Seeking Alpha α

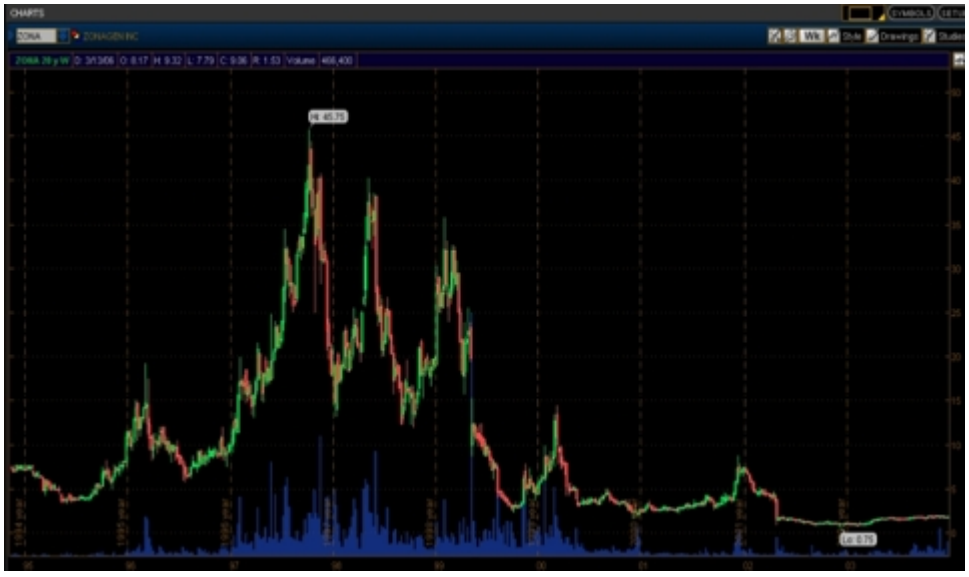
Red Flags at Repros Therapeutics

by: Ian Bezek January 25, 2009 |

“What's in a name? That which we call a rose, By any other word would smell as sweet.” -- William Shakespeare in *Romeo and Juliet*

Does an old discarded penny stock traded under a flashy new name smell sweeter to investors? Apparently so. Shares of Repros Therapeutics (RPRX) have risen sharply, more than doubling since September of last year. However, I wonder if many shareholders in Repros have forgotten, or maybe never learned, that Repros is the same corporation as the discredited and oft-sued Zonagen. In 2006, after numerous failures, Zonagen changed its name to Repros and hoped to shove two decades of failure under the rug. Well, it's past time to go looking in the closet to see what sort of things Zonagen and its long-time CEO Joesph Podolski might not want you to know.

At this point, I should credit Manuel Asensio and his book *Sold Short* for opening my eyes to the story at Zonagen. Manuel is a notable short-seller who issued a flurry of negative reports on Zonagen as its stock fell from a climax of more than $40 per share down to under a buck. Here's a chart of Zonagen from 1995 through 2003 that shows the complete pump and dump of its shares.



What led Zonagen's shares from under $5 to up to $45 before completely collapsing? Zonagen was founded more than twenty years ago to try to develop birth control methods based on modification of the zona pellicula—a part of the ovum. The company bought the rights to the research of Dr. Bonnie Dunbar and attempted to create a contraceptive vaccine. Her research, which had been progressing well, ground to a complete halt according to Brian Wallstin of the *Houston Press* newspaper in his article “Biological Disaster.” In it, Brian explains how Zonagen stole her work.

She ended relations with the company and sued them. Zonagen would not develop any commercial product from research relating to the zona pellicula—despite naming itself after it.

After this, Zonagen needed something new with which to excite investors. Its next project would be to create an adjuvant. These are products modify the effects of the active ingredient in a drug without having any direct effects of their own. However, Zonagen's attempt, ImmuMax, was merely an attempt to patent and cash in off a widely researched generic product: shrimp shells. The compound, Chitosan, was indeed capable of causing some desirable effects within the immune system, but it also caused permanent scarring at injection point which made it useless for the sort of medicinal purposes Zonagen hoped to use it for.

After abandoning ImmuMax, Zonagen moved on to its third, and most exciting, failed drug: Vasomax. Realizing that Pfizer's Viagra was going to be a hit product, Zonagen hoped to ride its coattails with an erectile-dysfunction drug of its own. However, unlike Pfizer, Zonagen repeated its experience from ImmuMax; it got a forty year old generic drug, phentolamine, dressed it up as something new, and acted as if it was a genuine Viagra competitor. While phentolamine was never proven to create erections by itself, Zonagen claimed that its formulation, simply phentolamine administered orally instead of in pill form, would work magic.

When there was already a working drug for ED, Viagra, it is baffling to try to figure out why Zonagen would bring out an old generic drug and attempt to repackage it as something useful. However, Vasomax's inability to perform didn't stop the stock, investors bid it up sharply. Despite a failed Phase II trial in 1996 for Vasomax, the company proceeded to Phase III trials anyway and initially got investors excited. Once Schering-Plough (SGP) pulled out of its partnership with Zonagen for Vasomax, Zonagen abandoned its New Drug application for Vasomax. Investors were left feeling limp as shares skidded into the low-single digits.

