

SKYEPHARMA PLC  
Form 6-K  
March 03, 2006

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a - 16 OR 15d - 16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of March, 2006

SkyePharma PLC

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(Translation of registrant's name into English)

SkyePharma PLC, 105 Piccadilly, London W1J 7NJ England

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(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

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**For Immediate Release**

SkyePharma PLC

**SkyePharma Responds to Allegations  
Made by North Atlantic Value Group**

LONDON, UK, 3 March 2006 - SkyePharma PLC (LSE: SKP; Nasdaq: SKYE) wishes to respond to certain allegations made yesterday by a minority group of shareholders ("the NAV group") in a circular to SkyePharma's shareholders. The shareholdings held by the NAV group have been acquired in the last nine months.

Until today the Company has not been able to respond with a detailed rebuttal as the EGM requisitioned by the NAV group have only cited unspecified "corporate governance issues".

- . The allegations made by the NAV group are without substance and they continue to offer no support forward.
- . All NAV group's claims concern matters detailed in SkyePharma's reports and accounts and the NAV group has not invested. NAV group cannot claim they were unaware of these facts unless they failed to read the documents.
- . We agree with their statement that SkyePharma has an "excellent and potentially very valuable business" which has been built by the current Board.
- . SkyePharma has appointed a new non-Executive Chairman, Chief Executive and Chief Operating Officer. The Executive Chairman would make them redundant no matter what the NAV group has implied in their circular.
- . The NAV group's activity has severely undermined the current share price in the Board's opinion.
- . The Board of SkyePharma continues to advise shareholders to vote AGAINST the resolutions proposed by the NAV group.

Summary response details follow:

**"A HISTORY OF DISAPPOINTING ITS SHAREHOLDERS"**

Drug development is a long-term process. Predicting the timing of commercialisation is difficult and the clearest most accurate estimates possible. SkyePharma has a new Chairman and management team and a strategy which is designed to move the Company into sustainable profitability as soon as possible.

**"CONTRACTS WITH QUESTIONABLE VALUE TO SHAREHOLDERS"**

All investments are made as part of the Company's commercial relationships and usually as part of a wider strategy which has resulted in capital gains and others have not. To protect its investments, SkyePharma requests a return on its investments, which is a common practice. All information on this has been detailed in the Annual Report.

**"AN INFLATED CORPORATE COST BASE"**

SkyePharma's New York offices were rented on an arm's length basis on terms based on independent market rates. The London office is £42 per sq ft over five years, not £80 as suggested by NAV. These office costs are being reviewed and management is already reviewing all corporate overheads, including the London and New York office costs.

**"ROBERT THIAN'S SUITABILITY"**

In the view of the Board, Robert Thian is unsuitable to be Executive Chairman. His last executive role was as Chairman of Dr Karabelas and Dr Karabelas and Dr Karabelas have the relevant experience. They are highly qualified and have exemplary track records.

Dr Jerry Karabelas, Chairman said:

"NAV offer no substance, no strategy, just distortion. NAV would destroy SkyePharma with an offer which is already moving the Company forward rapidly.

"This is a crucial moment for shareholders. The choice is to back the Company's coherent strategy or to back unsubstantiated slurs.

**"The Board of SkyePharma believes that all of the above allegations are completely unfounded and have been contrived by the NAV group for their own ends."**

For further information please contact:

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**SkyePharma PLC** +44 207 491 1777  
Frank Condella, Chief Executive Officer  
Peter Laing, Director of Corporate Communications +44 207 491 5124  
  
Sandra Haughton, US Investor Relations +1 212 753 5780  
  
**Buchanan Communications** +44 207 466 5000  
Tim Anderson / Mark Court

**SkyePharma wishes to remind shareholders that they are entitled to attend and vote at the meeting. Shareholders are invited to attend on their behalf. The Board strongly advises shareholders to vote AGAINST the resolutions proposed in the Form of Proxy (which was sent together with the Notice of Extraordinary General Meeting) and that proxies should be returned as soon as possible so as to arrive at Capita Registrars, The Registry, 100 Brook Hill Drive, Kent, BR3 4TU not later than 11 am on 7 March 2006.**

