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

Zacks Equity Research

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

Pernix Therapeutics (PTX-AMEX)

PTX: New Deals Fortify Long-Term Outlook, Supports Higher Valuation.

OUTLOOK

With new co-promotion and JV deal now in place, risk to our longer-term forecast is substantially reduced. As a result we incorporate long-term growth expectations into our valuation.

Using five-year PEG implies value of $15.50 per share. We are maintaining our Outperform rating on Pernix.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	08/24/2010
Current Price (02/03/11)	$10.11
Six- Month Target Price	**$15.50**

SUMMARY DATA

52-Week High	**$10.99**
52-Week Low	**$2.95**
One-Year Return (%)	**191.67**
Beta	**1.04**
Average Daily Volume (sh)	**71,421**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$230**
Short Interest Ratio (days)	**0.28**
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	**23.5**
P/E using 2011 Estimate	**13.3**
P/E using 2012 Estimate	**9.1**
Zacks Rank	**3**

Risk Level	**Average,**
Type of Stock	**Small-Growth**
Industry	**Med-Generic Drg**
Zacks Rank in Industry	**8 of 11**

ZACKS ESTIMATES

Revenue
(in millions)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	$7.2 A	$6.5 A	$5.8 A	$8.4 A	$27.9 A
2010	$8.9 A	$4.4 A	$7.8 A	$13.1 E	$34.1 E
2011					$61.5 E
2012					$83.5 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	$0.13 A	$0.14 A	$0.05 A	$0.12 A	$0.43 A
2010	$0.24 A	$.0.01 A	$0.10 A	$0.14 E	$0.47 E
2011					$0.76 E
2012					$1.11 E

Zacks Projected EPS Growth Rate - Next 4 Years % **39**

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WHAT'S NEW

Cough Candidate JV

On December 20, 2010 Pernix announced it had entered a joint-venture with a U.K-based company for the development and commercialization of BC1036. BC1036, also known as theobromine, is the highly-anticipated antitussive drug candidate that Pernix management had yet to disclose the name of but previously noted could have enormous potential. Terms of the JV with SEEK, a U.K.-based drug incubator, include upfront payments by both parties of $1.5 million each. Both parties will appoint two directors, will each hold 50% voting interest and will own 46% of the share capital (Manfred Scheske will own 7% (non-voting) share and 1% will be left unissued). Additional capital will be contributed on a pro-rata basis and as necessary, as determined by the JV's board.

Theobromine is an alkaloid of the cacao plant and is found in chocolate. It is in the methylxanthine class of compounds which also includes caffeine. It has been used clinically as a vasodilator, diuretic and heart stimulant but has yet to be patented in the U.S. for cough suppression. Codeine has been widely regarded as the most effective antitussive and is the API for cough suppression in several popular brand name and generic prescription medicines including Robitussin AC and Dimetane DC. However, codeine's serious adverse side effects, including being highly addictive and causing drowsiness, limits its use. Codeine, for all practical purposes can only be used at night and should only be used sparingly (or not at all) in pediatric patients.

Seoul Korea-based Ahn-Gook Pharmaceutical launched the drug in Korea in 2009. The patent-trail was not disclosed in Pernix's press release but from what we can tell the JV licensed global rights (ex-Korea) from Ahn-Gook. Pernix's press release implies that the drug (marketed as AnyCough by Ahn-Gook) has been well received in Korea following its launch in 2009. However, there is no readily-available public information to quantify how successful the drug has been.

Based on the safety history of the drug, at least a portion of which presumably came from clinical trials undertaken in support of the approval in Korea, the JV expects to be able to move the candidate directly to phase III testing. The companies are in the process of gaining regulatory clearance in Europe for protocol of a single phase III trial. Discussions are also underway with FDA to confirm a regulatory program for approval in the U.S. The companies hope to start clinical testing in mid-2011 and, if all goes well, Pernix thinks the drug could be on the market in both Europe and the U.S. sometime in 2013. The deal also gives Pernix the right to fund development of a suspension formula for the U.S. market and, upon, FDA approval, would hold exclusive rights to the product. Pernix notes in the 8-k filed describing the terms of the deal that they would not likely fund development of a suspension formula unless the initial formula receives regulatory approval in both Europe and the U.S.

Manfred Scheske will lead the development effort of BC1036. Scheske came to SEEK in October 2010 and from what we can tell he's a pretty big hitter. At his previous post as Glaxo-Smith Kline's President of Consumer Healthcare in Europe he led the pan-European launch of OTC Alli, which has been a tremendous success for GSK's consumer business. Prior to that he spent six years as GSK's head of U.S. consumer healthcare products.

New Co-Promotion

On January 12, 2011 Pernix announced it had entered a co-promotion agreement with ParaPRO LLC, a privately-held specialty pharma company with a focus on the development of pediatric drugs. At the time of the announcement ParaPRO had submitted a drug candidate containing the API spinosad to the FDA seeking approval for the treatment of head lice. The FDA granted approval of Natroba days later. Natroba is indicated for the topical treatment of heads lice in patients four years and older. The agreement with ParaPRO gives Pernix the exclusive rights to co-promote the drug in the U.S. The duo expect to launch Natroba "in the first half of 2011."

The NDA was supported by data from two phase III trials which were published in *Pediatrics: Official Journal of the American Academy of Pediatrics.* The trials compared the efficacy of spinosad with that of permethrin (Nix). Permethrin is considered the current standard of care for treatment of head lice and is the API in a variety of lice control products (OTC and Rx). In fact, Nix is endorsed by the American Academy of Pediatrics for treatment of head lice. The trials followed over 1,000 individuals for 21 days. The primary endpoint was the proportion of lice-free participants after 14 days. Results showed that approximately 85% (trial 1) and 87% (trial 2) of spinosad-

treated participants were lice free after 14 days. This compared to approximately 45% (trial 1) and 43% (trial 2) for the permethrin-treated participants. The study authors thus concluded that spinosad was significantly more effective that permethrin for the treatment of head lice.

Spinosad may have other advantages other than efficacy over premethrin most notably that lice has shown to become resistant to premethrin and overuse of it can be dangerous due to toxicity – especially to children. These can go hand-in-hand, as individuals will often apply more premethrin than the recommend dose when treatment fails to fully eradicate premethrin-resistant lice strains. Pyrethrin, another common API used for the treatment of lice, has also shown to be susceptible to lice-resistance.

The other, perhaps somewhat more subjective, advantage is in application. Nix, along with most other lice-control products, requires that the individual combs the product through the scalp – combing is not necessary with Natroba, which potentially makes application easier and less time consuming.

Based on the apparent advantages of spinosad over the current standard of care, along with a U.S. market for head lice treatment estimated at approximately $240 million, we think this deal with ParaPRO could be potentially very lucrative for Pernix. Pernix expects to receive between 35% - 42% of net sales proceeds. Using rough assumptions and back-of-the-envelope math; if Natroba can take 30% of the market (~$70MM), approximately one-half (this might be conservative) of which we assume would be sold by Pernix. After rebates Pernix's cut could be $11 million. After selling (and some G&A) expenses and taxes, as much as $6 million (~$0.25 EPS) could flow to the bottom line. Grabbing 30% market share would not happen within the year of launch but, given the apparent significant efficacy advantages of the drug, combined with Pernix's sales acumen, we think this is a realistic assumption within a few years after launch.

We had previously modeled a contribution from an anticipated new co-pro deal beginning in early 2011 so this announcement does not necessarily materially impact our model - based on the verbiage in the press release (potential launch in "first half of 2011"), our timing may be off slightly (maybe one quarter early) but we were in the ballpark.

Valuation

The bulk Pernix's revenue has historically (and currently) been derived from products with relatively limited upside and short remaining sales lives. While Pernix's strategy of acquiring "has-been" drugs at firesale prices has proven to be extremely profitable, it involves high product turnover and almost constant deal-making. The relatively short-term focus of this strategy introduces a higher level of long-term uncertainty. As a result, our prior valuation relied on a near-term P/E multiple.

Our model had previously included contributions from both a new large co-promotion deal and unknown pipeline candidates (although not specifically for BC1036) so the recent news regarding Natroba and the SEEK JV impacts our model only slightly. And while management had previously indicated that they were in discussions regarding both, we felt, prior to the deals being announced, that the risk of failing to consummate the deals added substantial uncertainty to our longer-term financial forecasts for Pernix.

