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Pernix Therapeutics (PTX-AMEX)

PTX: Q4 Results Impacted by Rebates

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	08/24/2010
Current Price (04/01/11)	$10.68
Target Price	**$14.50**

OUTLOOK

We have moved our price target from $15.50 to $14.50, reflecting our revised 2011 EPS estimate (from $0.76 to $0.60). The change almost entirely a result of increasing provisions for rebates/discounts and moving income tax expense from approximately 34% to 38%. We continue to expect very robust revenue growth during 2011. Revenue growth will come from continued ramp of Cedax, Natroba launch and new generic introductions.

Our longer-term outlook remains largely unchanged. Our investment thesis remains intact and we continue to be highly positive on Pernix.

We are maintaining our Outperform rating on shares of Pernix.

SUMMARY DATA

52-Week High	**$12.18**
52-Week Low	**$2.95**
One-Year Return (%)	**190.50**
Beta	**1.05**
Average Daily Volume (sh)	**22,470**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$263**
Short Interest Ratio (days)	**1.77**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**62**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**26.7**
P/E using 2011 Estimate	**17.8**
P/E using 2012 Estimate	**10.6**
Zacks Rank	**N/A**

Risk Level	**Average,**
Type of Stock	**Small-Growth**
Industry	**Med-Generic Drg**

ZACKS ESTIMATES

Revenue
(in millions)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	$8.9 A	$4.4 A	$7.8 A	$12.2 A	$33.2 A
2011	$15.1 E	$11.4 E	$12.1 E	$18.7 E	$57.3 E
2012					$79.1 E
2013					$108 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	$0.24 A	$0.01 A	$0.10 A	$0.07 A	$0.40 A
2011	$0.18 E	$0.10 E	$0.11 E	$0.21 E	$0.60 E
2012					$1.01 E
2012					$1.51 E

Zacks Projected EPS Growth Rate - Next 4 Years % **50**

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WHAT'S NEW

Q4 / FULL YEAR 2010 RESULTS

Pernix reported financial results for the fourth quarter and full year ending December 31, 2010 on March 31, 2011. Fourth quarter net sales came in at $12.2 million versus our estimate of $13.1 million. While gross sales of $21.0 million handily beat our $18.8 million estimate, this was more than offset by significantly higher than modeled rebate and discount expenses.

Pricing adjustments, utilized to discount to prices of competing products and for promotion of new product launches, has varied significantly from quarter to quarter. We expect this to be the case going forward as well, largely influenced by product mix, product introductions, and competitor pricing - both branded and generic. Medicaid rebates as a percent of gross product sales, also largely influenced by product mix and somewhat erratic, was 20% in Q4, versus our estimate of 15%.

EPS was $0.07 in Q4 versus our $0.14 estimate, the difference a result of the lower net revenue figure, and a 49% income tax rate (versus 28% estimate), slightly offset by operating expenses coming in 2.5% lower than our estimate.

For the full-year 2010 net sales and EPS were $33.2 million (up 19%) and $0.40, compared to $27.9 million and $0.44 in 2009.

Cash flow from operations was $2.6 million and $4.7 million for the three and twelve month periods ending December 31, 2010. Pernix exited 2010 with $8.3 million in unrestricted cash and equivalents. The $5 million guidance line was fully drawn but the $5 million revolver remained untapped ($1MM was subsequently drawn on the revolver in January 2011).

BUSINESS UPDATE

CEDAX
While Pernix does not provide sales of individual drugs, management continues to indicate that the Cedax launch has met or exceeded their initial expectations. Pernix rolled out a double-strength formula in January 2011 which management implied has already been a tremendous success.

Natroba
Natroba, the high-potential lice product, is still expected to launch in Q2 2011, concurrent with the summer camp season. Co-pro partner ParaPRO will only have a handful of reps detailing Natroba, affording a huge opportunity for Pernix Pernix reps, which will be pushing Cedax and the cough-cold line in Q1, will switch their main focus to Natroba coming into the summer months. We expect the combination of Natroba's efficacy (and benefits in application) and Pernix's sales acumen to result in a rapid and steep sales ramp. Natroba, with its peak season in the warmer months, should also afford some offset to the seasonality in revenue of the cough/cold products.