The company was left with little more than a corporate shell and a bunch of lawsuits, several from former employees. Several of the ex-employees had less than flattering things to say about the company. For instance, Brian Wallstin interviewed Zonagen's former head of immunology Balbir Bhogal. Wallstin reported:

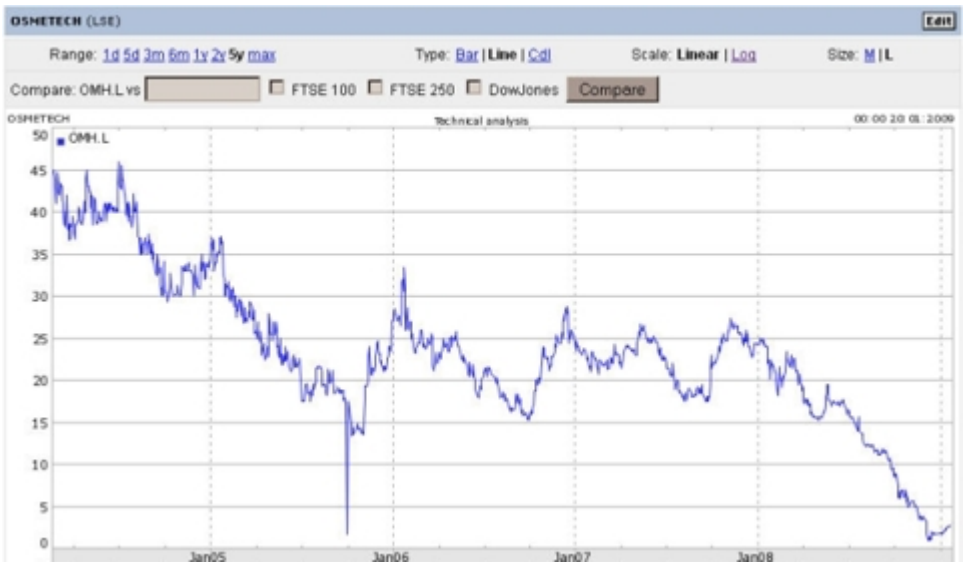
Bhogal says the repeated failure to conduct a proper [test] reflected the overall scientific environment at Zonagen. The staff took long lunches. Many researchers didn't come to work until 10:30 or 11 in the morning. On Fridays, most of Bhogal's co-workers would join Podolski at Molly's, a local pub, and not return to the lab until midafternoon. When Bhogal questioned the research methods or the work ethic at Zonagen, he says he was accused of being bossy and overly aggressive.

Though Zonagen was little more than a corporate shell after the Vasomax failure, the above-mentioned Joesph Podolski would not abandon ship. Instead, the man who led Zonagen through two decades of failure decided it was time for a name change. Zonagen was newly christened Repros and began work on its fourth lead drug, Proellex. I'm not a biologist or chemist, so I'm not going to comment specifically about the viability of Proellex as it isn't my area of expertise. That said, it's alarming to realize that under Podolski's leadership Zonagen/Repros has had a history of trying to take other people's generic/failed drugs, renaming them, and then hoping for the best. Remembering that, it is important to note that Proellex is very similar to Asoprisnil. Asoprisnil was developed by

Schering to treat Endometriosis. Development was discontinued because the drug was causing thickening of the endometrium. Note that Asoprisnil appeared to be effective but was unsafe. Enter Proellex; Repros has frequently trumpeted how effective Proellex has been at relieving pain, but has been less clear on the safety issues.

However, a March 7th, 2008 press release from Repros sheds light on the subject. It states, “The clinical data showed that progressive endometrial thickening as measured by ultrasound occurs with all three doses of Proellex(R) that have been used in clinical trials to date.” Well, if that's what stopped Schering's Asoprisnil from being approved, I've got to wonder what's different here. Repros claims that its time on the drug/off the drug approach will make a big difference in safety versus Asoprisnil; however, could this be a minor change, a red herring to throw investors off the real story? Remember, Vasomax was little more than someone's drug with a different method of ingestion.

Finally, one has to wonder about the leadership of Repros. For starters, why, after more than two decades of failure, is Joesph Podolski still the CEO of this company? How many failed drugs, share dilutions, and years without profit must pass before the board finally kicks him out? Also of interest, why are bulls on this stock so excited about Mark Lappe who was recently elected to Repros's board? While Lappe is a big investor in Repros and a hedge fund operator at Efficacy Capital, I have to question his credentials. The only other traces of him or Efficacy Capital I could find was Efficacy's investment in several small biotech companies, most notably the British firm Osmetech where he is also a director. The chart of Osmetech isn't exactly reassuring:



While I hope Proellex ends up being a successful drug that relieves the symptoms of millions of suffering women, I am doubtful. The long track record of shoddy research and the repackaging of old or generic drugs into hot new items smell more of a stock promotion than of a successful biotech firm. With twenty years devoid of profits but full of share dilution, I have to assume that investors buying into Repros near its 52-week high will find only more untreated pain.

Disclosure: Short RPRX.