With the deals now in place, we feel risk to our longer range forecast is now greatly reduced and consequently are moving to a valuation method which incorporates this anticipated growth.

We use industry average five-year PEG (using P/E calculated on 2011 EPS) of 0.52 to value Pernix. We look for Pernix to post 2014 EPS of $2.23, which implies five year growth of 39% (from $0.43 in 2009). Applying the resultant ~20x P/E multiple to our 2011 EPS estimate of $0.76 values Pernix at approximately $15.50/share.

BUSINESS

SNAPSHOT

Pernix Therapeutic Holdings, Inc (Pernix) is a specialty pharmaceutical company primarily engaged in the selling of branded pharmaceutical products primarily in the area of pediatrics. Pernix was founded in 1999 and on March 9, 2010 completed a reverse merger with Golf Trust of America, Inc. where Pernix became the surviving entity. The company commenced trading on the NYSE Amex on March 10, 2010. Pernix has its headquarters in Magnolia, Texas and as of December 31, 2009 had 49 employees, including 35 sales people which promote products in 30 states. The company has no international operations.

Pernix's current product portfolio consists of 14 branded prescription drugs encompassing 6 product lines, with a primary therapeutic area of focus in cough/cold (allergies, congestion). The company recently acquired the rights to what could soon end up being, by far, Pernix's most successful drug to-date (i.e. – Cedax). Since December 2010 Pernix has also entered into a joint-venture for the development of a late-stage cough drug and signed an agreement for the co-promotion of what looks to be a new best-in-class lice treatment product. Customers consist of drug wholesalers, retail drug stores, merchandisers and grocery store pharmacies.

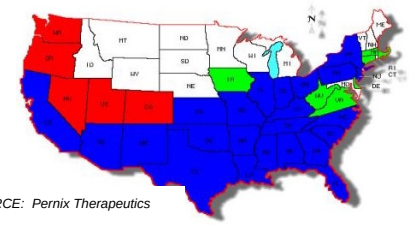
Management has achieved 6-year revenue and pre-tax income CAGRs of 32% and 40%, respectively, through a highly efficient sales force and a low-cost, low-risk business model. The company boasts of operating margins approaching 50% and a balance sheet with $5.5 million in net cash.

BUSINESS MODEL / STRATEGY

Pernix is primarily a sales organization which acquires drugs through in-licensing and acquisitions. The company does not currently engage in research and development activities and outsources all of its manufacturing and logistics. This eliminates the risk of development failure and allows the company to operate with very lean infrastructure. And while outsourcing is an effective way to reduce risk, it typically comes at the expense of margins. This has not been the case with Pernix however, which has consistently generated gross margins over 80% and operating margins near 50%. Pernix's cost-base is mostly variable as compensation for sales personnel as well as management is heavily incentive-based.

Operating with lean infrastructure allows the company to quickly react to changing conditions - this allows the company to "fit" its cost base to a given level of sales, thereby significantly reducing any financial impact in the event of declining sales. In fact management touts the company's flexibility (Pernix means "swift, nimble and agile" in Latin) and ability to take advantage of opportunities that more asset-intensive companies would pass on. Pernix's small size also allows it to quickly adapt its product menu to changing conditions such as launching generic equivalents to fend of branded competition. This flexibility allows the company to maximize profitability and helps to achieve peak efficiency of its sales force.

Pernix, which is headed by a CEO with a successful background in pharmaceutical sales, has created and implemented a selling strategy which has proven to be highly effective and profitable. This has not only been an impetus to the impressive compounded sales growth, it has maximized the efficiency of the sales force and kept overhead to a minimum. Management has been publicly adamant about their rigid criteria relative to hiring and retaining only those sales representatives which fit the company's incentive-based culture. Pernix's sales reps are paid a base salary equal to about one-half the average industry rate with the majority of their compensation tied to sales commissions. This has effectively aligned the sales reps' success with those of the entire company. Pernix's reps only target high-prescribing physicians, which has allowed the company to maintain a relatively small sales force (and minimize overhead) by maximizing the effectiveness of each rep. Pernix also employs more unique selling strategies such as sampling out-of-season (i.e. – summer and fall for cold/allergy products) when promoting a new product which allows early introduction to physicians prior to the peak season. While more costly initially, this strategy has been partially credited with the impressive ramp in sales following several of Pernix's recent product launches. In anticipation of the full roll-out of Cedax, Pernix hired 25 new sales reps in the second quarter 2010, pushing the total sales force to 55. The company expects to add another 10 – 12 reps in the near term. This will also expand their geographic coverage from 30 states to approximately 36 states.



SOURCE: Pernix Therapeutics

- INTERVIEWING Q4 2010
- CO-OP REPS
- CURRENT REPS

Acquiring the rights to and re-promoting drugs that larger pharmaceutical companies have been willing to divest at fire-sale prices is another part of Pernix's successful strategy. In August 2009 the company launched its Brovex line of drugs, which it bought for just $450k in June of that year. Life-to-date (through Q3 2010) Pernix was able to sell approximately $16 million of the Brovex products. As this illustrates, this strategy has been exceptionally profitable for the company and is one which we expect management to continue to pursue – although we expect the company to begin transitioning away from this strategy several years down the road and instead focus on bringing new drugs to the market.

Pernix closed on its $6 million purchase of Cedax on March 24, 2010. Cedax is an antibiotic which we view as the company's most promising drug for the near to mid-term. We believe the re-promotion of "has-been" drugs will be one of several catalysts that will fuel growth of the company for the next several years. Aiding in the success of this strategy has been management's ability to identify those drugs which fit with the company's expertise and geographic footprint, are especially promotionally-sensitive and have a profitable sales-life remaining. Pernix generates significant amounts of cash, the growth rate of which we believe will steepen with the ramp of of Cedax.

Pernix supplements the outright acquisition of drugs through strategic alliances whereby the company in-licenses the rights to certain products. Pernix is responsible for manufacture of the drugs, which the company outsources. In consideration for the licenses, Pernix makes royalty payments based on product sales volumes. These in-licensing activities, which have accounted for the majority of Pernix's revenue since its inception, have been extremely successful and a good fit with the company's low-risk mantra. However, we expect revenue from in-licensing to account for a smaller percent of total product sales going forward. This is due to Pernix recently launching authorized generics of many of its in-licensed drugs as well as revenue from drugs acquired through outright purchase likely accounting for the majority of Pernix's sales growth over the next several years. While this strategy adds slightly more risk (as the purchase price may not be recouped), we feel this is mitigated by management's proven ability in identifying high-potential drugs through its strict due diligence process. The outright acquisition of products, if successful, should also afford Pernix wider margins and provide for a greater degree of operating leverage.

Pernix's business model also employs a somewhat unique but effective strategy in fending off competition to its branded products. Through wholly-owned Macoven Pharmaceuticals, Pernix can launch authorized generics of its branded products, thereby reducing the incentive for competitors to detail their products to Pernix's physicians. This affords Pernix less branded competition and allows the company the ability to promote both their branded and generic product in the same markets. Launching authorized generics also allows Pernix to gain formulary coverage where their branded product may have been excluded.

Pernix also leverages its sales force through co-promotion deals and in January 2011 entered an agreement to co-promote Natroba. Natroba, owned by ParaPRO LLC, was shown in clinical trials to be significantly more effective than the current standard of care in the eradication of head lice. The drug received FDA approval in January 2011 and is expected to launch within the next few months.

Pernix's longer-term strategy includes eventually bringing new drugs to market and in December 2010 announced a joint-venture for the development of a new antitussive drug. If all goes well the drug, which is expected to be as effective as codeine in the suppression of coughs, without the adverse side-effects, could be on the market sometime in 2013. The drug is currently marketed by Ahn-Gook in Korea.

