

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Aderis Pharmaceuticals, Inc.



KENNETH L. RICE JR., Vice President, CFO & Chief Commercial Officer of Aderis Pharmaceuticals, Inc. contributes nearly 25 years of experience in the high technology, pharmaceutical development and manufacturing industries to the company. His extensive experience in corporate development, finance and patent law are key assets in the commercialization efforts of Aderis and its strategic partners. Prior to joining Aderis, Mr. Rice served as Vice President, CFO, Secretary, Treasurer and In-House Counsel for MacroChem Corporation, a pharmaceutical company focused on transdermal delivery systems. While at MacroChem, Mr. Rice structured a \$16 million private financing and played a key role in expanding the management team and board of directors. Mr. Rice previously held executive positions with Pentose Pharmaceuticals Inc., Unisyn Technologies Inc., Zymark Corporation and Applied Expert Systems Inc. Mr. Rice earned his

LLM Taxation from Boston University Law School, his Juris Doctor cum laude from Suffolk University Law School and his MBA and BS/BA from Babson College.

(SAL610) TWST: Would you begin with an introduction to Aderis Pharmaceuticals?

Mr. Rice: We are an eight-year-old biopharmaceutical company. We have four molecules today in six clinical development programs. We have a strong discovery research track record. We have a small group of players, with just under 30 people at this point and our management team is highly experienced. We have a strong balance sheet today with over three years of cash in the bank. Our clinical programs are late stage.

Our plan, over the coming three to four years, is to transform Aderis from its roots as an early stage clinical research company into a profitable company with programs, people and capital that we need to sustain our future growth plans and have multiple options for liquidity for our shareholders.

TWST: What is that pipeline? What do the products look like and how far along are you?

Mr. Rice: We have six clinical programs based on four molecules. The first two of those are based on a novel dopamine agonist delivered in a once-a-day patch format that is partnered with a company called Schwarz Pharma AG in Germany. The product is called

rotigotine CDS (Constant Delivery System) and it's aimed at two indications; Parkinson's disease and restless legs syndrome. The product for Parkinson's disease is in Phase III clinical trials around the world, which we expect our partner to wrap up later this year. That would target an NDA submission sometime late 2004 or early 2005, on that drug. The NDA submission for restless legs syndrome indication is about a year and a half to two behind that. We expect to complete Phase IIb trials for that product in late 2003 or early 2004 and then go into Phase III in restless legs later in 2004 or 2005 time frame. The other molecules are all Adenosine subtype specific receptor molecules and I will just list them and then we can come back and talk about the individual programs. The first and most clinically advanced at this point is a drug called Binodenoson or MRE-0470. This is an adenosine A_{2A} agonist intended to be used in diagnosis and prognosis for coronary artery disease as a pharmacologic stress agent in cardiac imaging studies. It will be entering Phase III trials later this year and is partnered with King Pharmaceuticals. They are developing and will be promoting the drug worldwide. The next most advanced drug is called DTI-0009. It is an adenosine A₁ agonist intended to be used as a heart rate control agent in atrial fibrillation. DTI-0009 is the only

Adenosine A₁ agonist available in both an IV and oral dosage forms. The IV form of the drug has just finished Phase IIb with our partner Fujisawa Healthcare in the United States and it will be entering Phase III trials later this year. The oral dosage form in a sustained release format is expected to enter Phase I trial a little later this year and that dosage form is not partnered at all. The last program, we have in the clinic at this point is another adenosine A_{2A} agonist being developed under our King relationship. They are developing this drug as a topical dosage form to treat diabetic foot ulcers.

TWST: What's the common underlying technology source for the expertise you have in the adenosine and dopamine areas?

Mr. Rice: We see the synergy here as expertise in a couple of areas; we are very good at small molecule chemistry and we are very good at subtype specific receptor molecules. So in the case of adenosine and dopamine, for example, we are not using whole dopamine that activates all dopamine receptors. For Parkinson's and restless legs we have developed an agonist that is very specific to certain dopamine receptors. The same is true with adenosine. Adenosine has been used in therapy for quite a while; as a whole molecule, it activates all of the adenosine receptors. Our molecules are a very receptor subtype specific and target only the receptor involved in the therapeutic effect we desire. What we expect that does for patients and for our drugs is to limit the side effects of activating, in a nonspecific way, other receptors than those involved in a particular therapeutic need.

TWST: At this point, what does the agenda look like across the spectrum of those different products? What would be on the agenda for the next 12 months and what would be the two-to-three year agenda?

Mr. Rice: We have a very strong focus with our partners on clinical milestones for 2003, in particular into early 2004. We are very focused with Schwarz on ensuring that the Phase III clinical trials for the Parkinson's drug, are completed this year. Rotigotine CDS is a novel drug; it's not only a dopamine agonist, but it's delivered in a transdermal patch in a once-a-day format. That provides the patients not only convenience and ease of use, but we believe it also provides the patient with constant blood levels of drug and better symptom management as a result. It's now been shown that constant blood levels are important to symptom management, but there is a growing body of clinical evidence to show that by managing the fluctuations in blood level of drugs, one might be able to slow the progression of the disease, which in Parkinson's patients is really important because, as you know, it's a neurological disorder that's degenerative.

