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Access Pharmaceuticals, Inc.
(Nasdaq/ACCP)

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Neutral **Waiting for MuGard traction**

Access is a drug delivery and specialty pharmaceutical company

Investment Highlights

1) **Access has made strides in its US launch of MuGard for oral mucositis**, hiring Frank Jacobucci, formerly of Milestone Biosciences, as VP of Sales, signing up Accupac as a manufacturer, and making a deal with internet marketing firm iMedicor for distribution to physicians. Meanwhile, a larger, more traditional distribution partner in North America for MuGard has eluded the Company, perhaps the reason behind the stretching of the Company's financial resources and leading to an equity financing earlier this year. Also in process is the receipt of 3rd party payor and/or Medicare reimbursement, which will help pave the way for initial sales of MuGard in the US.

2) **In the same vein, while Access has made progress with ProLindac in Europe**, completing a Phase I/II monotherapy ovarian cancer trial in France and starting a 25-patient combination ProLindac/Paclitaxel ovarian cancer study, progress has been slow for the initiation of Phase II/III combination trials for ProLindac in Asia with the Company's two partners. Still waiting in the wings are potential partners for ProLindac in the US for a variety of indications.

3) Access is also planning to begin Phase II trials for its nucleoside analogue **Thiaribine** in several types of cancer, including AML, ALL, and B-cell lymphomas. In addition, the Company continues to work on new applications for its **Cobalamin** nanoparticle coating drug delivery system, including the recent release stating that 80% oral bioavailability of insulin had been achieved in preclinical models. Access has two collaborations using Cobalamin-coated oral insulin animal models as well as agreements for other molecules, although the most recently signed agreement was last June.

Current Price **\$2.75**

Price Target **\$2.25**

Estimates	F2007A	F2008A	F2009E
Sales(\$000s)	\$57	\$291	\$598
1Q March	0	38	41 A
2Q June	0	132	63 A
3Q September	6	47	144 A
4Q December	51	74	350 E
Prev. Rev. Estimate (\$000s)			\$991
EPS (diluted)	(\$10.32)	(\$3.51)	(\$1.06)
1Q March	(1.16)	(1.76)	(0.24) A
2Q June	(0.60)	(0.49)	(0.24) A
3Q September	(0.55)	(0.57)	(0.37) A
4Q December	(8.01)	(0.10)	(0.20) E
Previous EPS Estimate			(\$0.92)
P/E (x)	N/A	N/A	N/A
EBITDA/Share	(\$10.22)	(\$3.31)	(\$1.15)
EV/EBITDA (x)	N/A	N/A	N/A

Stock Data	
52-Week Range	\$0.70-\$5.00
Shares Outstanding (mil.)	12.2
Market Capitalization (mil.)	\$33.6
Enterprise Value (mil.)	\$37.4
Debt to Capital (9/09)	N/A
Book Value/Share (9/09)	N/A
Price/Book	N/A x
Average Trading Volume (3-Month)	31,000
Insider Ownership	19.5%
Institutional Ownership	9.4%
Short interest	26,000
Dividend / Yield	\$0.00/0.0%



Price Target and rating changes over the past three years

Initiated - June 16, 2008 at Speculative Buy with \$8 Price Target
Updated - July 9, 2009 at Speculative Buy with \$4 Price Target
Downgraded - January 27, 2010 to Neutral with \$2.25 Price Target

Conclusion/Stock Valuation

Access' shares rebounded nicely last year following our July 2009 update due to a general recovery in the market and some positive exposure, however since the start of this year ACCP share prices have suffered, perhaps due to a recent equity offering or over-optimistic forecasts for MuGard sales potential. Although ACCP shares have pulled back since rapidly exceeding our original \$4 price last year, we believe that near-term the shares may continue to lack momentum, (although longer-term we like the Company's prospects), thus we are taking our remaining profit and reducing our rating on ACCP shares to Neutral with a re-entry price target nearer our original update price of \$2.25 per share.