KEY COMPETITIVE ADVANTAGES

- Time to market leader. Pernix is able to achieve remarkably high sales and prescription counts within months following a product launch.
- Highly successful in their niche. Target high-prescribing physicians in pediatric space with promotionally-sensitive drugs.
    - Significant generic competition in this space keeps larger competitors from detailing their branded products. Pernix capitalizes on this by being one of few companies promoting branded drugs in this market.
- Small size allows for more adaptability to changing conditions and new opportunities
    - Frequently updating product menu and mix maximizes profitability and sales for efficiency
- Highly effective sales force. Heavy incentive-based pay structure and strict hiring practices has enabled Pernix to assemble a highly motivated sales team with interests that are aligned with management's and shareholders'.
- Talented management team. CEO Cooper Collins comes from a very successful career in pharmaceutical sales. Management has been extremely adept at not only the operational side of the business but the business development portion as well.
    - Ability to identify attractive products. Highly successful at acquiring drugs at very attractive prices and squeezing the remaining sales lives out of them.
    - Sticklers on expense management.
    - Disciplined. Adherence to strict controls over which products and personnel fit with the company's culture and business model.
    - Plan for long-term growth. Expect to eventually transition to developing proprietary drugs - initially this will be through partnerships – will allow for long-term growth but maintain low-risk business model.
- Lean infrastructure and low-cost business model maximizes cash flow and profitability and minimizes risk.
- Authorized generics. Selling authorized generics reduces branded competitive threat and allows for expanded formulary coverage.
- Impressive financials. 6-year CAGR: Revenue = 32%, Pre-tax income = 40%. Current (6/30/2010) cash balance = $11.4 million. Debt free. Cash flow from operations: 1 year ending 12/31/2009 = $9.2 million, 6 months ending 6/30/2010 = $4.7 million.

PRODUCTS

Pernix's current product portfolio consists of 14 branded prescription drugs encompassing 6 product lines (Aldex, Pediatex, Brovex, Z-Cof, Cedax, Rezyst and Quinzyme) with a primary therapeutic area of focus in cough/cold (allergies, congestion) for the pediatric market. The recent Cedax purchase provides Pernix with a strong entry into the attractive antibiotic market. We believe Cedax has $100+ million annual sales potential and will quickly become their biggest selling drug to date. In addition to selling in-licensed and acquired branded drugs, Pernix also sells authorized generics of certain of its branded products through Macoven Pharmacueticals. Pernix also has co-promotion agreements to market other companies' products. Revenue from generic products and co-promotion agreements accounted for approximately 1% of net revenues in FY2009, although we expect this to increase to about 10% in FY2011.

All of Pernix's currently marketed products face significant competition from well established brands (both prescription and OTC) by large competitors such as Sudafed (J&J), Zyrtec (J&J), Robitussin (Wyeth/Pfizer), Theraflu (Novartis), Contac (GSK) and Claritin (Merck/Schering-Plough). There are also numerous generic products which are direct competitors to Pernix's drugs which often are more price competitive. Pharmacists will

typically fill prescriptions of cough/cold products with a generic product when available and often do so even for off-label uses. Due to the significant generic competition, the promotional sales life of most of Pernix's current branded product portfolio is typically relatively short – likely only 1 – 3 years before Pernix launches a generic equivalent and/or ceases promotion of the branded product altogether. This means Pernix is always looking to update its product menu through in-licensing, acquisitions, co-promotions and, in the future, product development.

While the majority of Pernix's drugs (excluding Brovex) have a patent-protected technology for drug-delivery ("Kiel Technology") as well as trademarked brand names, none of the drugs' active pharmaceutical ingredients are patent protected. This presents somewhat of a double-edged sword scenario – where the drugs are exposed to a significant amount of competition but also where they are highly promotionally sensitive due to the lack of detailing of the larger companies' products. Due to the significant competition from generics in this space there is little financial incentive for large pharmaceutical companies to promote their products - this allows smaller companies that do detail their drugs (i.e. – Pernix) to capture meaningful share of the branded market.

While Pernix's product lines contain first-generation antihistamines and decongestants that are among the most widely used in cold/allergy medicines, we do not believe their products' efficacy is necessarily superior to many of its competitors. In addition, Pernix's cough/cold product lines do not carry nearly the same level of brand recognition nor advertising support as many of the competing products. Despite this, Pernix has been very successful in growing sales of the drugs, all of which are highly promotionally-sensitive. And while we believe Pernix's product lines as a whole will continue to exhibit strong annual revenue growth over the next several years, as we highlighted above, we believe much of Pernix's competitive advantage is intangible and lies outside its product portfolio.

Aldex Family

The Aldex product line encompasses Aldex AN, Aldex CT, Aldex D and Aldex DM, which are prescription oral antihistamine/decongestant/antitussive combinations indicated for the treatment of respiratory allergies, allergic rhinitis and symptoms of the common cold. Pernix was granted rights to these products through licensing agreements with Kiel Laboratories and Gaine, Inc. (discussed below under "Patents/License Agreements"). The Aldex line, which Pernix launched in 2006, generated $18.4 million in sales in 2009, an increase of 4% year-over-year. Aldex accounted for 67% and 48% of Pernix's gross product sales in 2008 and 2009, respectively. We believe sales of the Aldex line began to fall during the first half of 2010 (management does not break out quarterly sales of individual drugs) as a result of Pernix launching authorized generics of the "D" (in Q1 2010) and "DM" products (in Q3 2009). Combined, these products accounted for 77% of the Aldex line in 2009.

- Aldex AN
  Aldex AN is an antihistamine/decongestant combination administered orally in a chewable tablet form containing the active pharmaceutical ingredient (API) doxylamine succinate. It is indicated for the temporary relief of runny nose, sneezing, itching of nose or throat, itchy, watery eyes due to hay fever or other respiratory allergies. Sales of Aldex AN were $641k in 2009, down 32% from 2008.

- Aldex CT
  Aldex CT is an antihistamine/decongestant combination administered orally in a chewable tablet form containing the API diphenhydramine HCl (antihistamine) and phenylephrine HCl (decongestant). It is indicated for the temporary relief of nasal and sinus congestion, sneezing, runny nose and watery eyes that occur from respiratory allergies. Sales of Aldex CT grew 43% in 2009 to $3.67 million.

- Aldex D
  Aldex D is an antihistamine/decongestant combination for oral administration as a suspension. Aldex D contains the API phenylephrine HCl and pyrilamine maleate (antihistamine). It is indicated for the symptomatic relief of coryza (head cold) and nasal congestion associated with the common cold, sinusitis, allergic rhinitis and other upper respiratory tract conditions. Aldex D generated $7.6 million in sales in 2009, an increase of 84% year-over-year. Pernix launched Pyril D, an authorized generic of Aldex D, through Macoven in early 2010. As detailed below (under "Collaborations"), Pernix receives 100% of the net proceeds from sales of these authorized generics.

- Aldex DM
  Aldex DM is an antihistamine/nasal decongestant/antitussive combination for oral administration as a suspension. Aldex DM contains the API phenylephrine HCl, pyrilamine maleate and dextromethorphan HBr (antitussive). It is indicated for the symptomatic relief of coryza, nasal decongestion, and cough associated with the common cold, sinusitis, allergic rhinitis and other upper respiratory tract conditions. Aldex DM

sales fell 35% in 2009 to $6.5 million. This was a result of Pernix launching an authorized generic equivalent of Aldex DM (called Pyril DM) through Macoven during the third quarter 2009. Proceeds from sales of Pyril DM amounted to $254k (accounted for as "collaboration revenue") through the end of FY2009.

Pediatex TD

Pernix obtained rights to Pediatex TD through a licensing deal with Gaine, Inc. Pediatex TD is a prescription antihistamine/nasal decongestant combination liquid for oral administration. Pediatex TD contains the API tripolidine HCI (antihistamine) and pseudoephedrine HCI (decongestant). Tripolidine HCl is a first generation antihistamine in the alkylamine class. Pediatex TD, which Pernix launched in August 2008, is indicated for the relief of runny nose, sneezing, itching of nose and throat, itchy, watery eyes due to hay fever or other respiratory allergies. The product generated $5.7 million in sales in 2009, up from $1.5 million for the four months the drug was on the market in 2008. In March 2010 Pernix launched an authorized generic equivalent of Pediatex TD (called Trip PSE) through Macoven. As a result, we expect Pediatex TD sales to continue to fall throughout 2010.