SkyePharma plc has appointed Salisbury Associates as its Shareholder Communications Advisor. Salisbury Associates provides the following Toll Free Shareholder Helplines:

If you have any questions regarding the contents of the documents you have received, please call the Shareholder Information Hotline

**In the UK**  
**0800-035-2220**

**In North America**  
**011800-3231-3233**

**From other International sites**  
**+44 1494 840 812**

The helpline hours are:

9:00am - 5:00pm UK time Monday to Friday from 17 February 2006  
9:00am - 5:00pm EST in North America

Please note that your call may be recorded for quality assurance and training purposes. The helpline cannot provide individual shareholder financial advice.

DETAILED RESPONSE

### "A HISTORY OF DISAPPOINTING ITS SHAREHOLDERS"

SkyePharma was initially a contract drug delivery company which developed enhanced formulations on a contract basis. However in 2000 SkyePharma's Board decided that although this business model had long-term growth potential. The Board therefore decided, with shareholder approval, to acquire technologies to develop certain of its own products for subsequent out-license. SkyePharma then became a pharmaceutical company.

The development of pharmaceuticals requires many years of investment before commercial sales. SkyePharma mainly works on improving formulations of drugs that have already been shown to be safe and effective. In early-stage development, there remains an unavoidable period of developmental losses during which a pharmaceutical company can avoid or shorten this development time-scale.

Furthermore while the Company can control its expenditure, which is mainly R&D, it sets its R&D income from its marketing partners. Certain products have been less successful initially therefore revenues have fallen short of levels needed to support the development expenditure. The Company's expectations of sustainable profitability have proved optimistic with the wisdom of hindsight. In early-stage development and the Board is firmly of the opinion that Mr Thian's lack of experience in pharmaceuticals to change this compared to Dr Karabelas and his team.

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Finally the Company has no sales and marketing organisation of its own and is dependent on licensees. SkyePharma therefore has to appoint such licensees. Negotiations with potential partners may therefore be subject to an inevitable uncertainty about whether a particular deal will be successfully completed. A development partner is being sought to fund part or all of clinical development costs - as has been the case with the development of Flutiform. The Company is naturally unable to predict the timing or the outcome of these negotiations. The Company has historically tried to provide guidance using its best estimates for these caveats are often overlooked. This factor accounts for a good deal of the uncertainty surrounding SkyePharma.

### **"CONTRACTS WITH QUESTIONABLE VALUE TO SHAREHOLDERS"**

#### **Relationship with certain companies**

It is not uncommon in the pharmaceutical industry for reimbursement for technologies, products or services to be a condition of shares - and, for example, the shareholdings in SkyePharma held by GlaxoSmithKline, Novartis and others are subject to the terms of product licence agreements. SkyePharma has also accepted shares or convertible debt in partial or total payment for products or services, especially where the partner company is a start-up or has cash or revenue limitations. **However, SkyePharma wishes to clarify that it does not make spec**

Shares acquired through such arrangements can sometimes result in capital gains (as has happened with Vectura Ltd and Transition Inc.). However the nature of early-stage development means that there are often disappointments as well as successes. The Company notes that the NAV group has been selective in its investments by citing just four examples where the value of SkyePharma's holding has declined. In all four cases the NAV group has income and/or acquired product rights from partnerships with these companies and it is misleading to suggest that SkyePharma's shareholding. In addition, all these contracts have been fully disclosed in the company's financial filings. It is worth noting that the NAV group became shareholders a substantial time after the companies' IPOs are explained below.

