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Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

Zacks Small-Cap Research

www.zacks.com 111 North Canal Street Chicago, IL 60606

Pernix Therapeutics (PTX-AMEX)

PTX: Q2 Gross Sales, EPS Dead-On With Our Estimates

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	08/24/2010
Current Price (08/16/11)	$7.75
Target Price	**$13.00**

OUTLOOK

Q2 sales growth was strong. EPS benefitted from lower Medicaid rebates but this was offset by a softer product margin and higher operating expenses. Net result was EPS of $0.07, dead-on with our estimate. The Natroba launch commenced this week and combined with expected continued ramp in Cedax and anticipated SGA leverage has us hopeful that EPS will gain more traction in the back half of 2011. We have made only minor adjustments to our 2011 outlook following Q2 results.

Our longer-term outlook also remains mostly unchanged.

We are maintaining our Outperform rating and $13 price target on shares of Pernix.

SUMMARY DATA

52-Week High	**$13.23**
52-Week Low	**$2.60**
One-Year Return (%)	**193.40**
Beta	**1.04**
Average Daily Volume (sh)	**24,184**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$178**
Short Interest Ratio (days)	**3.63**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**66**
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	**19.4**
P/E using 2011 Estimate	**20.4**
P/E using 2012 Estimate	**10.5**
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	$10.1 A	$12.0 A	$12.2 E	$17.5 E	$51.8 E
2012					$72.3 E
2013					$98.5 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	$0.04 A	$0.07 A	$0.10 E	$0.16 E	$0.38 E
2012					$0.74 E
2012					$1.19 E

Zacks Projected EPS Growth Rate - Next 4 Years % **49**

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Q2 2011 RESULTS

Pernix reported financial results for the second quarter on August 16th. While gross product sales came in almost dead-on with our estimate, net sales were well ahead as a result of relatively strong collaboration revenue and lower than expected Medicaid rebates. Despite the better net sales number, EPS of $0.07 was right where we had it modeled as a result of lower than estimated product margin and higher operating expenses.

Gross product sales came in at $15.6 million compared to our $15.5 million estimate and was up 127% y-o-y. Net sales were $12.1 million (+176% y-o-y) versus our $9.5 million estimate due to a beat of almost $1 million in collaboration revenue ($1.72MM A vs. $725k E) and significantly lower than modeled Medicare rebates, which came in at about 8% of gross product sales ($1.2MM) compared to our 20% ($3.0MM) estimate. Pernix's Medicare rebates can fluctuate significantly from quarter to quarter (they were almost 28% of gross product sales in Q1 2011) which makes modeling them difficult.

Operating expenses of $6.1 million were well above our $5.4 million estimate, although on a percentage of net sales basis they came in below our estimate (50% A vs. 56% E). Pernix began ramping up their sales force in anticipation of the Natroba launch (which commenced earlier this week) which pushed SG&A up in the quarter but management indicated on the call that there should not be significant additions throughout the remainder of the year.

Cash
Pernix exited the quarter with $16.6 million in cash and equivalents. Pro forma for the July sale of 3 million common shares, cash balance was approximately $36 million. Cash flow from operations was $3.5 million and $8.5 million in the three and six month periods ending 6/30/2011.

OUR REVISED 2011 OUTLOOK

We have made updates to our model based on today's results. For 2011 we now look for gross product sales of $72.8MM (up from $72MM prior to Q2 results), net sales of $51.8MM (revised up from $47.6MM) and EPS of $0.38 (revised down from $0.40 - revised down due to the additional share count from the July stock issuance).

We are maintaining our $13 price target and Outperform rating on Pernix. We value PTX using a comp average PE/G ratio of 1.08. We look for PTX to grow EPS at a CAGR of 32% over the next five years, which using the comp PE/G, values PTX at approximately $13/share.