Brovex Family

The Brovex product line includes Brovex PEB, Brovex PEB DM, Brovex PSB, Brovex PSB DM, Brovex PSE and Brovex PSE DM. These are oral antihistamine/decongestant/antitussive (cough suppressant) combinations indicated for the treatment of allergies and symptoms of the common cold. Pernix purchased the Brovex products in June 2009 for $450k from DaySpring Pharma (which purchased it from Athlon Pharmaceuticals in 2007). Brovex generated approximately $600k in revenue for DaySpring for the 12 months prior to the sale of the drug to Pernix. Pernix's primary reason for acquiring Brovex was a defensive strategy against a competitor attempting to launch a generic version of the company's Z-Cof line. The relatively cheap price and the drug's wide formulary coverage offer other significant advantages. The acquisition has already turned out to be wildly successful for Pernix. Pernix launched the line in August 2009 and through the end of the third quarter 2010 it achieved $16 million (~36x the purchase price) in sales. Brovex enjoys no patent protection however, so we expect the lines' sales life to be somewhat limited for Pernix. Pernix launched generic equivalents of Brovex PSB DM and PEB DM in some territories during the second quarter 2010 - the company continues to promote the branded product in other areas. We expect Pernix to continue to dedicate significant detailing to the Brovex family of products but believe branded Brovex sales will be at or near peak levels for Pernix by the end of 2010.

- Brovex PEB
  Brovex PEB is an antihistamine/decongestant combination administered orally in a liquid form containing the API phenylephrine HCl and brompheniramine maleate (antihistamine). It is indicated for the temporary relief of nasal and sinus congestion, sneezing, runny nose and watery eyes that occur from seasonal and perennial allergic rhinitis. Sales of Brovex PEB were $429k in 2009.

- Brovex PEB DM
  Brovex PEB DM is an antihistamine/decongestant/antitussive combination administered orally in a liquid form containing the API phenylephrine, brompheniramine maleate and dextromethorphan. It is indicated for the relief of nasal and sinus congestion, coughing, sneezing, runny nose, and watery eyes that occur from seasonal and perennial allergic rhinitis or the common cold. Sales of Brovex PEB DM were $2.6 million in 2009. Pernix launched a generic equivalent of PEB DM during the second quarter 2010 in some territories. The company continues to promote the branded product in other areas.

- Brovex PSB
  Brovex PSB is an antihistamine/decongestant administered orally in a liquid form containing the API pseudoephedrine HCl and brompheniramine maleate. It is indicated for the temporary relief of nasal and sinus congestion, sneezing, runny nose, and watery eyes that occur from seasonal and perennial allergic rhinitis. Sales of Brovex PSB were $413k in 2009.

- Brovex PSB DM
  Brovex PSB DM is an antihistamine administered orally in a liquid form containing the API pseudoephedrine HCl, brompheniramine maleate and dextromethorphan. It is indicated for the temporary relief of nasal and sinus congestion, coughing, sneezing, runny nose, and watery eyes that occur from seasonal and perennial allergic rhinitis or the common cold. Sales of Brovex PSB DM were $1.6 million in 2009. Pernix launched a generic equivalent of PSB DM during the second quarter 2010 in some territories. The company continues to promote the branded product in other areas.

- Brovex PSE

Brovex PSE is an antihistamine administered orally in tablet form containing the API pseudoephedrine HCl and brompheniramine maleate. It is indicated for the temporary relief of nasal and sinus congestion, sneezing, runny nose, and watery eyes that occur from seasonal and perennial allergic rhinitis. Sales of Brovex PSE were $144k in 2009.

- Brovex PSE DM
  Brovex PSE DM is an antihistamine administered orally in tablet form containing the API pseudoephedrine HCl, brompheniramine maleate and dextromethorphan. It is indicated for the temporary relief of nasal and sinus congestion, coughing, sneezing, runny nose, and watery eyes that occur from seasonal and perennial allergic rhinitis or the common cold. Sales of Brovex PSE DM were $602k in 2009.

Z-Cof

The rights to Z-Cof were also obtained through the 2006 licensing arrangement with Kiel. Pernix began promoting Z-Cof 8DM in 2008 after discontinuing a legacy product, Z-Cof 12DM, at the end of 2007 due to a request by the FDA for manufacturers to discontinue similar products. While the FDA's request was not specifically targeted at Pernix's product, the company's manufacturers decided to discontinue producing it. Pernix subsequently discontinued selling 8DM during the first quarter 2010 due to a competing generic launch – Pernix has initiated legal actions against the company and expects to launch a new Z-Cof product during the winter of 2010.

Z-Cof 8DM is a prescription alcohol-free antitussive/decongestant/expectorant suspension indicated for the treatment of nasal congestion, chest congestion and cough that can lead to sinusitis. It contains the API dextromethorphan hydrobromide, pseudoephedrine HCl and guaifenesin (expectorant).

The Z-Cof products have been another home-run for the company. Generating $7 million of sales in 2007 (36% of total product sales), $6.7 million in 2008 (following the 12DM retirement and 8DM launch) and another $7.8 million in 2009. Details of the new Z-Cof product have not been released but we expect sales of it will be relatively unaffected by the generic 8DM product that is in the market. Pernix will likely introduce the product during the early part of the 2010 cold season. Based on the success of the legacy Z-Cof products, we expect sales of this new product to ramp very quickly and make a significant contribution to revenue beginning in late-2010.

Rezyst IM and Quinzyme

Rezyzst IM and Quinzyme are both medical food products which are either chewed or dissolved in the patients mouth, thereby eliminating the need for swallowing the drug whole. Rezyst IM and Quizyme launched in February 2009 and July 2009, respectively. Combined sales of the two drugs were approximately 1% of Pernix's total product sales in 2009 and we do not expect them to be a meaningful contributor to sales going forward.

Rezyst IM is a prescription probiotic (i.e. - dietary supplements or foods that contain beneficial bacteria similar to those normally in the body) chewable tablet formulated to replace active bacterial cultures that are destroyed by diet and antibiotics. It contains the API lactobacillus acidophilus and bifidobacterium (a bacteria with probiotic characteristics).

Quinzyme, which contains the API ubiquinone, is a prescription supplement for patients with depleted levels of ubiquinone. Coenzyme Q10 (CoQ10), also known as ubiquinone, is a fat-soluble, vitamin-like substance found in every human cell. It is involved in key biochemical reactions that produce energy in cells. Pernix's target market for Quizyme is the ~ $20B U.S. statin market as statin-induced ubiquinone deficiency is reversible with supplemental ubiquinone. While Quinzyme competes with branded OTC Coenzyme Q10 products, there is currently no other prescription ubiquinone supplement product on the market.

Cedax

In March 2010 Pernix closed on a deal for the purchase of Cedax from Shionogi Pharma, Inc. for $6.1 million. The purchase price will be paid over three installments ($3MM paid, $3.1MM due by 12/2010) and funded with cash on hand. Cedax generated approximately $6 million in sales in 2009, which implies an acquisition value of just 1x sales. Cedax (ceftibuten) is a prescription oral third-generation cephalosporin. The product is available in a 400mg capsule which will be primarily sold to the adult market and three suspension strengths which are largely targeted to the pediatric market. Pernix markets the suspension products and has entered a co-promotion agreement with WraSer Pharmaceuticals for marketing of the capsule form. WraSer will receive 70% of net sales proceeds of the capsule product.

Cedax is indicated for the treatment of mild to moderate acute bacterial exacerbations of chronic bronchitis, acute bacterial otitis media, pharyngitis and tonsillitis (i.e. – treatment of infections of the throat, middle-ear and respiratory tract). Acute bacterial exacerbation of chronic bronchitis is common among the roughly 14 million Americans suffering from chronic bronchitis. And while this is an attractive market for Pernix with Cedax, middle-ear infections (otitis media) with the suspension formula is largely where Pernix expects to focus its promotional efforts as this is the drug's sweet-spot for the pediatric space. Acute otitis media is the most commonly diagnosed infection among children. By age three, 84% of all children will have experienced at least one episode of the infection and nearly 50% will have had three or more episodes.