#### **1.1 Relationship with Vital Living**

In December 2001, the Company entered into a license and development agreement with a US nutraceutical company, Inc., for the use of the Company's Geomatrix controlled-release delivery technology in the development of nutraceutical products ("nutraceuticals"). In connection with this agreement, SkyePharma was issued shares in e-nutraceuticals. In August 2003, e-nutraceuticals merged with a competing nutraceutical company, which SkyePharma held shares in Vital Living. Vital Living develops or licenses nutraceutical products through physicians, medical groups, chiropractic offices and retail outlets. Vital Living uses Geomatrix technology for the development of nutraceuticals on a global basis. To date SkyePharma has developed products for Vital Living and Michael Ashton, then SkyePharma's Chief Executive, was appointed as non-executive director in order to protect SkyePharma's interests. This appointment followed the

**The Company refutes allegations that SkyePharma's investment in Vital Living was speculative. Further, the board of Vital Living followed SkyePharma's investment rather than came before as alleged by**

#### **1.2 Relationship with Micap**

In 2002, SkyePharma was introduced to Micap plc by a leading UK investment institution that was a shareholder in January 2003, SkyePharma and Micap announced that they had entered into several agreements concerning the use of proprietary yeast-based microencapsulation technology to drug delivery. SkyePharma also participated in fundraising and, at Micap's request, Ian Gowrie-Smith, at that time SkyePharma's Executive Chairman, acted as Non-Executive Chairman. Later in 2003 Micap undertook an initial public offering. Following the IPO, SkyePharma's shareholding represented approximately 18.2% of Micap's ordinary share capital.

During 2003, SkyePharma investigated the pharmaceutical applications of Micap's microencapsulation technology for oral and topical drug delivery. The Company was paid for its services. In March 2004, the Company entered into an agreement to use Micap's encapsulation technology in up to ten nominated pharmaceutical products to be sold in the UK. SkyePharma selected its first option product and in March 2005 completed the selection of all ten products for further development it became apparent that the area in which the Micap technology was most valuable was in the delivery of topical drugs. Following the 2004 sale of SkyePharma's interests in dermatological pharmaceuticals to Micap, the topical delivery now lies outside SkyePharma's core business interests. SkyePharma therefore decided to surrender all rights under the licence agreement back to Micap, leaving Micap free to appoint others to develop the applications of its yeast technology. Mr Gowrie-Smith resigned as a director of Micap in September 2005. In December 2005, SkyePharma's shareholding was reduced to approximately 9.4% of Micap's is

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**The Company refutes the implied suggestion that SkyePharma's investment in Micap was made for Gowrie-Smith's sole connection with Micap was through accepting that company's invitation to SkyePharma's investment in Micap.**

### **1.3 Relationship with Astralis**

In December 2001, the Company entered into several agreements with Astralis Ltd concerning the vaccine therapy, Psoraxine, for the treatment of psoriasis, a chronic skin disorder. The treatment in recent years by the introduction of biological drugs that target the cause of the condition in the commercial market. Furthermore, both SkyePharma and Astralis believed that Psoraxine could be developed using sustained-release injectable delivery technology. Astralis had completed clinical studies with patients treated with a first generation of Psoraxine, with encouraging results, and the product was in development. SkyePharma agreed to provide development, manufacturing, pre-clinical and clinical development services in exchange for an option to acquire the worldwide licensing and distribution rights to Psoraxine on the condition that, in 2002, Michael Ashton, then SkyePharma's Chief Executive, was appointed to the Astralis Board.

In September 2003, Astralis initiated a Phase I clinical trial of Psoraxine in the United States, which was completed. In January 2004 SkyePharma converted its initial holding in convertible preferred shares to common shares, owning approximately 35.7% of the common shares of Astralis.

In March 2004 Astralis initiated a Phase II clinical trial of Psoraxine in mild to moderate psoriasis. In 2004 SkyePharma became increasingly concerned about the way in which the clinical development was proceeding in accordance with its recommendations. SkyePharma therefore decided that the best option for its business was to gain control of Astralis. In December 2004, SkyePharma entered into an agreement with Astralis for two former directors of Astralis. The consideration for these additional shares was approximately \$1 million. The agreement became unconditional on 3 March 2005, bringing SkyePharma's stake up to approximately 49%.