We also expect to, as I said, commence Phase IIb trials of the rotigotine product in restless legs syndrome this year. We expect to start Phase III trials of Binodenoson for the pharmacologic stress imaging studies; again, a novel drug in a sense that it is an adenosine A_{2A} agonist that causes the vasodilation that one needs to occur in pharmacologic stress imaging. King has adopted an interesting regulatory strategy that links use of the drug to clinical outcomes and prognosis.

I should point out that, in terms of Aderis' economics, the partnership with Fujisawa for that molecule is limited to the United States and Canada. So we have worldwide rights to the oral dosage form and for the IV, we have rights outside of the US and Canada. And then finally on MRE-00094, which is used as adjunct therapy in diabetic foot ulcers, King expects to complete Phase IIa studies this year. In terms of a three-year outlook, we would hope that within that three-year time frame the Parkinson's drug will reach the market, at which point we derive a very healthy and attractive royalty stream from that drug. We expect that we will be in a position to have filed or have under review an NDA for the restless legs indication assuming that the trials continue successfully. We would also expect that the pharmacological stress agent would be approaching or already be in the market in that three-year window.

So we have a lot of activity going on from a commercial standpoint and we would also hope that in that time frame that we would backfill some of our pipeline with our own intellectual property estate as well in-licensing or acquisitive growth.

TWST: How much wealth is there in the IP property catalog that you have currently, and what would be the appropriate areas to fill in similarly or expand along similar lines?

Mr. Rice: We believe that our intellectual property today, particularly in the adenosine field, is largely untapped. We have been very opportunistic over the years in putting our programs into the clinic. A part of that was driven by the early development of the company, which had as its hallmark a very capital poor background. The company was initially formed in 1994, it was a spinout of the Ethyl Corporation, done as a management buyout and until 2001, the company had raised in its history a total of \$14 million dollars of equity. In late 2000, the company recruited a new Chief Executive Officer, Peter G. Savas, and Peter in turn recruited myself and Dr. William Wheeler as our Chief Medical Officer to supplement the scientific Founders of the company. The goal of those management expansions and changes was to move the company to the next step of its development. We were able to raise \$45 million in 2001, at almost 2 times our last private round. We today still have \$30 million of that money in the bank.

Our goal was to go public at a time when we thought the market was starting to turn, so we didn't need money per se, we weren't going out because we needed capital. But what we believed was that armed with additional cash and public currency, we could grow much more rapidly toward the late-stage programs and commercialization end of the value chain, which is our long-term objective. Unfortunately, we were scheduled to price our deal at a time when the markets were in a great deal of turmoil from the combination of Tyco, Enron and all the things that were going on at that point. We felt that the pressure on our price was too extensive for us to close the deal, given that our goals were focused on currency rather than simply getting the money at any price. We opted to initially wait a little bit and see if the market would recover and if not, we were quite happy to pull the transaction, which we did in the summer last year.

TWST: Does that impede the acquisition opportunities from your perspective now? Without the public currency, does that make that occurrence less likely?

Mr. Rice: We don't think it's a large impediment but we do think it obviously makes the transactions more challenging. We believe that the overabundance of undercapitalized companies in today's biotechnology and pharmaceutical market creates opportunity for us because, unlike prior markets in which there has been a similar dearth of capital, there is not going to be a savior that bails out these companies. We think that the magnitude of the losses in biotech over the last couple of years is measured in tens of billion dollars and has created a fairly fundamental shift in the willingness of investors to consider continued investment in companies that have unacceptable financial risk. So what we have attempted to do is position ourselves as a company that has very acceptable financial risk by conserving our cash and making sure that we are focused on the value adding events in the future for our company. We believe that the reduced likelihood of companies getting financed by the general capital markets provide an opportunity for us to acquire or in-license programs that would otherwise not be funded at all.

TWST: Is the focus on commercialization because the market rewards that today or was the strategy of this company, commercialization sooner rather than later?

Mr. Rice: More of the former than the latter. We believe that today, the market is most concerned and most focused on near-term opportunities or, said another way, late-stage programs. We heard very clearly on our road show the need to have late-stage programs and the value that we were being given as a company was emanating predominantly from the late-stage clinical programs that we have.

So what happens today is that the market gives credence and therefore, value to late-stage programs where revenues are in the near-term horizon, they don't give much value to early-stage programs, but they penalize companies that don't have them. We believe that for the long term, we must have a robust pipeline of product to backfill for the programs that are making their way through the clinic and at the same time, we want to do that in a way that is acquisitive in nature and doesn't necessarily shorten our cash runway. So we believe that we will be more successful once we are a public company, but we believe at this point that we can do on a very selective basis, the kind of transactions we need to do with private company stock and accomplish our goals.

TWST: Walk us through the management team and how it breaks down in terms of the business versus the science side of Aderis.

Mr. Rice: I would say that there are three groups of people in this company who add immense value and credence to our story and our capability to implement it. Our CEO, Peter G. Savas, is a 30-year veteran entrepreneur. He started his life at Bristol-Myers Squibb. He is a chemist and has spent most of his career in sales and marketing at a combination of companies like Millipore and Waters.

