

## Antares Pharma, Inc. (ASE/AIS)

May 21, 2010

**Robert M. Wasserman**

Director of Research

561-208-2905

rwasserman@dawsonjames.com

**Neutral Lowering rating on reaching price target**

*Antares is a drug delivery and specialty pharmaceutical company*

### Investment Highlights

**1) Antares has been successful in collecting on its milestone payments this year** – The Company most recently received an undisclosed milestone from Ferring related to the sale last year of the transdermal drug delivery technology asserts; earlier this month Antares received a \$0.5 million sales milestone payment from Teva for Tev-Tropin hGH, launched in the US last year. These cash payments held fund additional development work as well as later-stage R&D programs such as Anturool and Nestorone. Antares has plenty of other collaborative arrangements ongoing as well as potential for further milestone payments from its two largest partners, Teva and Ferring.

**2) Q1/2010 results positive, in-line with expectations** - Antares recently reported positive financial results for their Q1/10, including revenues of \$3.6 million, up 42% year-over-year, and a net loss of \$1.6 million or (\$0.02) per share, an improvement over last year's loss of \$2.4 million or (\$0.04) per share. Our estimates had been revenues of \$2.1 million and a loss of (\$0.03) per share. Revenues were driven by product sales from Teva's Tjet Tev-Tropin launch in the US last August as well as increases in sales to Ferring, which benefited from a catch-up from inventory reductions late last year. Teva also stepped-up during the quarter to provide additional reimbursement fees for development work for an epinephrine-based auto-injector product revealed during the quarterly press release. Combined with increased gross profit driven by higher fees and revenues and lower overhead and interest costs, Antares was able to reduce its loss in Q1/2010 vis-à-vis last year. Cash burn during the quarter was \$2.0 million, reducing cash on hand to \$11.5 million at the end of the quarter from \$13.6 million at the start.

**3) Although management did not provide future financial guidance, we are using the solid first quarter results as a base for our estimates for 2010 for Antares, including revenues of \$15.2 million, representing an increase of 83% year-over-year, and a net loss of \$5.3 million or**

**Current Price \$1.53**

**Price Target N/A**

Estimates	F2008A	F2009A	F2010E
<b>Revenues(\$000s)</b>	\$5,661	\$8,311	\$15,214
<b>1Q March</b>	1,114	2,365	3,364 A
<b>2Q June</b>	1,390	1,709	3,450 E
<b>3Q September</b>	1,389	1,654	3,950 E
<b>4Q December</b>	1,768	2,582	4,450 E
Prev. Rev. Estimate (\$000s)			\$11,400

EPS	(\$0.19)	(\$0.14)	(\$0.06)
<b>1Q March</b>	(0.05)	(0.04)	(0.02) A
<b>2Q June</b>	(0.05)	(0.03)	(0.02) E
<b>3Q September</b>	(0.05)	(0.04)	(0.01) E
<b>4Q December</b>	(0.04)	(0.03)	(0.01) E
Previous EPS Estimate			(\$0.08)
P/E (x)	N/A	N/A	N/A

EBITDA/Share	(\$0.15)	(\$0.11)	(\$0.05)
EV/EBITDA (x)	N/A	N/A	N/A

Stock Data	
52-Week Range	\$0.38-\$2.00
Shares Outstanding (mil.)	82.3
Market Capitalization (mil.)	\$125.9
Enterprise Value (mil.)	\$114.3
Debt to Capital (3/10)	0.0%
Book Value/Share (3/10)	\$0.12
Price/Book	13.0 x
Average Trading Volume (3-Month)	577,000
Insider Ownership	20.0%
Institutional Ownership	25.6%
Short interest	1.6 million
Dividend / Yield	\$0.00/0.0%



**Price target and ratings changes over the past 3 years:**

Initiated - June 23, 2005 – Speculative Buy – Target \$4.00  
 Upgraded – March 16, 2006 – Strong Buy – Price Target \$4.00  
 Price Target change – April 2, 2008 – Spec. Buy – Target \$3.00  
 Downgraded – January 20, 2009 – Strong Buy – Target \$1.20  
 Price Target change – July 8, 2009 – Spec. Buy – Target \$1.50  
 Ratings change - 12/16/2009 - BUY (Elim of Spec Buy rating)  
 Downgraded – May 21, 2010 – Neutral

(\$0.06) per share for the year. We foresee net revenues increasing steadily on a quarterly basis as product sales pick up as the year progresses, particularly from Teva's Tev-Tropin, with gradually diminishing losses as well. Antares should have plenty of financial resources on hand to cover the anticipated quarterly losses.