On 14 March 2005, Astralis announced that the Phase II clinical trial had not met the primary endpoint. SkyePharma worked with Astralis to investigate and resolve the possible reasons why the outcome of the trial was not as expected. The results of previous large-scale trials in Venezuela. Dr. Gordon Schooley, SkyePharma's Chief Medical Officer, joined the board of Astralis in April 2005 in order to provide his expertise on clinical trial design. SkyePharma's divestment of SkyePharma's injectable business will include the rights to Psoraxine.

In August 2005 Astralis obtained funding from a company called Blue Cedar Ltd, diluting SkyePharma's stake to approximately 35%.

**The Company refutes the allegation that it increased its investment in Astralis after the announcement of the Phase II clinical trial results.**

### **1.4 Relationship with GeneMedix**

In 2002 SkyePharma was seeking sources of biological drugs for the development of sustained-release proteins based on its DepoFoam and Biosphere technologies. In June 2002, SkyePharma signed an agreement with GeneMedix for an extended release formulation of interferon alpha-2b, a commercially important antiviral treatment of the most common form of hepatitis. Prior to entering into this agreement, SkyePharma had licensed its interferon alpha-2b with its DepoFoam technology.

In 2005, SkyePharma and GeneMedix mutually agreed to terminate the collaboration because of product quality issues with source material that affected the development programme. SkyePharma is in active discussions with GeneMedix regarding further development of this project.

Stephen Harris, a non-executive director of SkyePharma since 1995 and is also a director of several other companies in the UK, became a non-executive director of GeneMedix in 2002 after an approach by GeneMedix. After a letter of intent had been agreed between the two companies for the interferon project, SkyePharma's negotiations between the companies.

**The Company refutes the inference that the agreement with GeneMedix was entered into for the purpose of SkyePharma being a Board member of GeneMedix.**

### **"AN INFLATED CORPORATE COST BASE"**

#### **SkyePharma's New York offices**

Since January 1997 SkyePharma PLC has occupied an office in New York at 10 East 63rd Street. SkyePharma occupies the seven floors of this building with the remainder sub-let to other tenants. The total area is approximately 8,900 square feet. The 2,800 square feet of offices occupied by SkyePharma house SkyePharma's investor relations staff and provide meeting rooms for use by SkyePharma's executive management.

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prospective partners in the key US market.

At the end of December 1998, the Company's former Chairman Ian Gowrie-Smith (through a family-owned 10 East 63rd Street Inc., the company that owns this building. In December 2002, Mr. Gowrie-Smith and became sole owner.

From 1997 to 1999 the rental on the three floors occupied by the Company was \$300,000 per annum. per annum in 2001, and when the Company took additional space in 2002, it rose to \$420,000 per annum up for renewal in August 2003, the Company was contemplating future expansion of its US business a new eight year tenancy agreement for the entire building. The annual rental for the entire August 2008, and \$942,500 per annum from August 2008 to August 2011. However SkyePharma subsequently beyond three floors and therefore other floors are sublet. The Company is currently in the process

The terms of all tenancy agreements, both between SkyePharma and Mr Gowrie-Smith and between based upon independent real estate valuations and have been negotiated by independent realtors. the relationship with Mr Gowrie-Smith have been fully disclosed in SkyePharma's Annual Reports and

A single room studio apartment (total floor area 360 square feet) on the roof of this building staff while visiting New York on Company business as an alternative to hotel accommodation. This Mr Gowrie-Smith while Chairman of SkyePharma when it was not required by other Company staff.

**The Company refutes any allegation that the rental of the New York office was undertaken on any or that the one-room "apartment" was "used primarily" by or for the benefit of, Mr Gowrie-Smith.**

### **SkyePharma's London offices**

The Company's headquarters is located at 105 Piccadilly London W1. This office of approximately the Chief Executive and Finance Director (and will also house the Chief Operating Officer and the Company's head office staff. It also provides meeting rooms, including the room used for meetings. In December 2005, these premises were occupied on a 10 year lease at a total annual rent of £522,000 per annum in December 2005 and the new annual rent is approximately £281,000 per annum in 2006, £316,000 per annum in 2008-10. This means that the current average rental over five years is approximately £42 per square foot the £80 cited by the NAV Group. The terms of this lease were reviewed by external property advisers significantly below the current rental level for offices in this area as confirmed by the NAV Group from the sub-letting of certain unused offices on one floor.

