From the San Francisco Business Times :http://www.bizjournals.com/sanfrancisco/print-edition/2011/02/25/merck-plans-big-biotech-push-palo-alto.html

Merck plans big biotech push in Palo Alto

Hiring up to 40 scientists

SUBSCRIBER CONTENT: Feb 25, 2011, 3:00am PST

Ron Leuty

Traditional pill maker **Merck & Co. Inc.** is staking a large part of its future on biotech drugs, and in Palo Alto.

Merck is throwing its cash and brand expertise behind a two-pronged approach — developing its own biotech drugs, as well as biosimilars, or copies of established biotech drugs — as it seeks to make up for lost time. In Palo Alto alone, Merck will hire 30 to 40 researchers this year as it shifts from discovering targets for drugs to discovering the drugs themselves.

"We have all the parts and pieces there," said Deborah Law, who was hired in September to lead the Palo Alto site, "and now it's about putting them together effectively."

That's easier said than done since Merck — the company behind products as diverse as suntan lotion Coppertone and the asthma and allergy drug Singulair — is late to the biotech game. As Big Pharma has seen patents on its chemistry-based pills expire faster than their pipelines can replace them, it has only in the past few years looked to develop biologic drugs that use living organisms. Merck is no exception.

But biologics are increasingly where the action is. According to a **Reuters** forecast, eight of the 10 top-selling drugs by 2014 will be biologics. Half of this year's expected best sellers, Law said, are biologics.

Merck must act fast, though: None of the drugs on the best-seller lists belong to Merck alone.

Industry watchers are keeping a close but not enthusiastic eye on whether Big Pharma can maneuver in a biotech industry historically known for its nimbleness and innovation. "Those are northern New Jersey dinosaurs," said Steve Burrill, CEO of San Francisco-based life sciences merchant bank **Burrill & Co.**

Pfizer Inc., the world's largest drug maker, has designs on the biologics space, but has put that behind its plan to cut costs and please shareholders. Merck CEO Ken Frazier earlier this month said the No. 2 drug maker won't sacrifice R&D spending to meet long-term bottom-line forecasts.

Merck is putting its money where its mouth is, so far. The Whitehouse Station, N.J.-based

company, which netted $861 million last year on revenue of $46.8 billion, spent more than $8 billion in 2010 on research and development. A year ago, it brought on Rich Murray in a move to tap his rich antibody drug development experience at **PDL BioPharma** and Eos Biotechnology.

Murray, now the senior vice president of biologics research and development at Merck, then called Law, his former coworker at Eos and PDL, where she was vice president of research.

The big piece of the pie, however, was Merck's late 2009 acquisition of **Schering-Plough Corp.** for $41 billion. That deal included the former **DNAX Research Institute** in Palo Alto.

The Schering-Plough name still is on the sign in front of the California Street building. Only a banner at the front entrance hints that it now is a Merck facility. Many of the 140 employees move through a front hallway and over a large "X" in the floor tile that marks the legacy of DNAX, and employee badges still bear the DNAX logo.

There's good reason to keep that mindset: DNAX was an immunology research paradise in the 1980s and '90s — several cytokines, or messenger proteins between cells, were discovered or their functions illuminated there, for example — and Schering-Plough paid for it all.

"There's a huge history here," Law said. "There's a heritage here that people are proud of."

Now Merck wants to harness that legacy and talent and turn it toward developing antibody drugs — those developed from engineered proteins that target and bind to a specific molecule on cells affected by a specific disease — as well as drugs based on fusion proteins formed when two or more genes are joined.

The Palo Alto site works with the drug maker's seven disease franchise teams — ranging from oncology and cardiovascular to diabetes and neuroscience — to set targets for novel, potentially brand-name biologics. The biosimilar business, which will be aided as the Food and Drug Administration defines a pathway for the approval of generic biotech drugs, is based on the East Coast.

"It's not like we're starting from scratch," Law said.

Ron Leuty covers biotechnology for the San Francisco Business Times.
rleuty@bizjournals.com / (415) 288-4939 / Twitter: rleuty_biotech
Read his blog postings at Bay Area BizTalk.