He has started and sold companies in the past and he is particularly well skilled at developing and maintaining relationships with the financial community.

My background is predominantly in the life sciences arena. I am an MBA and have a JD and Master's in Tax. My focus for the last decade or so has been on commercial development in a number of both public and private life science and pharmaceutical companies. William S. Wheeler, MD, our Chief Medical Officer, is an interventional cardiologist by training. Bill has 18 plus years in the practice of medicine and then he decided to move over into industry, initially at Burroughs Wellcome, where he was involved in a number of clinical trials in cardiovascular medicine. He was recruited out of Burroughs Wellcome into Quintiles, where he became Vice President of Cardiovascular and Critical Care. That's where he met Aderis when he was Medical Monitor on two of our cardiac programs at Quintiles.

Dr. Donald A. McAfee is our Chief Technical Officer and Scientific Founder of the company. Don is a PhD Physiologist who has spent almost an equally balanced portion of his career in academia and industry. Don, along with his three partners, the other co-founders of the company, demonstrated repetitively that they are very good at identifying product candidates and getting them very quickly and efficiently from the brain, to the bench, to the clinic. Today that is the hallmark of our track record. We have taken a total of seven molecules into the clinic and we have had the discipline in the case of three of them to kill the programs because they just didn't seem to be panning out and that's very difficult generally for small companies to do without a gun held to their head.

So we are very proud of the track record that our team has and we believe that it's a track record that is making us an attractive potential partner for other companies that are looking for homes for their programs and technology.

The second group of people who are important to our development is our Scientific Advisory Board. We have a very active Board that works more as individuals than as a group. It's made up of some fairly notable characters, the first of whom is Sir James W. Black, a 1980s Nobel Laureate, who was awarded a Nobel prize for his work in histamine blockers and beta-blockers. Dr. Paul Greengard is a 2000 Nobel Laureate in Human Physiology. He is also on our Scientific Advisory Board. He was Dr. McAfee's Postdoctoral Advisor at Yale and he is now at Rockefeller University. We also have Dr. Ray A. Olsson, who is reputed and accepted by most to be the father of adenosine chemistry at the University of South Florida. We have a gentleman named Dr. Joseph R. Bianchine. He is currently Senior Scientific Advisor at Schwarz, but he also has 15 NDAs to his name and he was the man responsible predominantly for bringing our Parkinson's drug into the Schwarz organization and causing them to develop it. What is not as well known about Joe is that prior to joining Schwarz, he was with Pharmacia, where he developed the currently most successful orally available dopamine agonist out there, a drug called pramipexole or Mirapex. So he has been instrumental in

development of our drug at Schwarz. We also have Dr. Juha P. Kokko, a reknown Nephrologist, who sits on the Board of Gambro Corporation. Some of our earlier programs are in the renal area, so he is adding a great deal of value.

Third is our Board of Directors. When we put the new money in the bank into 2001, we had, with the support of our then existing board, the mandate to transform the Board. The new Board needed a different set of skills from what was originally there as a venture Board. The Board right now has six members. Dr. Robert McNeil is from Sanderling Ventures and is our earliest and longest tenured Director and investor. James Garvey from Schroder Ventures Life Sciences represents a late-stage venture perspective for the company. Michael Ross was employee number 13 at Genentech and he is now a Partner at Schroder Ventures. When he joined the Board he was a Scientific Consultant to both us and others and he adds a strong technical dimension to the Board.

We have a gentleman named Wayne I. Roe, a pharmacoeconomist by training. He has played a role on over 125 drugs and devices in the reimbursement and regulatory approval arena. He was one of the co-Founders of a company that became the core of Covance. We have a gentleman named Gary Frashier, who is ex-Chairman of OSI Pharmaceuticals. He has built and grown small companies and managed very large companies as well. And obviously Peter G. Savas is on the Board as well.

We think we now have a very balanced Board that has been very helpful to us in formulating our strategy and helping us to implement it in moving forward.

TWST: What are the current investors focused on as far as Aderis is concerned?

Mr. Rice: A lot of the money in the company is relatively young. In the \$45 million round that we did in 2001, we brought several new late-stage investors to the table that are relatively patient, so their objective is to make sure that we create maximum value prior to any liquidity event. Therefore, we are not under any pressure from

them to create liquidity. This is for many of them their first investment in the company and most of the investors tend to do multiple rounds in these kinds of entities.

If we need to do another private placement, we believe that we will have strong support from our internal sources. We don't need the money today, we have over three years of cash in the bank plus about \$20 million in milestones still owed to us by our partners, assuming successful products. Our partners are funding most of our clinical development programs and our burn rate is low. The question then becomes, what would a financing strategy look like? Our preference would be to do an IPO, but that's not the only choice we have. We believe that we need a few things to happen, in particular we need a more stable market and we also believe that we will get maximum value for our company and therefore, for our shareholders if we are able to put off undertaking any kind of financing activity until after we have more of the data from the clinical trials from our lead products.

TWST: Thank you.

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