**The Company refutes any suggestion that the London premises are unduly expensive or inappropriate. The Company is currently examining all items of corporate overhead expense and this may include relocation of the most cost-effective alternative accommodation can be identified.**

### **SkyePharma's other offices**

The NAV group state that "the Company maintains offices in Canada, Japan, Switzerland, and two operating centres are in Muttenz, Switzerland and San Diego, USA. Both of these centres are modern facilities. In addition the Company has a dedicated manufacturing centre in Lyon, France. The Company is the injectables business that the Company intends to divest. The USA is by far the most important market and with most of the industry based on the East Coast it is important for business development as well as the San Diego facility. The office in Canada came with the 2001-3 acquisition of the company's operations were relocated to San Diego in 2004. The "office" in Japan consists of SkyePharma's Japanese business development executive.

### **Non-executive directors' fees**

The Company has a strong record of following best practice on executive remuneration and has consulted its shareholders for its policy, levels and structure demonstrated by the Company's shareholder voting Committee report: 2005 Report 99.35% support, 2004 Report 98.90% support and 2003 Report 91% support. Shareholder voting guidance services from the ABI and NAPF have given the Company a clean bill of approval.

In line with the policy agreed with the overwhelming majority of shareholders the Company has voted against a comparator group agreed by shareholders and set out in the Remuneration Committee report. The comparator group on the total pay and benefits received by the Non-Executive Directors in 2004 is the same as the compensation paid to Mr Gowrie-Smith when he was Executive Chairman (stepping down to Non-Executive Chairman in the financial year at the 2005 AGM). This fact is expressly stated as a note to the table in the Remuneration Committee report as is the fact that Mr Gowrie-Smith's fees as Non-Executive Chairman would be £100,000 and taking into account a full year for Mr Bray (appointed on 29th September 2004) the average Co

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(excluding the Chairman) was approximately £50,000 not £68,000 as stated in the letter provided. The Non-Executive fee in the Company's comparator group for 2004 was £49,000. The Chairman's fee is in line with the Company's policy. It should be noted that these fees were approved by shareholders when voting on the 2004 report.

In addition, in the current corporate governance environment it is generally seen as an advantage to have independent Non-Executive Directors.

### **Auditors' fees**

SkyePharma paid audit fees of £480,000 to our auditors in 2004 comprising £290,000 for the audit of the Company's 20-F filing with the SEC and the interim statement. As an SEC registrant, the audit of the Company's financial statements requires pre-approval by the Audit Committee. The Audit Committee regularly reviews the audit by its auditors and provides details of its policy in this area in the Company's 2004 Annual Report. The fee is higher in 2004 than in previous years due to the fact that the Company undertook certain non-audit work including work on potential acquisitions/strategic alliances and preparing for the conversion to public company.

**The Company refutes the implication that it has an "inflated cost base"**

### **"ROBERT THIAN'S SUITABILITY"**

The NAV group claims that Mr Thian has over twenty years' experience in the pharmaceutical industry and that this is recent. Mr Thian, then aged 25, joined the Glaxo Wellcome company in 1968 as a legal advisor and later a barrister. He worked in various managerial roles at that company until 1980 when he left to join Novo Nordisk Laboratories. In 1987, he joined the Danish company Novo Industri. Since leaving Novo in 1995, Mr Thian has worked in an executive capacity in the pharmaceutical industry. The Board therefore believes that Mr Thian's training, current experience or high-level managerial contacts that it feels are essential qualifications for the role.