Theobromine
In a surprise announcement, Pernix revealed in March 2011 that they are shopping rights to theobromine, the new antitussive development candidate that management has been so excited about. The move is apparently solely motivated by significant interest in the compound by several potential acquirers. JP Morgan was brought on to lead sale of the candidate, which is expected to be handled through an auction process. Management expects that if a deal does get done, it would likely happen in 2H 2011. We will update our model accordingly if and when the a deal is announced.

FDA Action
In early March 2011 FDA announced its intention to remove certain unapproved prescription cough/cold medicines from the market, including Brovex and Aldex, both significant contributors to Pernix's revenue over the last few years. Pernix, in anticipation of the agency's action, had been converting their legacy products over to OTC

monograph. Pernix has already had significant success with Pediatex, which was converted from prescription to OTC, and does not expect any adverse impact to their other products as a result of the FDA's recent announcement. Management noted on the Q4 call that this may, in fact, weed out some of the competing products, actually creating more opportunity for their own cough/cold products.

OUR 2011 OUTLOOK

As we have indicated since initiating coverage of Pernix in August 2010, the dynamic nature of the company, coupled with lack of insight into individual product sales, creates challenges in forecasting sales and earnings. This is evidenced by Pernix crushing our Q3 2010 revenue and EPS estimates but then falling significantly short on both in Q4. We have updated our model following Q4 results to incorporate some recent trends relative to discounts and rebates as well as more specific income tax guidance. We continue to expect very robust revenue growth during the current year.

Revenue
We look for Pernix to post net revenue of $57.3 million in 2011 on gross sales of $87.3 million. The net revenue estimate implies annual growth of approximately 73%. Revenue should benefit from a full-year's worth of sales of Cedax (aided by the double-strength formula launch in January), Natroba launch near mid-year and additional generic introductions through Macoven. Pernix continues to actively seek additional co-pro's, licensing deals and product acquisitions - any of which could potentially provide some upside to our estimate.

EPS
We have moved our 2011 EPS estimate to $0.60, from $0.76 prior to Q4 2010 results. The change almost entirely a result of increasing provisions for rebates/discounts and moving income tax expense from approximately 34% to 38%. Depending on the actual level rebates/discounts, our EPS estimate could prove conservative.

Price Target
We model EPS to grow at a 36% CAGR through 2014. Using the industry-average long-term PEG of 0.67, implies a valuation of approximately 24x 2011 EPS. We look for Pernix to post EPS of $0.60 in 2011, implying a value of roughly $14.5 per share. We are moving our target price from $15.5 to $14.5 per share.

KEY MANAGEMENT AND DIRECTOR PROFILES

Cooper C. Collins
President and Chief Executive Officer

Cooper C. Collins has served as President of the Company since January 2007 and became Chief Executive Officer concurrent with the merger with Golf Trust of America, Inc. ("GTA") on March 9, 2010. During his six year career with Pernix, Mr. Collins has worked in every capacity from sales representative to the executive level. Mr. Collins has been responsible for acquiring products and assets, attracting investors and increasing the overall efficiency of the organization. As a sales representative, he improved territory sales by over 300% in the first year and quickly moved into management. While serving as President, Mr. Collins has contributed to the Company's overall profit increasing over 100% from the year ended December 31, 2007 to the year ended December 31, 2008. Prior to joining Pernix, Mr. Collins was employed by the NFL franchise The New Orleans Saints in their media relations department for three years. He also developed and sold a small internet company while earning a B.A. and a M.B.A. on a football scholarship from Nicholls State University in Thibodaux, Louisiana.

