Access Pharmaceuticals (OTC BB: ACCP)

Speculative Buy

More Arrows in their Quiver

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Current Price $2.20 Target Price $4.00

Investment Highlights:

1) Access' nearest-term property is its proprietary treatment for oral mucositis, **MuGard**, which was launched in a number of European countries this quarter by partner SpePharm. Next up are launches in the US, China and Korea (all three already have partnerships) by the end of this year, with more territory partnerships potentially signed this year or next for Canada/Japan/Australia-New Zealand, and possibly product launches there as well. The current quarter (Q2/09) will also be the first to see revenues from this product, and set the stage for further growth in this fragmented, $300 million market.

2) **ProLindac** is the Company's product addressing the largest potential market; the multi-billion DACH platinum cancer therapeutic area now served by Sanofi-Aventis' Eloxatin. Access' second generation nano-polymer based Platinum therapeutic enables more delivery of active ingredient DACH platinum with fewer side effects, and has already completed a Phase II trial in Europe for relapsed ovarian cancer. Next up for Access are two combination trials for ProLindac, for recurrent ovarian with Taxol and for pancreatic cancer with gemcitabine, again in Europe. The signing of a partnership for these indications either worldwide or country-by-country would illuminate the value of this asset and simultaneously allow new trials to begin.

3) Access' **Thiarabine** is a new nucleoside analogue – in the same class as Bayer's Fludara and J&J's Leustatin – and is ready for Phase II trials. Thiarabine has already been in two Phase II trials in advanced solid tumors and the Company is currently working with researchers at the MD Anderson Center in Houston to develop Phase II protocols for acute myeloid leukemia (AML), acute lymphocytic leukemia (ALL) and other indications. What's more, Access recently announced preclinical data for the use of Thiarabine with Clofarabine (Genzyme's Clolal) and the Company continues to actively seek co-development partners.

Stock Data	
52-Week Range	$0.75 - $3.50
Shares Outstanding (Mill)	11.3
Market Capitalization ($Mill)	$25
Average Daily Volume	11,000
Cash / Securities ($Mill)	$2.2
Cash/Share	$0.19
Debt ($Mill)	$5.5
Dividend/Yield	$0.00/0%
Short Interest (Mill)	0.0

Management	
CEO	Jeff Davis
CFO	Steve Thompson

Price target and ratings changes over the past 3 years:
Initiated - June 16, 2008 – Spec. Buy – Target $8.00
Price Target change - July 6, 2009 – Spec. Buy – Target $4.00

See page 5 for important disclosures and analyst certification.

4) With **Cobalamin,** a unique oral delivery nano-polymer platform using vitamin B-12, Access has focused on insulin as it first target, along with human growth hormone, EPO, Interferon and other hard-to-stomach compounds. Access has already signed five non-exclusive partnerships, including two just last month, which typically provide for reimbursement of Company research expenditures and could lead to much larger joint ventures if early proof-of-concept studies prove positive.

5) Monoclonal Antibody therapies such as Avastin, Erbitux and Herceptin have seen commercial success, and with **Angiolix** Access is vying to go head-to-head with Avastin in two solid cancer tumor types in pre clinical studies conducted at Imperial College in London. Angiolix has a proprietary target, lactadherin, key in tumor angiogenesis, and early results show that Angiolix has anti-tumor activity alone and in combination with chemotherapy. Unlike Avastin, however, Angiolix has anti-proliferative activity by itself. Access is actively seeking development partners for their monoclonal antibody, which could include big pharma or major biotech firms in the US or worldwide.

6) Access had a little over $2.2 million in cash on its balance sheet at the end of the most recent March 2009 quarter. The Company has reduced its annual cash burn rate thanks to recent revenue-producing agreements, product launch royalty streams and cost-saving initiatives, down from $4 million to $3 million currently. We expect Access' cash burn to continue to be reduced as this year goes on, due to increases in royalties from MuGard product sales, more MuGard country launches, and potentially additional partnerships signed. The Company also has $5.5 million in outstanding debt, which is due at the end of 2011. Company management has stated that they expect cash on hand to last into next year.

7) Access also has a number of other projects and properties of lower development priority than the five listed above. These include two dermatology products, **Pexiganan**, a topical antibiotic for the treatment of diabetic foot ulcers which has two completed Phase III trials, and **EcoNail**, a proprietary lacquer formulation of anti-fungal econozale and SEPA indicated for the treatment of nail fungus or onychomycosis which has completed Phase II trials; the Company is seeking to partner or perhaps out-license these two products. Other programs at Access include **Prodrax**, a non-toxic prodrug targeted at the low oxygen regions of solid tumors in preclinical development; **Alchemix** proprietary molecules which possess potent activity across a variety of different human tumor cell lines and significantly show potent activity in cisplatin and anthracyline resistant xenograft human tumor models, also in preclinical development, and **Phenylbutyrate**, a small molecule drug found to have a potent anticancer effect in Phase I and Phase II trials conducted by the NIH.

Conclusion / Stock Valuation:

Access has been busy the past eighteen months, folding two other publicly-traded biotech firms into themselves, including Somanta in 2008 and MacroChem in 2009. These combinations have added a number of arrows in Access' quiver, and these programs are beginning to bear fruit this year with product launches, partnership agreements and clinical progress. The Company has also been very active in the last several months with a flurry of new developments, and combined with a general recovery in biotech and healthcare stocks, Access shares have rebounded off lows from earlier this year of below $1. Still, we believe there is more good news to come for Access and its shareholders, and we are re-iterating our Speculative BUY rating, albeit with a lower price target of $4 (down from $8) reflecting additional shares issued in the MacroChem acquisition. Our new price target represents a valuation of just 3x estimated revenues for 2011E. Longer-term, investors could benefit mightily if these shares can reach and hold levels above $3, especially if the Company can successfully re-list on the American or Nasdaq capital market exchange and if a certain amount of preferred shares can be converted and ease out into the market, improving liquidity.