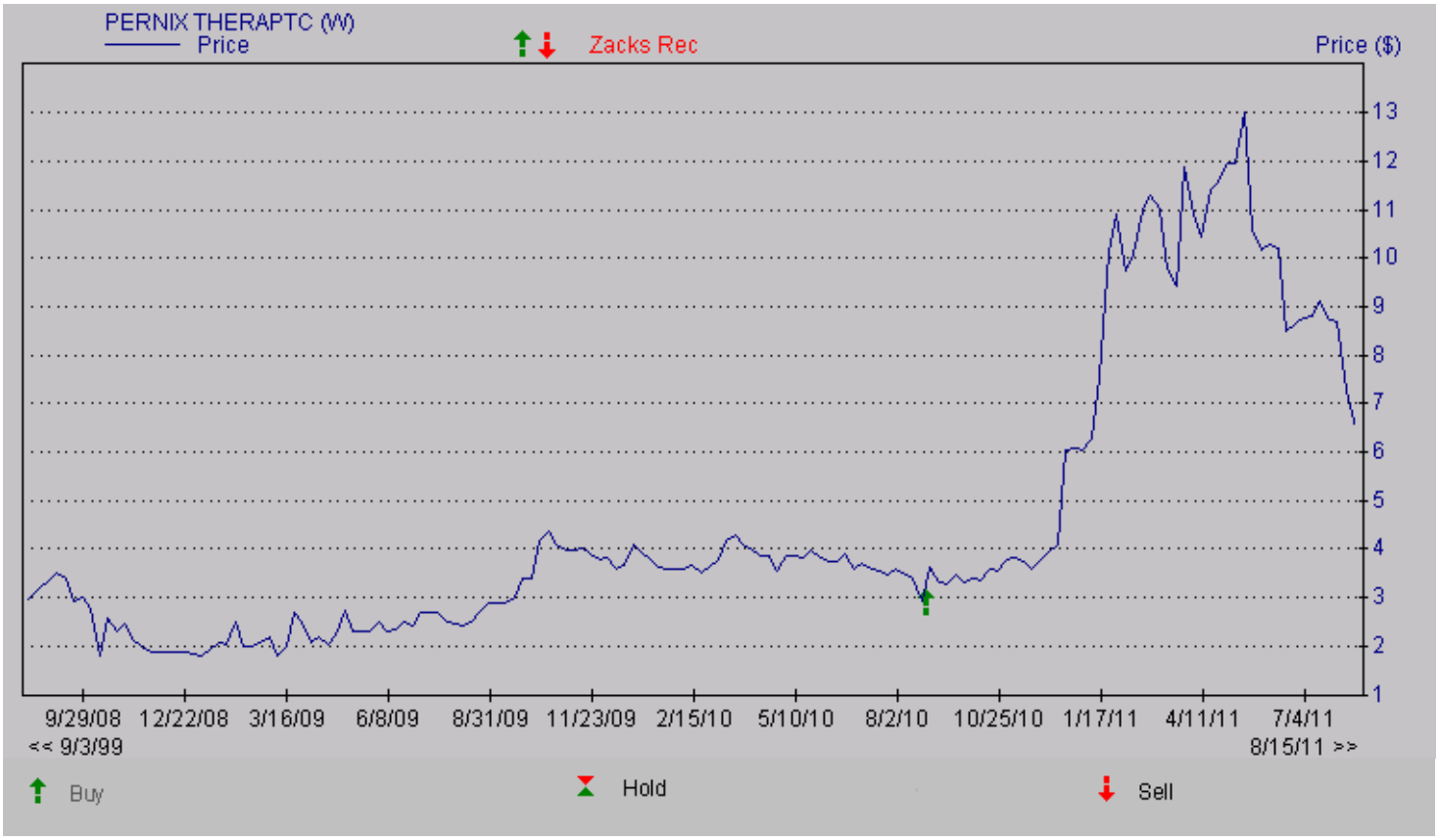
FINANCIAL MODEL

Pernix Therapeutic Holdings, Inc

	2010 A	Q1A	Q2A	Q3E	Q4E	2011 E	2012 E	2013 E	2014 E
Gross product sales	$50,079.0	$18,252.0	$15,626.0	$15,725.0	$23,186.0	$72,789.0	$104,008.0	$132,705.0	$183,795.0
YOY Growth	*31.1%*	*68.5%*	*126.6%*	*36.4%*	*17.0%*	*45.3%*	*42.9%*	*27.6%*	*38.5%*
Collaboration revenue	$2,489.8	$1,166.0	$1,721.0	$2,575.0	$2,635.0	$8,097.0	$8,725.0	$14,725.0	$20,475.0
YOY Growth	*753.9%*	*122.4%*	*273.7%*	*661.8%*	*125.8%*	*225.2%*	*7.8%*	*68.8%*	*39.0%*
Sales discounts	($1,337.4)	($382.0)	($310.0)	($393.1)	($579.7)	($1,664.8)	($2,600.2)	($3,317.6)	($4,594.9)
% of Gross product sales	*2.7%*	*2.1%*	*2.0%*	*2.5%*	*2.5%*	*2.3%*	*2.5%*	*2.5%*	*2.5%*
Sales returns allowances	($2,199.9)	($1,106.0)	($1,612.0)	($998.1)	($1,471.1)	($5,187.2)	($6,620.5)	($8,465.8)	($11,754.7)
% of Gross product sales	*4.4%*	*6.1%*	*10.3%*	*6.3%*	*6.3%*	*7.1%*	*6.4%*	*6.4%*	*6.4%*
Allwnce for cust rebates/chgbcks	($6,517.0)	($2,793.0)	($2,157.0)	($2,516.0)	($2,086.7)	($9,552.7)	($12,481.0)	($15,924.6)	($22,055.4)
% of Gross product sales	*13.0%*	*15.3%*	*13.8%*	*16.0%*	*9.0%*	*13.1%*	*12.0%*	*12.0%*	*12.0%*
Medicaid rebates	($9,288.0)	($5,042.0)	($1,223.0)	($2,201.5)	($4,173.5)	($12,640.0)	($18,721.4)	($21,232.8)	($27,936.8)
% of Gross product sales	*18.5%*	*27.6%*	*7.8%*	*14.0%*	*18.0%*	*17.4%*	*18.0%*	*16.0%*	*15.2%*
Rebates/discounts % of Gross	*38.6%*	*51.1%*	*33.9%*	*38.8%*	*35.8%*	*39.9%*	*38.9%*	*36.9%*	*36.1%*
Net Sales	$33,227.4	$10,095.0	$12,044.8	$12,191.3	$17,510.0	$51,841.3	$72,309.9	$98,489.2	$137,928.2
YOY Growth	*19.0%*	*13.8%*	*176.4%*	*56.7%*	*43.3%*	*56.0%*	*39.5%*	*36.2%*	*40.0%*
Cost of product sales	$6,500.3	$2,319.2	$3,565.3	$2,280.1	$4,057.6	$12,222.2	$16,641.3	$19,905.8	$25,731.3