Michael C. Pearce
Chairman of the Board of Directors

Michael C. Pearce is a private investor with emphasis on the cleantech and healthcare industries. From December 2007 until March 2010, he led a repositioning of Golf Trust of America, Inc (NYSE Amex: GTA) while serving in the capacity of Chairman and Chief Executive Officer. Over the course of twenty-five years, Mr. Pearce was employed in various technology industry management positions. From late 1999-2001, he served as Chief Executive Officer of iEntertainment Network during a corporate restructuring. From 1996-1998, he was Senior Vice President of Sales and Marketing at publicly-traded VocalTec Communications, later returning in a consulting capacity to its Chairman on matters pertaining to strategic alternatives, business development and mergers and acquisitions. From 1983-1996, he was employed as Senior Vice President of Sales and Marketing at Ventana Communications, a subsidiary of Thomson Corporation; Vice President of Sales at Librex Computer Systems, a subsidiary of Nippon Steel Corporation and; National Sales Manager at Hyundai Electronics America. From 1979 to 1983, he attended Southern Methodist University. Mr. Pearce has also served on the board of directors of AVP, Inc.; Spatializer Audio Labs, Inc.; Reliability, Inc. and; Swiss Precision Corporation.

Michael Venters
Executive Vice President of Operations

Michael Venters has served as Vice President of Operations for the Company since January 2009. Prior to this, Mr. Venters was a founding stockholder of Cornerstone BioPharma/Aristos Pharmaceuticals and served as Vice President of Business Development of Aristos Pharmaceuticals (Cornerstone's Generic Division). Before joining Cornerstone BioPharma, Mr. Venters served as National Account Manager for DJ Pharma which was later purchased by Biovail Pharmaceuticals, Inc. from February 2000 to September 2003. His pharmaceutical career began in 1993 as a field sales representative at Dura Pharmaceuticals, Inc. He was later promoted to several other sales and marketing positions within Dura. Mr. Venters holds a B.A. in Marketing from the University of Kentucky.

Tracy S. Clifford
Chief Financial Officer, Secretary and Treasurer

Tracy Clifford became Chief Financial Officer, Secretary and Treasurer of the Company on March 9, 2010 through its merger with Golf Trust of America, Inc. ("GTA"). Ms. Clifford served as the Chief Financial Officer of Golf Trust of America, Inc. since January 2008 and as GTA's Secretary since February 2007. Prior to becoming GTA's CFO, Ms. Clifford held the positions of Principal Accounting Officer from February 2007 to January 2008 and as Corporate Controller from September 1999 to February 2007 at GTA. Before joining GTA, Ms. Clifford served as a Director of Finance (February 1999 to September 1999) and Manager of Accounting and Financial Reporting (May 1995 to February 1999) at United Healthcare of Georgia in Atlanta. From June 1993 to May 1995, Ms. Clifford served as Manager of Accounting (January 1994 to May 1995) and Senior Accountant (June 1993 to January 1994) at North Broward Hospital District in Fort Lauderdale, Florida. Ms. Clifford began her career at Deloitte & Touche in Miami, Florida where she was an auditor primarily for clients in the healthcare industry from September 1991 to June 1993. Ms. Clifford holds a B.S. in Accounting from the College of Charleston and a M.B.A.with a concentration in Finance from Georgia State University. Ms. Clifford is a member of the South Carolina Association of CPAs and the American Institute of CPAs and serves as an adjunct faculty member in the School of Business and Economics at the College of Charleston.

David E. Waguespack
Vice President of Internal Operations

David E. Waguespack was named Vice President of Internal Operations for the Company upon its merger with Golf Trust of America, Inc. ("GTA"). Mr. Waguspack previously served as Vice President, Secretary and Treasurer for Pernix from April 2007 to March 2010. He joined Pernix in May 2003 as Vice President and managed a variety of projects within the organization. Before joining Pernix, Mr. Waguespack compiled over 25 years of experience in health care management and administration. He also has extensive training in Human Resources. Mr. Waguespack holds a B.A. in History/Pre-Law from Nicholls State University in Thibodaux, Louisiana.