RISKS

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 into 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.

Robert M. Wasserman

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

FYE December	2005	2006	2007	1Q08 March	2Q08 June	3Q08 Sept	4Q08 Dec	2008	1Q09 March	2Q09E June	3Q09E Sept	4Q09E Dec	2009E	2010E	2011E
Revenues															
License revenues	$0	$0	$23	$17	$22	$38	$41	$118	$41	$100	$150	$350	$641	$1,500	$5,000
Sponsored R&D	0	0	34	21	110	9	33	173	0	50	100	200	350	4,000	9,000
Total revenues	0	0	57	38	132	47	74	291	41	150	250	550	991	5,500	14,000
Expenses															
Research and development	2,783	2,053	2,602	10,157	1,179	1,284	(7)	12,613	687	700	750	800	2,937	3,200	8,000
General and administrative	4,639	2,813	4,076	1,839	1,044	1,439	18	4,340	1,247	1,350	1,400	1,450	5,447	5,600	6,000
Depreciation and amortization	333	309	279	88	64	66	35	253	66	70	70	70	276	300	500
Total expenses	7,755	5,175	6,957	12,084	2,287	2,789	46	17,206	2,000	2,120	2,220	2,320	8,660	9,100	14,500
Loss from operations	(7,755)	(5,175)	(6,900)	(12,046)	(2,155)	(2,742)	28	(16,915)	(1,959)	(1,970)	(1,970)	(1,770)	(7,669)	(3,600)	(500)
Interest and misc. income	100	294	125	101	29	62	(14)	178	14	10	10	10	44	50	50
Interest and other expense	5,954	(7,993)	(14,969)	(108)	(117)	(126)	(127)	(478)	(144)	(150)	(175)	(200)	(669)	(600)	(800)
Net income (loss)	(1,701)	(12,874)	(21,744)	(12,053)	(2,243)	(2,806)	(113)	(17,215)	(2,089)	(2,110)	(2,135)	(1,960)	(8,294)	(4,150)	(1,250)
Less preferred stock dividends	0	0	14,908	1,833	517	523	485	3,358	480	480	480	480	1,920	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)	(2,590)	(2,615)	(2,440)	(10,214)	(6,070)	(3,170)
Basic income per share to common	($0.53)	($3.65)	($10.32)	($1.76)	($0.49)	($0.57)	($0.10)	($3.51)	($0.24)	($0.23)	($0.23)	($0.21)	($0.92)	($0.52)	($0.27)
Diluted income per share to common	($0.53)	($3.65)	($10.32)	($1.76)	($0.49)	($0.57)	($0.10)	($3.51)	($0.24)	($0.23)	($0.23)	($0.21)	($0.92)	($0.52)	($0.27)
Basic shares outstanding	3,237	3,532	3,552	7,880	5,636	5,803	5,854	5,854	10,497	11,300	11,400	11,500	11,174	11,600	11,700
Diluted shares outstanding	3,237	3,532	3,552	7,880	5,636	5,803	5,854	5,854	10,497	11,300	11,400	11,500	11,174	11,600	11,700
Key ratios:															
Revenue growth								410.5%	7.9%	13.6%	431.9%	643.2%	240.5%	455.0%	154.5%
R&D/revenues														58.2%	57.1%
General & admin/revenues														101.8%	42.9%
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)	($0.22)	($0.22)	($0.21)	($0.89)	($0.50)	($0.23)
EBITDA/share	($2.26)	($1.29)	($10.22)	($1.97)	($0.55)	($0.63)	($0.16)	($3.31)	($0.27)	($0.25)	($0.25)	($0.23)	($1.00)	($0.61)	($0.32)

Balance Sheets

($000s)		
Assets:	12/31/08	3/31/09
Cash and equivalents	$2,679	$2,206
Accounts receivable, net	147	130
Prepaid expenses & other	173	124
Total current	2,999	2,460
Property & equip., net	95	83
Goodwill & intangibles	1,015	962
Other	123	119
TOTAL ASSETS	$4,232	$3,624
Liabilities:		
Accounts payable	$3,967	$3,698
Accrued expenses	798	910
Dividends payable	1,896	1,371
Notes payable & other	1,130	495
Total current	7,791	6,474
Long-term deferred revenue	2,270	3,620
Long-term debt	5,500	5,500
Total long-term liabilities	15,561	15,594
Stockholders' deficit	(11,329)	(11,970)
TOTAL LIAB & EQ	$4,232	$3,624

Investor Catalyst Timeline

	1Q09 March	2Q09E June	3Q09E 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(2)				
Cobalamin agreements - Other Molecules			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	2Q09E June	3Q09E Sept	4Q09E Dec	2009E Total	2010E	2011E
MuGard		$50	$100	$150	$300	$1,000	$3,000
Cobalamin	$41	$100	$150	$150	$441	$1,500	$5,000
ProLindac				$250	$250	$1,000	$2,000
Thiarabine						$1,000	$2,000
Angiolix			0	0	0	1,000	$2,000
Total	$41	$150	$250	$550	$991	$5,500	$14,000

DISCLOSURES

Price target and ratings changes over the past 3 years:
Initiated - June 16, 2008 – Speculative Buy – Target $8.00
Price Target changed – July 6, 2009 – Speculative Buy – Target $4.00

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	Company Coverage		**Investment Banking**	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	6	60%	5	83%
Strong Buy	1	10%	0	0%
Buy	1	10%	0	0%
Neutral	2	20%	2	100%
Sell	0	0%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	0	0%	0	0%
Total	10	100%	7	70%

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

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