Cedax, which gained FDA approval in December 1995, was originally discovered by Shionogi and licensed to Schering-Plough. Schering-Plough launched the drug in the U.S. in early 2006, which reached peak sales of $52 million in 1997. Schering-Plough largely abandoned further promotion of Cedax after the disappointing launch and its introduction of seemingly greater potential products such as the highly successful Claritin brand. Biovail began marketing Cedax in October 2000 until terminating their sub-license agreement with Schering-Plough in August 2004. Biovail, which generated almost $900 million in revenue in 2004, cited its desire to shift resources towards "more important therapeutically focused products" as the reason to terminate the deal with Schering-Plough.

Cedax will compete with other cephalosporins including generics cephalexin (Keflex), cefaclor (Cefaclor), cefuroxime (Zinacef), cefdinir (Omnicef), cefprozil (Cefzil) and cefpodoxime (Vantin). It will also compete with Lupin Pharmaceuticals' Suprax (cefixime) product, the only other branded third generation cephalosporin currently on the market that is indicated for the treatment of otitis media. Lupin relaunched the drug in 2004 after licensing it from Wyeth which had ceased promoting it in 2003. Suprax is available in two suspension strengths and a 400mg tablet. However, unlike Cedax, which has patent protection for method of treatment until February 2014 (capsule form patent expires 2013, suspension strengths' patents expire 2014), all the patents covering Suprax have already expired, exposing all dosage forms of the drug to generic competition. We believe a generic Suprax product could launch sometime in 2011.

These third generation cephalosporins are highly promotionally-sensitive and the entry of a generic equivalent of Suprax would likely significantly benefit prescriptions of Cedax. While Pernix may compromise some margin, the launch of generic Suprax would afford Pernix's sales force the luxury of no branded competition when detailing to physicians. In addition, through couponing, Pernix can discount Cedax's co-pay to the same level of generic cephalosporin's, which carries a relatively high co-pay. This affords Pernix the ability to compete on price as well as efficacy, which is a tremendous benefit for their sales force. Lupin, via targeted sales campaigns, grew sales of Suprax from just $14.1 million in the first year of launch to approximately $100 million in the fifth year (~62% CAGR). This demonstrates the opportunity that Pernix has, with its highly motivated and effective sales force, to quickly ramp sales of Cedax.

We estimate the target market in which Cedax will compete to be approximately $700 million per year, with roughly 60% of that cornered by generics. According to an independent prescription tracking service Suprax generated approximately $95 million - $100 million in sales in 2009 for just their suspension formula. Assuming no other direct branded competition exists (following a generic Suprax launch), we believe Cedax could generate annual peak sales in excess of $100 million after only a few years on the market. However, given Pernix's ability to quickly ramp and sustain extraordinarily high sales growth rates of newly acquired drugs (as evidenced by the Brovex launch) even this peak sales estimate may prove to be conservative. Having acquired the product for just $6 million, Cedax looks like it could easily become Pernix's most profitable drug ever.

Pernix will use couponing in order to compete with the generic competition, which will effectively bring the patient co-pay on Cedax down to approximately the same amount as the generic co-pay. Pernix hired an additional 25 sales reps during the second quarter 2010 to support the roll-out of Cedax. The second quarter launch largely consisted of initially introducing the product to physicians and rolling out the sampling campaign – although early indications are that the launch has been very successful from a gross product sales standpoint. Although management did not disclose sales figures, we believe the Cedax launch has been highly successful and was responsible for the majority of the difference between actual and our estimated net sales for Pernix in Q3 2010.

Cedax has historically had an extraordinarily high exposure to Medicaid customers which was largely the result of Pernix's Medicaid rebate expense jumping to 33% of gross product sales in the second quarter 2010 from just 12% in Q1. Management has noted that they are working on plans to reduce their overall exposure to Medicaid customers, which will become ever more critical as Cedax makes up a greater percent of overall product sales. Through Q3 this rebate fell to 15% of gross sales, although this will be something to continue to keep an eye on. Our model incorporates the assumption that Pernix's exposure to these rebates runs in the mid-teens (% of gross product sales) over the next several years – slightly scaling up with the growth of Cedax.

On the first quarter call management noted that while they would not give specific guidance relative to sales of Cedax, they noted that their minimum expectation was that in the first twelve months under Pernix's tutelage, that Cedax would generate sales of at least twice the ~$6 million it turned in during 2009. With the strong net sales number in Q3 (for the entire company), we are now all but convinced that this is conservative. Prior to Q3 we had modeled Cedax to generate $8.5 million through the end of 2010, we now believe it will likely be closer to $18 million. We think Cedax could generate as much as $47 million in 2011.

The remaining patent on Cedax expires in February 2014, after which the drug will be exposed to competition from generic equivalents. Management noted on the second quarter call that they are working on a plan post-patent expiry to help Cedax compete against generic competition – but, for competitive reasons, would not disclose anymore information on their strategy than this.

COLLABORATIONS / CO-PROMOTIONS

In addition to selling their own products, Pernix also books revenue from collaboration and co-promotion arrangements. The company booked $292k and $461k from these in FY 2009 and the second quarter 2010, respectively. We expect co-promotion revenue to be much more meaningful in the near-future.

Macoven

The largest of these arrangements had been with Macoven Pharmaceuticals, LLC. Macoven was created as a wholly-owned subsidiary of Pernix for the purpose of launching generic drugs. The entity was spun off during 2009 during which time Pernix granted Macoven the right to develop and sell authorized generic equivalents of the company's branded products. In return for an upfront development fee of $1.5 million, Pernix was entitled to 100% of the proceeds of the generic products. In September 2010, for a purchase price of $2.2 million ($1.2 million net of $1.0 million in inventory), Pernix acquired 100% interest in the generic manufacturer. Revenue from Macoven had been running through "collaboration revenue" prior to Pernix acquiring the company. Now revenue and expenses will flow through net sales and the respective expense items on the income statement. Through the second quarter 2010 Macoven had launched generic versions of Aldex DM (Pyril DM), Aldex D (Pyril D), Pediatex TD (Trip PSE), Brovex PSB DM (Brom Pseudo DM) and Brovex PEB DM (Brom Phenyl DM). Pernix booked revenue of $163k and $576k related to these generics during the second quarter and first half of 2010, respectively. We expect Macoven revenue to become much more meaningful over the next several years due to the recent Aldex generic launches as well as potential further authorized generic launches of the Brovex line.

On June 22, 2010 Pernix entered into a co-promotion agreement with Macoven for the exclusive marketing of Zema Pak. Zema Pak is a glucocorticoid used to treat conditions such as arthritis and allergic reactions.

The entry of authorized generics is typically highly detrimental to sales of large, well-established brand name drugs but is an effective strategy to ward off competition to smaller, highly promotionally-sensitive brand name products such as Pernix's portfolio of drugs. By introducing a generic equivalent, competitors are much less inclined to detail their branded competing product in the same territory where Pernix is. This minimizes the number of branded competitors that their physicians are exposed to. By controlling the generic product Pernix also has the latitude to adjust pricing of both their branded and generic product, which can actually result in higher gross margins for the products without the usual compromise of market share. This is an enormous advantage in our opinion. Selling authorized generics while continuing to detail their branded product in other territories also allows Pernix's to gain certain formulary coverage where their branded product may have been excluded.

Natroba

On January 12, 2011 Pernix announced it had entered a co-promotion agreement with ParaPRO LLC, a privately-held specialty pharma company with a focus on the development of pediatric drugs. At the time of the announcement ParaPRO had submitted a drug candidate containing the API spinosad to the FDA seeking approval for the treatment of head lice. The FDA granted approval of Natroba days later. Natroba is indicated for the topical treatment of heads lice in patients four years and older. The agreement with ParaPRO gives Pernix the exclusive rights to co-promote the drug in the U.S. The duo expect to launch Natroba "in the first half of 2011."

The NDA was supported by data from two phase III trials which were published in *Pediatrics: Official Journal of the American Academy of Pediatrics.* The trials compared the efficacy of spinosad with that of permethrin (Nix).

Permethrin is considered the current standard of care for treatment of head lice and is the API in a variety of lice control products (OTC and Rx). In fact, Nix is endorsed by the American Academy of Pediatrics for treatment of head lice. The trials followed over 1,000 individuals for 21 days. The primary endpoint was the proportion of lice-free participants after 14 days. Results showed that approximately 85% (trial 1) and 87% (trial 2) of spinosad-treated participants were lice free after 14 days. This compared to approximately 45% (trial 1) and 43% (trial 2) for the permethrin-treated participants. The study authors thus concluded that spinosad was significantly more effective that permethrin for the treatment of head lice.