**The Board of SkyePharma continues to believe that Mr Thian would not be an appropriate choice as he is far better qualified.**

### **Dr Karabelas' track record**

Dr Karabelas is a non-executive chairman of five companies in addition to SkyePharma. The NAV group claims that some of these companies since Dr Karabelas' appointment does not inspire confidence that he will be successful. SkyePharma wishes to point out that since leaving Novartis in 2000 Dr Karabelas has been successful in venture capital fund investing in development-stage healthcare companies. Venture capital funds invest in pre-profitability companies and nurture them to the stage where other more risk-averse investors (such as the investment group) can consider investment and ultimately groom them for public flotation. In the case of SkyePharma, Dr Karabelas prepared to accept short-term losses for the prospect of long-term gain. Therefore the NAV group's claim that investors in companies chaired by him are used to losses: he is chairman of three public companies and has a profound ignorance of the venture capital process.

Further, the share price has increased by 50% at Human Genome Sciences, Inc in the 18 months since he became Chairman and 30% at NitroMed, Inc in the 27 months since he has been Chairman. Dr Karabelas is not Chairman of any other public companies.

In addition, Dr Karabelas' knowledge of the US pharmaceutical industry is seen as an asset and his track record appears to suggest that he is well qualified for the role.

**In conclusion, the Board of SkyePharma believes that all of the above allegations are completely untrue and they have been contrived by the NAV group for their own ends.**

### **Trading Update**

The Company had been considering the issue of a Trading Update. Since this was primarily a matter of timing, it would have been disclosed at the R&D Days planned for January that had to be postponed because of the SARS outbreak. The statement should more accurately have been titled a Product Update. It has now become apparent that the timing of the isolation from the Company's Preliminary Results for 2005, which are expected to be announced in due course, is soon as practicable after this and details will be circulated in due course.

### **Summary**

**Dr Karabelas, SkyePharma's Chairman, is leading an excellent new management team, with outstanding track record.**

track records. Dr Karabelas, Mr Condella and Dr Cunningham are poised to implement a n profitability within the shortest reasonable time and deliver maximum shareholder value.

The Board totally rejects the unsubstantiated allegations levelled against the Company and i which in the Board's opinion, serve only to disrupt the implementation of the new strategy and delay the achievement of sustainable profitability to the detriment of shareholders. T Company has an excellent and potentially very valuable portfolio of drug licensing opportunities a strategy to develop these. The Board does and seeks the endorsement of shareholders to achieve or disruption.

The Board also recommends that shareholders are not lulled into a false sense of security b suggesting that they are seeking to make "housekeeping" changes only. It remains the firm opi be the intention of the NAV group to change the control of the Company.

Accordingly, the Board reiterates its recommendation to vote AGAINST the resolutions.

**Notes for editors:**

**About SkyePharma**

SkyePharma PLC develops pharmaceutical products benefiting from world-leading drug delivery te and more effective drug formulations. There are now eleven approved products incorporating Skye oral, injectable, inhaled and topical delivery, supported by advanced solubilisation capabi www.skyepharma.com.

*Certain statements in this news release are forward-looking statements and are made in reliance U.S. Private Securities Litigation Act of 1995. Although SkyePharma believes that the expectatio statements are reasonable, it can give no assurance that these expectations will materialize. B risks and uncertainties, actual results may vary significantly from those expressed or impli based upon a number of factors, which are described in SkyePharma's 20-F and other documents on cause differences between actual results and those implied by the forward-looking statements c without limitation, risks related to the development of new products, risks related to obtainin for existing, new or expanded indications of existing and new products, risks related to SkyePh on a large scale or at all, risks related to SkyePharma's and its marketing partners' ability maintain or expand market share in the face of changes in customer requirements, competition an to regulatory compliance, the risk of product liability claims, risks related to the ownership risks related to SkyePharma's ability to manage growth. SkyePharma undertakes no obliga forward-looking statement to reflect events or circumstances after the date of this release.*

END

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SkyePharma PLC**

By: /s/ Douglas Parkhill

Name: Douglas Parkhill  
Title: Company Secretary

Date: March 3, 2006