Beth Bonner DeVille
Vice President of Sales and Marketing

Beth Bonner DeVille has served as Vice President of Sales and Marketing for the Company since November 2005. Mrs. DeVille began her career with Pernix in August 2001 as a sales representative and quickly became the top sales representative in the company, a title she earned three times. Mrs. DeVille also served in the capacity of Field Trainer simultaneous to her work as a sales representative. Prior to joining Pernix, Mrs. DeVille was employed for two years by Praeses Corporation in Shreveport, Louisiana as a Business Development Manager. Mrs. DeVille earned a volleyball scholarship and a B.A. in Business Communications from Centenary College of Louisiana in Shreveport, Louisiana.

Robert H. Cline, Jr.
Pharm D., Vice President of Supply Chain Management

Robert Cline has served as Vice President of Supply Chain Management for the Company since October 2009. From July 2007 to October 2009, Mr. Cline led Amneal Pharmaceuticals LLC's supply chain operations, serving as Vice President of Supply Chain Management from July 2008 to October 2009 and Director of Supply Chain Management from June 2007 to July 2008. Prior to this, Mr. Cline served as Vice President of Marketing from September 1999 to June 2004 and then Vice President of Product Development from June 2004 to June 2007 for Akyma Pharmaceuticals LLC (formerly R&S Pharma, Inc.), a generic pharmaceutical manufacturer which was acquired by Amneal in June 2007. Mr. Cline began his pharmaceutical career as a retail pharmacist for an independently owned pharmacy in 1999 and continues to maintain market awareness by working as a relief pharmacist in his local community. Mr. Cline earned his Pharm D. from the University of Kentucky in 1999 and is a licensed pharmacist in Kentucky and Tennessee.