Spinosad may have other advantages other than efficacy over premethrin most notably that lice has shown to become resistant to premethrin and overuse of it can be dangerous due to toxicity – especially to children. These can go hand-in-hand, as individuals will often apply more premethrin than the recommend dose when treatment fails to fully eradicate premethrin-resistant lice strains. Pyrethrin, another common API used for the treatment of lice, has also shown to be susceptible to lice-resistance.

The other, perhaps somewhat more subjective, advantage is in application. Nix, along with most other lice-control products, requires that the individual combs the product through the scalp – combing is not necessary with Natroba, which potentially makes application easier and less time consuming.

Based on the apparent advantages of spinosad over the current standard of care, along with a U.S. market for head lice treatment estimated at approximately $240 million, we think this deal with ParaPRO could be potentially very lucrative for Pernix. Pernix expects to receive between 35% - 42% of net sales proceeds. Using rough assumptions and back-of-the-envelope math; if Natroba can take 30% of the market (~$70MM), approximately one-half (this might be conservative) of which we assume would be sold by Pernix. After rebates Pernix's cut could be $11 million. After selling (and some G&A) expenses and taxes, as much as $6 million (~$0.25 EPS) could flow to the bottom line. Grabbing 30% market share would not happen within the year of launch but, given the apparent significant efficacy advantages of the drug, combined with Pernix's sales acumen, we think this is a realistic assumption within a few years after launch.

We had previously modeled a contribution from an anticipated new co-pro deal beginning in early 2011 so this announcement does not necessarily materially impact our model - based on the verbiage in the press release (potential launch in "first half of 2011"), our timing may be off slightly (maybe one quarter early) but we were in the ballpark.

LICENSE AGREEMENTS

84% of Pernix's gross product sales in 2009 were generated by products that Pernix acquired through licensing arrangements with Kiel Laboratories and Gaine, Inc. The license with Kiel granted Pernix the right to use Kiel's patented drug delivery technology to manufacture and sell Aldex CT, Aldex D, Aldex DM and Z-Cof 8DM (Pernix discontinued 8DM in early 2010). In return, Pernix was paying Kiel royalties on sales of these products. The patents covering the Kiel technology expire in 2026 and 2027. Licenses to market these drugs were subsequently obtained by Gaine, Inc.

In October 2006 Gaine, Inc., a holding company for intellectual property rights related to pharmaceutical products, acquired the manufacturing and marketing rights to Aldex AN and Pediatex TD from Kiel. Pernix gained rights to the drugs through Gaine. Pernix had owned a 50% interest in Gaine until June 21, 2010 when Pernix bought the remaining 50% it did not own. Terms of the deal call for Pernix to pay the sellers of Gaine $500k at closing (which has been paid), another $500k on October 31, 2010 (which has been paid) and another $1 million in cash or PTX stock on January 31, 2011.

Prior to owning 100% of Gaine, Pernix was making royalty payments on sales of Aldex, Z-Cof and Pediatex to Gaine and Kiel. Now with Pernix controlling 100% of Gaine, these royalty payments (~$1.2 million in FY 2009) will now go away.

In addition to the $1 million purchase price, Pernix is required to pay the sellers $10 million in the event an NDA receives FDA approval for one of Pernix's antitussive candidates which incorporates a patent owned by Gaine. In April 2010 Pernix paid Kiel $200k related to a one-year consulting agreement whereby Kiel will assist in the development of two of its antitussive candidates incorporating patents owned by Gaine.

PIPELINE

On December 20, 2010 Pernix announced it had entered a joint-venture with a U.K-based company for the development and commercialization of BC1036. BC1036, also known as theobromine, is the highly-anticipated antitussive drug candidate that Pernix management had yet to disclose the name of but previously noted could have enormous potential. Terms of the JV with SEEK, a U.K.-based drug incubator, include upfront payments by both parties of $1.5 million each. Both parties will appoint two directors, will each hold 50% voting interest and will own 46% of the share capital (Manfred Scheske will own 7% (non-voting) share and 1% will be left unissued). Additional capital will be contributed on a pro-rata basis and as necessary, as determined by the JV's board.

Theobromine is an alkaloid of the cacao plant and is found in chocolate. It is in the methylxanthine class of compounds which also includes caffeine. It has been used clinically as a vasodilator, diuretic and heart stimulant but has yet to be patented in the U.S. for cough suppression. Codeine has been widely regarded as the most effective antitussive and is the API for cough suppression in several popular brand name and generic prescription medicines including Robitussin AC and Dimetane DC. However, codeine's serious adverse side effects, including being highly addictive and causing drowsiness, limits its use. Codeine, for all practical purposes can only be used at night and should only be used sparingly (or not at all) in pediatric patients.

Seoul Korea-based Ahn-Gook Pharmaceutical launched the drug in Korea in 2009. The patent-trail was not disclosed in Pernix's press release but from what we can tell the JV licensed global rights (ex-Korea) from Ahn-Gook. Pernix's press release implies that the drug (marketed as AnyCough by Ahn-Gook) has been well received in Korea following its launch in 2009. However, there is no readily-available public information to quantify how successful the drug has been. As a result, we have no solid basis to estimate what sales could be for the European and U.S. markets (assuming eventual regulatory approval in both). We currently model a $5 million contribution to Pernix from this candidate in 2013, but this acts more of a placeholder until we have more clarity on what the potential of the product might be (as well as development timeline).

Based on the safety history of the drug, at least a portion of which presumably came from clinical trials undertaken in support of the approval in Korea, the JV expects to be able to move the candidate directly to phase III testing. The companies are in the process of gaining regulatory clearance in Europe for protocol of a single phase III trial. Discussions are also underway with FDA to confirm a regulatory program for approval in the U.S. The companies hope to start clinical testing in mid-2011 and, if all goes well, Pernix thinks the drug could be on the market in both Europe and the U.S. sometime in 2013. The deal also gives Pernix the right to fund development of a suspension formula for the U.S. market and, upon, FDA approval, would hold exclusive rights to the product. Pernix notes in the 8-k filed describing the terms of the deal that they would not likely fund development of a suspension formula unless the initial formula receives regulatory approval in both Europe and the U.S.

Manfred Scheske will lead the development effort of BC1036. Scheske came to SEEK in October 2010 and from what we can tell he's a pretty big hitter. At his previous post as Glaxo-Smith Kline's President of Consumer Healthcare in Europe he led the pan-European launch of OTC alli, which has been a tremendous success for GSK's consumer business. Prior to that he spent six years as GSK's head of U.S. consumer healthcare products.

While we believe it is not unreasonable that this future drug could potentially have multi-hundred million dollar potential, until we know more about the background of the candidate including sales in Korea, trial data to date and the proposed clinical trial protocol, this is just conjecture. We hope to hear more details on the next earnings call and will update our model if appropriate.

RECOMMENDATION / VALUATION

2010 is somewhat of a transition year for Pernix during which the company is shifting away from more piecemeal products (i.e. – Aldex, Brovex, Pediatex) to products that hold more longer-term upside potential (i.e. – Cedax). The return on this transition should be almost immediate, with very robust annual EPS growth expected to begin in 2011 when we model Pernix to generate EPS of $0.76. We had expected Pernix to be looking to leverage its sales force through new co-promotions and finding ways to reinvest its cash. Management has not disappointed. Pernix should begin seeing a return from the new Natroba co-promotion within the next few months and the SEEK JV deal could help to significantly accelerate revenue in the coming years.

Valuation

The bulk Pernix's revenue has historically (and currently) been derived from products with relatively limited upside and short remaining sales lives. While Pernix's strategy of acquiring "has-been" drugs at firesale prices has proven to be extremely profitable, it involves a high turnover of drugs and almost constant deal-making. The relatively short-term focus of this strategy introduces a higher level of long-term uncertainty. As a result, our prior valuation relied on a near-term P/E multiple.