Risk Factors

We believe an investment in Access Pharmaceuticals involves the following risks:

- **FDA and Regulatory risks:** Access' products are ultimately reliant on approvals by the U.S. FDA and other national regulatory bodies. There can be no guarantee of timely or definite regulatory approvals for any of their pipeline products. In addition the manufacture of recently-approved MuGard is also subject to periodic oversight by the US FDA as well as by international regulatory agencies.
- **Reliance on joint venture partners and/or additional capital** — Currently, Access has enough cash on hand and has adequate near-term expected royalties to fund ongoing R&D programs through calendar 2010. Alternatively, the Company could obtain development and/or marketing partners for one or more of its pipeline portfolio products, thereby raising additional funding or deferring the costs of ongoing projects. However, in the case that no advantageous partnerships can be reached or the Company decides to step-up R&D activities with current projects or new programs, Access may need to raise additional capital in the next 18-24 months. In addition, the Company may be reliant on its MuGard marketing partners and Cobalamin development partners for the long-term commercial success of these assets.
- **Need to defend approved products, patents and other intellectual property** – The Company's existing patent portfolio on its current product pipeline extends well into the next decade. However, at some point during the product or development life cycle of its existing products, branded or generic competitors may challenge the patent position of certain projects or launch competing products, requiring the Company to defend these patents or counter these marketing initiatives (through joint venture partners), adversely affecting product royalty streams or administrative expense levels.

Access Pharmaceuticals, Inc.
Consolidated Statements of Income
 (in \$000s, except EPS)

Robert M. Wasserman

FYE December	2005	2006	2007	1Q08 March	2Q08 June	3Q08 Sept	4Q08 Dec	2008	1Q09 March	2Q09 June	3Q09 Sept	4Q09E Dec	2009E	2010E	2011E
Revenues															
License & royalty revenues	\$0	\$0	\$23	\$17	\$22	\$38	\$41	\$118	\$41	\$63	\$144	\$350	\$598	\$4,500	\$9,000
Sponsored R&D	0	0	34	21	110	9	33	173	0	0	0	0	0	500	500
Total revenues	0	0	57	38	132	47	74	291	41	63	144	350	598	5,000	9,500
Expenses															
Research and development	2,783	2,053	2,602	10,157	1,179	1,284	(7)	12,613	687	582	561	600	2,430	3,200	8,000
General and administrative	4,639	2,813	4,076	1,839	1,044	1,439	18	4,340	1,247	1,507	3,458	1,600	7,812	5,600	6,000
Depreciation and amortization	333	309	279	88	64	66	35	253	66	66	65	70	267	300	500
Total expenses	7,755	5,175	6,957	12,084	2,287	2,789	46	17,206	2,000	2,155	4,084	2,270	10,509	9,100	14,500
Loss from operations	(7,755)	(5,175)	(6,900)	(12,046)	(2,155)	(2,742)	28	(16,915)	(1,959)	(2,092)	(3,940)	(1,920)	(9,911)	(4,100)	(5,000)
Interest and misc. income	100	294	125	101	29	62	(14)	178	14	2	2	10	28	50	50
Interest and other expense	5,954	(7,993)	(14,969)	(108)	(117)	(126)	(127)	(478)	(144)	(118)	(133)	(150)	(545)	(600)	(800)
Net income (loss)	(1,701)	(12,874)	(21,744)	(12,053)	(2,243)	(2,806)	(113)	(17,215)	(2,089)	(2,208)	(4,071)	(2,060)	(10,428)	(4,650)	(5,750)
Less preferred stock dividends	0	0	14,908	1,833	517	523	485	3,358	480	483	471	480	1,914	1,920	1,920
Net income (loss) to common	(1,701)	(12,874)	(36,652)	(13,886)	(2,760)	(3,329)	(598)	(20,573)	(2,569)	(2,691)	(4,542)	(2,540)	(12,342)	(6,570)	(7,670)
Basic income per share to common	(\$0.53)	(\$3.65)	(\$10.32)	(\$1.76)	(\$0.49)	(\$0.57)	(\$0.10)	(\$3.51)	(\$0.24)	(\$0.24)	(\$0.37)	(\$0.20)	(\$1.06)	(\$0.45)	(\$0.52)
Diluted income per share to common	(\$0.53)	(\$3.65)	(\$10.32)	(\$1.76)	(\$0.49)	(\$0.57)	(\$0.10)	(\$3.51)	(\$0.24)	(\$0.24)	(\$0.37)	(\$0.20)	(\$1.06)	(\$0.45)	(\$0.52)
Basic shares outstanding	3,237	3,532	3,552	7,880	5,636	5,803	5,854	5,854	10,497	11,407	12,205	12,400	11,627	14,500	14,800
Diluted shares outstanding	3,237	3,532	3,552	7,880	5,636	5,803	5,854	5,854	10,497	11,407	12,206	12,400	11,627	14,500	14,800
Key ratios:															
Revenue growth								410.5%	7.9%	-52.3%	206.4%	373.0%	105.5%	736.1%	90.0%
R&D/revenues														64.0%	84.2%
General & admin/revenues														112.0%	63.2%
Tax Rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash Flow/share	(\$0.42)	(\$3.56)	(\$10.24)	(\$1.75)	(\$0.48)	(\$0.56)	(\$0.10)	(\$2.89)	(\$0.24)	(\$0.23)	(\$0.37)	(\$0.20)	(\$1.03)	(\$0.43)	(\$0.48)
EBITDA/share	(\$2.26)	(\$1.29)	(\$10.22)	(\$1.97)	(\$0.55)	(\$0.63)	(\$0.16)	(\$3.31)	(\$0.27)	(\$0.26)	(\$0.39)	(\$0.23)	(\$1.15)	(\$0.52)	(\$0.56)