FINANCIAL MODEL

Pernix Therapeutic Holdings, Inc

	2010 A	Q1E	Q2E	Q3E	Q4E	2011 E	2012 E	2013 E	2014 E
Gross product sales	$50,079.0	$21,809.0	$17,005.0	$17,825.0	$26,366.0	$83,005.0	$107,558.0	$139,580.0	$194,345.0
YOY Growth	*31.1%*	*101.3%*	*146.6%*	*54.6%*	*33.1%*	*65.7%*	*29.6%*	*29.8%*	*39.2%*
Collaboration revenue	$2,489.8	$740.0	$1,025.0	$875.0	$1,635.0	$4,275.0	$8,725.0	$14,725.0	$20,475.0
YOY Growth	*753.9%*					*71.7%*	*104.1%*	*68.8%*	*39.0%*
Sales discounts	($1,337.4)	($654.3)	($510.2)	($534.8)	($791.0)	($2,490.2)	($3,226.7)	($4,187.4)	($5,830.4)
% of Gross product sales	*2.7%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Sales returns allowances	($2,199.9)	($1,109.0)	($868.8)	($911.8)	($1,348.2)	($4,237.8)	($5,506.8)	($7,168.0)	($10,011.1)
% of Gross product sales	*4.4%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.1%*	*5.2%*
Allwnce for cust rebates/chgbcks	($6,517.0)	($2,399.0)	($2,380.7)	($2,495.5)	($2,372.9)	($9,648.1)	($11,293.6)	($14,516.3)	($19,434.5)
% of Gross product sales	*13.0%*	*11.0%*	*14.0%*	*14.0%*	*9.0%*	*11.6%*	*10.5%*	*10.4%*	*10.0%*
Medicaid rebates	($9,288.0)	($3,271.4)	($2,890.9)	($2,691.6)	($4,745.9)	($13,599.7)	($17,209.3)	($20,937.0)	($30,123.5)
% of Gross product sales	*18.5%*	*15.0%*	*17.0%*	*15.1%*	*18.0%*	*16.4%*	*16.0%*	*15.0%*	*15.5%*
Rebates/discounts % of Gross	*38.6%*	*34.1%*	*39.1%*	*37.2%*	*35.1%*	*36.1%*	*34.6%*	*33.5%*	*33.7%*
Net Sales	$33,227.4	$15,115.4	$11,379.5	$12,066.4	$18,743.0	$57,304.3	$79,046.6	$107,496.3	$149,420.6
YOY Growth	*19.0%*	*70.3%*	*161.1%*	*55.1%*	*53.4%*	*72.5%*	*37.9%*	*36.0%*	*39.0%*
Cost of product sales	$6,500.3	$2,442.6	$1,870.6	$2,228.1	$3,954.9	$10,496.2	$13,444.8	$16,749.6	$24,487.5
Ex-discounts/rebates products margin	*87.0%*	*88.8%*	*89.0%*	*87.5%*	*85.0%*	*87.4%*	*87.5%*	*88.0%*	*87.4%*
Gross Income	$26,727.1	$12,672.8	$9,509.0	$9,838.2	$14,788.1	$46,808.1	$65,601.8	$90,746.7	$124,933.1
Gross Margin	*80.4%*	*83.8%*	*83.6%*	*81.5%*	*78.9%*	*81.7%*	*83.0%*	*84.4%*	*83.6%*
Selling	$6,672.2	$2,841.2	$2,524.2	$2,206.6	$3,360.1	$10,932.1	$14,535.4	$18,516.6	$25,778.4
% Sell&Mktg	*12.7%*	*12.6%*	*14.0%*	*11.8%*	*12.0%*	*12.5%*	*12.5%*	*12.0%*	*12.0%*
Royalty expenses	$738.9	$222.0	$307.5	$262.5	$490.5	$1,282.5	$1,420.0	$1,660.0	$1,810.0
% Royalty	*1.5%*	*1.0%*	*1.8%*	*1.5%*	*1.9%*	*1.5%*	*1.3%*	*1.2%*	*0.9%*
G&A	$7,458.5	$2,080.0	$2,105.0	$2,210.0	$2,140.0	$8,535.0	$10,232.9	$12,807.3	$16,756.0
% G&A	*14.2%*	*9.2%*	*11.7%*	*11.8%*	*7.6%*	*9.8%*	*8.8%*	*8.3%*	*7.8%*
R&D	$998.2	$162.0	$171.0	$210.0	$270.0	$813.0	$1,172.0	$1,644.0	$1,445.0
% R&D	*2.0%*	*0.7%*	*1.0%*	*1.2%*	*1.0%*	*1.0%*	*1.1%*	*1.2%*	*0.7%*
Dep & Amort	$1,238.8	$718.0	$718.0	$718.0	$718.0	$2,872.0	$2,235.0	$1,584.0	$652.0
Operating Income	$9,620.5	$6,649.6	$3,683.3	$4,231.1	$7,809.5	$22,373.5	$36,006.6	$54,534.8	$78,491.7
Operating Margin	*29.0%*	*44.0%*	*32.4%*	*35.1%*	*41.7%*	*39.0%*	*45.6%*	*50.7%*	*52.5%*
Interest income, net	$5.6	($12.0)	($11.8)	($10.7)	($6.0)	($40.5)	$75.0	$150.0	$270.0
Other income	$287.3	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	$10,795.4	$6,637.6	$3,671.5	$4,220.4	$7,803.5	$22,333.0	$36,081.6	$54,684.8	$78,761.7
Taxes (benefit)	$1,486.0	$2,522.3	$1,395.2	$1,603.8	$2,965.3	$8,486.5	$12,148.7	$18,473.8	$29,929.5
Tax Rate	*13.8%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*
Income to non-controlling interest	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
% of total	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	$9,309.38	$4,115.33	$2,276.32	$2,616.67	$4,838.15	$13,846.48	$23,932.83	$36,210.98	$48,832.27
Net Margin	*28.0%*	*27.2%*	*20.0%*	*21.7%*	*25.8%*	*24.2%*	*30.3%*	*33.7%*	*32.7%*
EPS	$0.40	$0.18	$0.10	$0.11	$0.21	$0.60	$1.01	$1.51	$2.03
YOY Growth	*-10.0%*					*50.4%*	*68.0%*	*50.0%*	*34.9%*