Our model had previously included contributions from both a new large co-promotion deal and unknown pipeline candidates (although not specifically for BC1036) so the recent news regarding Natroba and the SEEK JV impacts our model only slightly. And while management had previously indicated that they were in discussions regarding both, we felt, prior to the deals being announced, that the risk of failing to consummate the deals added substantial uncertainty to our longer-term financial forecasts for Pernix.

With the deals now in place, we feel risk to our longer range forecast is now greatly reduced and consequently are moving to a valuation method which incorporates this anticipated growth.

We use industry average five-year PEG (using P/E calculated on 2011 EPS) of 0.52 to value Pernix. We look for Pernix to post 2014 EPS of $2.23, which implies five year growth of 39% (from $0.43 in 2009). Applying the resultant ~20x P/E multiple to our 2011 EPS estimate of $0.76 values Pernix at approximately $15.50/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 STATEMENTS

INCOME STATEMENT

Pernix Therapeutic Holdings, Inc

	2009 A	Q1A	Q2A	Q3A	Q4E	2010 E	2011 E	2012 E	2013 E	2014 E
Gross product sales	$38,210.6	$10,832.6	$6,894.8	$11,532.0	$18,300.0	$47,426.0	$78,350.0	$103,628.0	$135,975.0	$189,375.0
YOY Growth	*45.2%*	*9.8%*	*-22.5%*	*69.6%*	*80.8%*	*24.1%*	*65.2%*	*32.3%*	*31.2%*	*39.3%*
Collaboration revenue	$291.6	$524.3	$460.5	$338.0	$500.0	$1,822.8	$5,600.0	$9,550.0	$16,000.0	$22,400.0
YOY Growth	-	-	-	-	-	*525.2%*	*207.2%*	*70.5%*	*67.5%*	*40.0%*
Royalty revenue	$0.0	$0.0	$21.4	$0.0	$21.0	$42.4	$125.0	$175.0	$225.0	$275.0
YOY Growth	-	-	-	-	-	-	*194.7%*	*40.0%*	*28.6%*	*22.2%*
Sales discounts & Price Adjstmts	($2,937.8)	($921.6)	($323.8)	($1,445.0)	($1,464.0)	($4,154.4)	($6,268.0)	($7,772.1)	($10,198.1)	($14,203.1)
% of Gross product sales	*7.7%*	*8.5%*	*4.7%*	*12.5%*	*8.0%*	*8.8%*	*8.0%*	*7.5%*	*7.5%*	*7.5%*
Sales returns allowances	($2,809.9)	($255.2)	($426.0)	($740.0)	($1,171.2)	($2,592.4)	($4,466.0)	($5,699.5)	($6,798.8)	($9,468.8)
% of Gross product sales	*7.4%*	*2.4%*	*6.2%*	*6.4%*	*6.4%*	*5.5%*	*5.7%*	*5.5%*	*5.0%*	*5.0%*
Allwnce for cust rebates/chgbcks	$0.0	$0.0	$0.0	($228.0)	($366.0)	($594.0)	($1,567.0)	($2,072.6)	($2,719.5)	($3,787.5)
% of Gross Macoven sales				*2.0%*	*2.0%*	*1.3%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Medicaid rebates	($4,824.1)	($1,306.7)	($2,269.2)	($1,678.0)	($2,745.0)	($7,998.9)	($10,263.9)	($14,300.7)	($19,580.4)	($28,406.3)
% of Gross product sales	*12.6%*	*12.1%*	*32.9%*	*14.6%*	*15.0%*	*16.9%*	*13.1%*	*13.8%*	*14.4%*	*15.0%*
Rebates/discounts % of Gross	*27.7%*	*22.9%*	*43.8%*	*35.5%*	*31.4%*	*32.3%*	*28.8%*	*28.8%*	*28.9%*	*29.5%*
Net Sales	$27,930.4	$8,873.3	$4,357.8	$7,778.8	$13,074.8	$34,084.7	$61,510.2	$83,508.1	$112,903.2	$156,184.4
YOY Growth	*35.2%*	*22.6%*	*-33.1%*	*33.5%*	*56.5%*	*22.0%*	*80.5%*	*35.8%*	*35.2%*	*38.3%*
Cost of product sales	$5,437.0	$1,192.0	$704.2	$1,436.2	$2,250.9	$5,583.2	$10,028.8	$12,953.5	$16,317.0	$23,861.3
Ex-discounts/rebates products margin	*85.8%*	*89.0%*	*89.8%*	*87.5%*	*87.7%*	*88.2%*	*87.2%*	*87.5%*	*88.0%*	*87.4%*
Gross Income	$22,493.4	$7,681.3	$3,653.6	$6,342.6	$10,823.9	$28,501.5	$51,481.4	$70,554.6	$96,586.2	$132,323.1
Gross Margin	*80.5%*	*86.6%*	*83.8%*	*81.5%*	*82.8%*	*83.6%*	*83.7%*	*84.5%*	*85.5%*	*84.7%*
Selling	$4,742.0	$1,456.1	$1,089.7	$1,399.1	$2,538.0	$6,482.9	$10,913.5	$14,147.3	$18,237.0	$26,048.3
% Sell&Mktg	*12.4%*	*12.8%*	*14.8%*	*11.8%*	*13.5%*	*13.2%*	*13.0%*	*12.5%*	*12.0%*	*12.3%*
Royalty expenses	$1,224.0	$0.0	$0.0	$205.3	$200.0	$405.3	$600.0	$700.0	$800.0	$1,100.0
% Royalty	*3.2%*	*0.0%*	*0.0%*	*1.8%*	*1.1%*	*0.9%*	*3.0%*	*0.7%*	*0.6%*	*0.6%*
G&A	$6,388.0	$1,634.5	$1,697.8	$2,106.1	$2,782.4	$8,220.8	$9,234.5	$11,317.8	$13,677.8	$18,000.9
% G&A	*16.7%*	*14.4%*	*23.1%*	*17.7%*	*14.8%*	*16.7%*	*11.0%*	*10.0%*	*9.0%*	*8.5%*
R&D	$712.0	$271.3	$316.0	$252.7	$125.0	$965.0	$825.0	$1,172.0	$1,644.0	$1,445.0
% R&D	*1.9%*	*2.5%*	*4.6%*	*2.2%*	*0.7%*	*2.0%*	*1.1%*	*1.1%*	*1.2%*	*0.8%*
Dep & Amort	$211.0	$68.8	$190.2	$300.0	$632.0	$1,191.0	$2,522.0	$2,145.0	$1,709.0	$1,675.0
Operating Income	$9,216.4	$4,250.8	$359.8	$2,079.4	$4,546.5	$11,236.5	$27,386.4	$41,072.6	$60,518.5	$84,053.9
Operating Margin	*33.0%*	*47.9%*	*8.3%*	*26.7%*	*34.8%*	*33.0%*	*44.5%*	*49.2%*	*53.6%*	*53.8%*
Interest income, net	$19.6	$2.9	$4.7	8.8	$9.0	$25.4	$60.0	$150.0	$300.0	$340.0
Other income	$2.0	$0.0	$0.4	277.4	$0.0	$277.8	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	$9,238.0	$4,253.7	$364.9	$3,247.5	$4,555.5	$12,421.7	$27,446.4	$41,222.6	$60,818.5	$84,393.9
Taxes (benefit)	$39.0	($1,018.1)	$201.7	$861.7	$1,275.5	$1,320.9	$9,212.8	$13,896.7	$20,559.3	$28,525.1
Tax Rate	*N/A*	*N/A*	*55.3%*	*26.5%*	*28.0%*	*10.6%*	*33.6%*	*33.7%*	*33.8%*	*33.8%*
Income to non-controlling interest	($41.0)	$3.7	(3.7)	0.0	0.0	$0.0	$0.0	$0.0	$0.0	$0.0
% of total	*-0.4%*	*0.1%*	*-2.2%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	$9,239.98	$5,268.16	$166.84	$2,385.77	$3,279.96	$11,100.74	$18,233.62	$27,325.91	$40,259.19	$55,868.78
Net Margin	*33.1%*	*59.4%*	*3.8%*	*30.7%*	*25.1%*	*32.6%*	*29.6%*	*32.7%*	*35.7%*	*35.8%*