Balance Sheets

	(\$000s)	
Assets:	12/31/08	9/30/09
Cash and equivalents	\$2,679	\$1,672
Accounts receivable, net	147	23
Prepaid expenses & other	173	45
Total current	2,999	1,740
Property & equip., net	95	59
Goodwill & intangibles	1,015	840
Other	123	66
TOTAL ASSETS	\$4,232	\$2,705
Liabilities:		
Accounts payable	\$3,967	\$3,692
Accrued expenses	798	1,208
Dividends payable	1,896	2,294
Notes payable & other	1,130	798
Total current	7,791	7,992
Long-term deferred revenue	2,270	4,812
Long-term debt	5,500	5,500
Total long-term liabilities	15,561	18,304
Stockholders' deficit	(11,329)	(15,599)
TOTAL LIAB & EQ	\$4,232	\$2,705

Investor Catalyst Timeline

	1Q09 March	2Q09 June	3Q09 Sept	4Q09E Dec	2010E	2011E
MuGard launch - Europe		X				
MuGard launch - Asia				X		
MuGard launch - US					X	
Mugard launch- add'l countries					X	
Cobalamin agreements - Insulin		X (1)			X (2)	X (2)
Cobalamin agreements - Other Molecules		X (1)	X (1)	X (1)	X (2)	X (2)
ProLindac partnerships				Europe	US	
Thiarabine partnerships					US	Europe
Angolix partnerships					US	Europe

Net revenues by program (\$000s)

	1Q09 March	2Q09 June	3Q09 Sept	4Q09E Dec	2009E Total	2010E	2011E
MuGard		\$20	\$100	\$150	\$270	\$2,500	\$4,500
Cobalamin	\$41	\$43	\$44	\$150	\$278	\$1,000	\$2,000
ProLindac				\$50	\$50	\$500	\$1,000
Thiarabine						\$500	\$1,000
Angolix			0	0	0	500	\$1,000
Total	\$41	\$63	\$144	\$350	\$598	\$5,000	\$9,500

Source: Dawson James Securities, Inc. estimates; Company documents

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

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Ratings definitions: 1) **Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; 2) **Neutral:** the stock is fairly valued for the next 12-18 months; and 3) **Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	12	86%	5	42%
Neutral	2	14%	2	100%
Sell	0	0%	0	0%
Total	14	100%	7	50%

Information about valuation methods and risks can be found in the "STOCK VALUATION" and "RISKS" sections of this report.

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