Ex-discounts/rebates products margin	*87.0%*	*87.3%*	*77.2%*	*85.5%*	*82.5%*	*83.2%*	*84.0%*	*85.0%*	*86.0%*
Gross Income	$26,727.1	$7,775.8	$8,479.4	$9,911.1	$13,452.5	$39,619.1	$55,668.6	$78,583.4	$112,196.9
Gross Margin	*80.4%*	*77.0%*	*70.4%*	*81.3%*	*76.8%*	*76.4%*	*77.0%*	*79.8%*	*81.3%*
SG&A	$14,130.7	$4,856.6	$4,657.0	$4,603.0	$5,146.9	$19,263.5	$22,095.7	$28,011.7	$35,338.7
% SG&A	*28.2%*	*26.6%*	*29.8%*	*29.3%*	*22.2%*	*26.5%*	*21.2%*	*21.1%*	*19.2%*
Royalty expenses	$738.9	$261.4	$83.4	$100.0	$100.0	$544.8	$625.0	$625.0	$625.0
% Royalty	*1.5%*	*1.4%*	*0.5%*	*0.6%*	*0.4%*	*0.7%*	*0.6%*	*0.5%*	*0.3%*
R&D	$998.2	$436.2	$725.8	$646.0	$642.0	$2,450.0	$1,815.0	$1,644.0	$1,445.0
% R&D	*2.0%*	*2.4%*	*4.6%*	*4.1%*	*2.8%*	*3.4%*	*1.7%*	*1.2%*	*0.8%*
Dep & Amort	$1,238.8	$493.3	$594.0	$588.0	$588.0	$2,263.3	$1,756.0	$1,105.0	$1,105.0
Operating Income	$9,620.5	$1,728.3	$2,419.2	$3,974.1	$6,975.6	$15,097.6	$29,376.9	$47,197.7	$73,683.2
Operating Margin	*29.0%*	*17.1%*	*20.1%*	*32.6%*	*39.8%*	*29.1%*	*40.6%*	*47.9%*	*53.4%*
Interest income, net	$5.6	($30.2)	($62.5)	($20.0)	($18.0)	($130.7)	$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	$1,698.2	$2,356.8	$3,954.1	$6,957.6	$14,966.9	$29,451.9	$47,347.7	$73,953.2
Taxes (benefit)	$1,486.0	$723.0	$855.0	$1,463.0	$2,643.9	$5,684.9	$9,894.7	$15,979.2	$28,102.2
Tax Rate	*13.8%*	*42.6%*	*36.3%*	*37.0%*	*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	9,309.4	975.2	1,501.8	2,491.1	4,313.7	9,282.0	19,557.3	31,368.5	45,851.0
Net Margin	*28.0%*	*9.7%*	*12.5%*	*20.4%*	*24.6%*	*17.9%*	*27.0%*	*31.8%*	*33.2%*
EPS	$0.40	$0.04	$0.07	$0.10	$0.16	$0.38	$0.74	$1.19	$1.74
YOY Growth	*-10.0%*	*-82.5%*	*861.2%*	*1.4%*	*150.1%*	*-4.4%*	*95.5%*	*60.4%*	*46.2%*
Diluted Shares O/S	23,399	23,142	23,043	25,140	26,300	24,406	26,300	26,300	26,300

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