant

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entitles Defiante to purchase one common share of ViRexx at a price of C\$1.25 for a period of 24 months.

Apparently, Defiante can potentially purchase up to about C\$6.5 million in newly issued shares of ViRexx. This doesn't appear to pencil out under the announcement. Defiante must also have an additional option to purchase about C\$2.0M of ViRexx stock.

With this agreement, Tecnogen bears the cost and responsibility of building a GMP-compliant facility (about US\$10M), as well as the costs of technology transfer and scale up of OvaRex® MAb.

Licensing

OvaRex had previously been out-licensed in Southern Europe and the Middle East to a number of smaller pharmaceutical companies. United Therapeutics holds a license to North America and Germany. We're fairly certain that ViRexx receives a higher royalty on net sales from Defiante than other marketing partners. ViRexx will receive only single-digit royalties on net sales from the other partners.

The collage of European licensees is detailed in the table below:

Defiante Farmaceutica, Lda. (Sigma-tau subsidiary)	U.K., Ireland, France, Sweden, Finland, Denmark, Belgium, Luxembourg, and the Netherlands.
United Therapeutics	North America, Germany, and rest of world excluding EU countries and prior agreements.
Dompe Farmaceutici S.p.A. of Italy*	Italy, Spain, Portugal, Switzerland, Austria, and certain Eastern European countries
Genesis Pharma of Greece	Greece, Turkey, Cypress and the Balkans
Medison Pharma	Egypt, Israel, and the Middle East

*Countries covered in alliances also include Ukraine, Hungary, Poland, Romania, and Bulgaria

OvaRex is currently in two separate Phase III trials. The un-blinding is event-driven by 118 relapses. We don't expect the first Phase III trial until 2H-2007, but it could be even later if the relapse rate slows. We currently expect the Phase II trial on using OvaRex as front-line treatment to arrive within the next couple months. We hope to soon provide a comprehensive update of milestones.



Investment Case

Surprise! We finally see a partnership arriving within management guidance (see April Issue of *Biotech Monthly*). Considering that ViRexx is cash-poor, this is a remarkably favorable agreement. The original OvaRex company, **AltaRex**, had partnered out the drug on relatively inferior terms.

ViRexx gets a bit of cash while the current programs are moved forward. The Phase I top-line results for Occlusion 50 should arrive within the next couple months, but this isn't the near-term milestone to watch. The biggie is the Phase II trial of OvaRex as part of front-line therapy for ovarian cancer patients.

Does the company have enough cash to progress HepaVaxx B into a tiny Phase II pilot? Will it move HepaVaxx C into Phase I? It's now in a footrace with **DynaVax (DVAX)** on these fronts.

At any rate, ViRexx is increasingly looking like a viable "long-shot" investment. We like the handicapping for OvaRex in the pivotal trials. ViRexx had a tiny bump in stock price today, but it's still at a tiny market cap of \$46M. If OvaRex works, we suspect the company will furiously move the rest of its Chimigen platform forward.

It's still only a stock to invest with your "fun money" or pocket change, but that's all it takes at 0.66 per share.

Warm Regards,

The BSR Research Team

(Note: One or more Biotech Stock Research LLC staff members held a position in REXX, DVAX, and SCLN at the time this was written. For more information, please visit the Disclosure section of our web site.)