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EPS	$0.43	$0.24	$0.01	$0.10	$0.14	$0.47	$0.76	$1.11	$1.62	$2.23
YOY Growth	*#DIV/0!*	-	-	-	-	*8.6%*	*62.7%*	*46.2%*	*46.1%*	*37.7%*
Diluted Shares O/S	21,488	21,867	24,608	24,417	24,200	23,773	24,000	24,600	24,800	25,000

Source: Zacks Investment Research *Brian Marckx, CFA*

BALANCE SHEET

Pernix Therapeutic Holdings, Inc

		September 30, 2010	December 31, 2009
ASSETS			
Current assets:			
Cash and cash equivalents	$	8,164,850	4,578,476
Restricted cash		500,958	—
Accounts receivable, net		8,622,490	4,133,357
Inventory, net		4,185,269	1,081,970
Prepaid expenses and other current assets		1,154,870	1,625,719
Deferred tax assets – current		122,000	61,000
Total current assets		22,750,437	11,480,522
Property and equipment, net		11,863,013	139,456
Other assets:			
Intangible assets, net of amortization		11,623,452	1,409,337
Deferred tax assets – long term		713,000	—
Other long-term assets		300,000	383,333
Total assets	$	36,569,902	13,412,648
LIABILITIES			
Current liabilities:			
Accounts payable	$	406,786	436,663
Accrued personnel expense		1,160,611	560,657
Accrued allowances		6,606,000	6,795,542
Income taxes payable		138594	100,000
Other accrued expenses		1,068,300	101,196
Line of credit		2,185,706	-
Contract payable		5,620,806	42,382
Total current liabilities		17,186,803	8,036,440
Commitments and contingencies		—	—
STOCKHOLDERS' EQUITY			
Common stock, $.01 par value, 90,000,000 shares authorized, 24,558,594 and 20,900,000 outstanding at March 31, 2010 and December 31, 2009, respectively		226,385	209,000
Treasury stock		(208,736)	—
Additional paid-in capital		5,257,641	788,979
Retained earnings		12,007,809	4,308,491
Total stockholders' equity		17,283,099	5,306,470
Non-controlling interest		—	69,738
Total equity		17,283,099	5,376,208
Total liabilities and stockholders' equity	$	36,569,902	13,412,648

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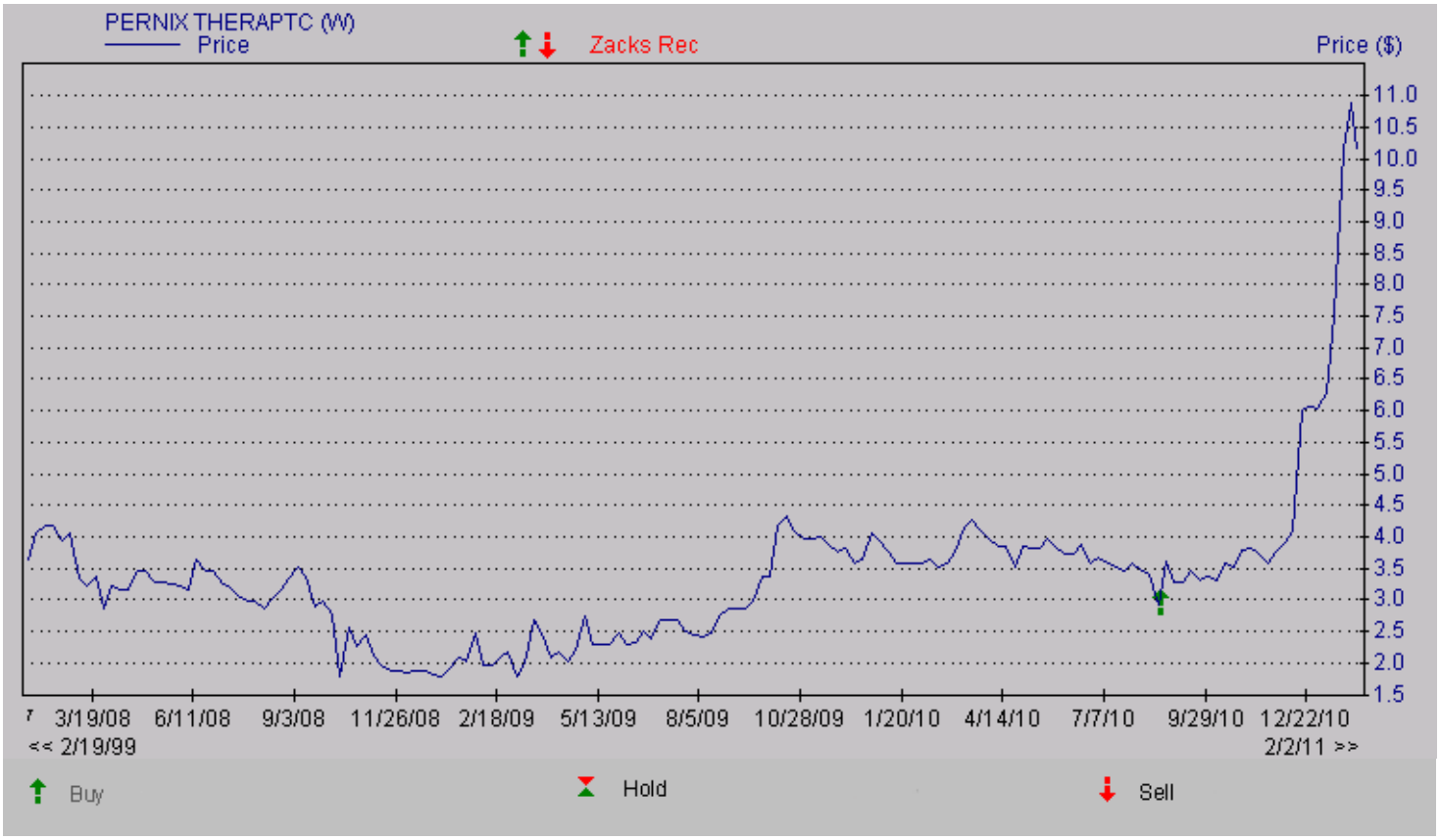
CASH FLOW STATEMENT

Pernix Therapeutic Holdings, Inc

	Nine months September 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 7,820,779	6,708,104
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	558,973	171,945
Provision for allowance for returns	1,421,000	1,974,000
Provision for deferred income tax benefit	(2,471,000)	—
Gain from Macoven acquisition	(881,950)	-
Non-cash interest	(6,554)	—
Stock compensation expense	291,401	681,000
Changes in operating assets and liabilities:		
Accounts receivable	(2,225,308)	(2,829,973)
Inventory	(1,304,947)	932,758
Prepaid expenses and other assets	971,856	(1,444,441)
Other assets – long term	83,333	(483,333)
Accounts payable	(265,938)	280,868
Income taxes	38,594	—
Accrued expenses	(1,962,374)	(620,060)
Net cash provided by operating activities	2,067,865	5,370,868
Cash flows from investing activities:		
Acquisition of Macoven	(1,996,432)	-
Acquisition of CEDAX – initial payment	(1,500,000)	—
Acquisition of non-controlling interest in Gaine	(326,623)	—
Acquisition of TCT patent	(250,000)	-
Acquisition of Brovex	—	(450,000)
Purchase of intangible assets	—	(100,833)
Purchase of equipment	(70,347)	—
Net cash used in investing activities	(4,143,402)	(550,833)
Cash flows from financing activities:		
Cash acquired in connection with the merger, net of costs paid	5,965,529	—
Proceeds from line of credit	2,185,706	
Transfer to restricted cash for issuance of letter of credit	(500,958)	
Payments received on notes receivable	66,334	
Payment on acquistion obligation - CEDAX	(1,500,000)	
Deconsolidation of Macoven	-	(50,832)
Proceeds from stock issuance	77,600	
Payments on contracts payable	(300,000)	
Repurchase of stock	(210,839)	
Distributions to stockholders	(121,461)	(6,107,600)
Net cash provided by (used in) financing activities	5,661,911	(6,158,432)
Net increase (decrease) in cash and cash equivalents	3,586,374	(1,338,397)
Cash and cash equivalents, beginning of period	4,578,476	4,874,296
Cash and cash equivalents, end of period	$ 8,164,850	$ 3,535,899

HISTORICAL ZACKS RECOMMENDATIONS



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