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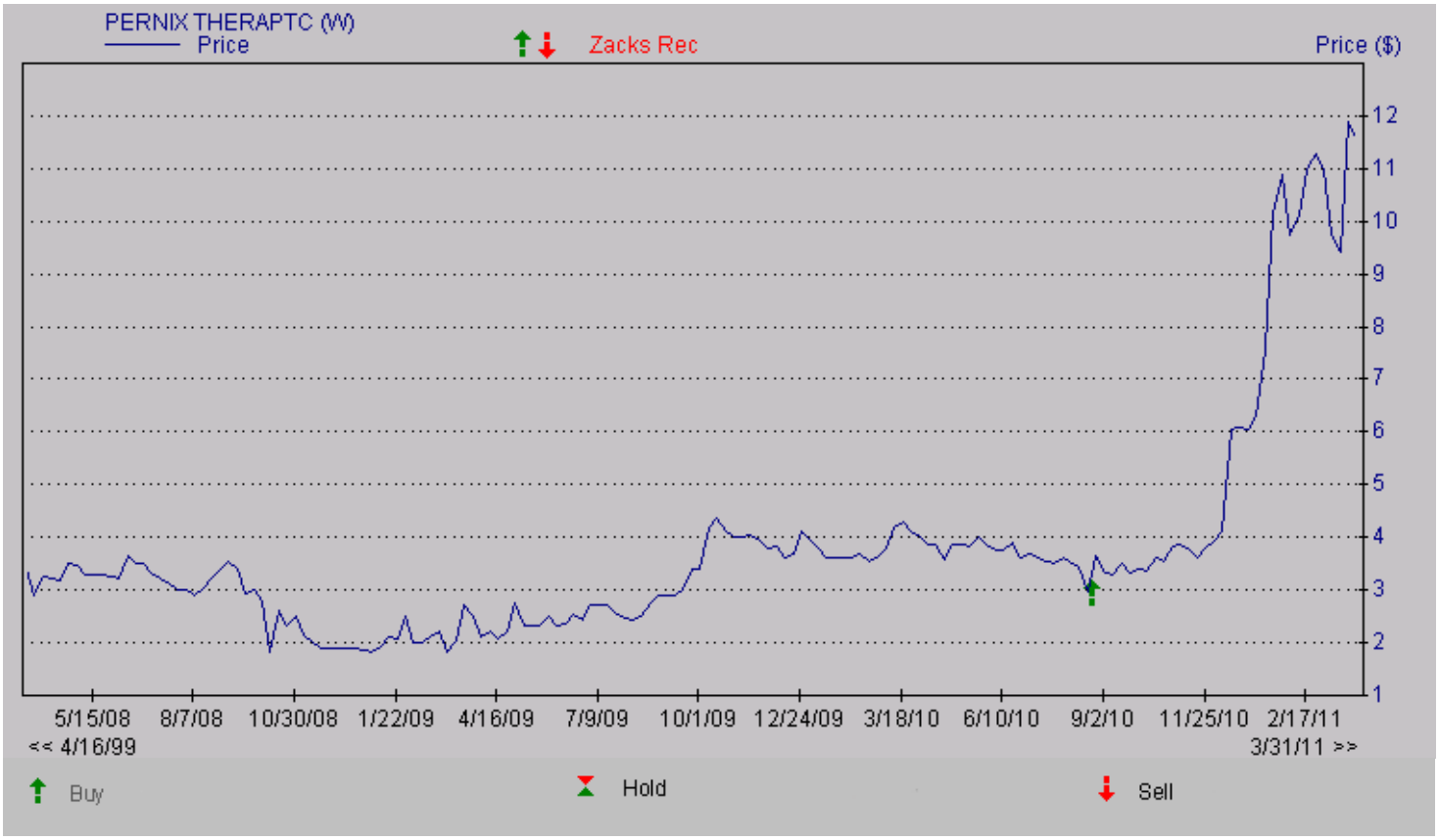
Diluted Shares O/S	23,399	22,920	23,080	23,140	23,400	23,135	23,800	24,000	24,000

Source: Zacks Investment Research *Brian Marckx, CFA*

HISTORICAL ZACKS RECOMMENDATIONS



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