4) Meanwhile, Antares continues to focus on its own pipeline, most notably Anturol for overactive bladder, with top-line Phase III data expected to be available next quarter. Other R&D/licensing projects have been quiet recently, such as Nestorone and LibiGel, although Antares has been busier in the new business area, such as a recent agreement for Vibex MTX (Methotrexate) with Canadian-based Uman Pharma, and we would not be surprised to see more developmental agreements in the injection or subcutaneous technology areas in the near future.

## Conclusion/Stock Valuation

Antares' shares have performed strongly this year, recent market correction notwithstanding, and have reached and exceeded our 12 month \$1.50 price target established last summer. Thus, we are lowering our rating on Antares to Neutral due to share appreciation combined with a shaky overall market in general and biotech sector in particular, but would not be averse to re-recommending Antares shares should a lower price re-entry point develop.

## Risk Factors

We believe an investment in Antares Pharma involves the following risks:

- **FDA and Regulatory risks** — Antares' products are ultimately reliant on approvals by the U.S. FDA and other national regulatory bodies. There can be no guarantee of timely or definitive regulatory approvals for any of their pipeline products. In addition, the manufacture of already-approved products is subject to periodic oversight by the US FDA as well as by international regulatory agencies.
- **Reliance on joint venture partners and/or additional capital** — Antares is reliant on its marketing partners for sales and subsequent royalties of currently approved products both in the US and overseas; in addition, the Company also has R&D partnerships and is reliant on its partners in certain cases to further clinical development of certain products or reimburse the Company for its ongoing costs. Although several of Antares' partners are larger, diversified firms (Teva, for example), there can be no assurance that these large partners will maintain their emphasis on the Company's products in the future or that smaller partners will have the financial resources available in the future to continue to advance clinical development.
- **Need to defend approved products, patents and other intellectual property** – The Company currently holds and is applying for numerous additional patents for its products and technology platforms, both in the US and Internationally. However, a number of its patents and technologies are complex, and should a competitor challenge these patents, the Company and/or its partners might have to defend the patents or alter the process or composition of products in the future, which could prove costly. In addition, new technologies or products could be approved to challenge the Company's approved products or product development candidates: for example Watson Pharmaceuticals' Oxybutynin transdermal gel, Gelnique was recently approved, in this case Antares or its potential partners for Anturol are going to be at a diminished marketing position when and if this product is approved for marketing.

**Antares Pharma, Inc.**  
**Consolidated Statements of Income**  
 (in \$000s, except EPS)

Robert M. Wasserman

FYE December	2005	2006	2007	2008	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10E	3Q10E	4Q10E	2010E	2011E
					March	June	Sept	Dec		March	June	Sept	Dec		
Revenue															
Product sales	\$1,512	\$2,195	\$3,211	\$3,350	\$824	\$1,169	\$923	\$591	\$3,507	\$1,326	\$1,250	\$1,450	\$1,650	\$5,676	\$8,500
Development revenue	184	594	955	541	680	300	383	1,244	2,607	805	900	1,000	1,100	3,805	5,500
Licensing revenue	374	1,254	3,231	1,238	765	130	271	429	1,595	836	850	1,000	1,150	3,836	5,500
Royalties	155	225	459	532	97	111	77	318	603	397	450	500	550	1,897	2,500
Total revenue	2,225	4,268	7,857	5,661	2,365	1,709	1,654	2,582	8,311	3,364	3,450	3,950	4,450	15,214	22,000
Cost of revenue:															
Cost of product sales		1,293	1,769	1,889	444	524	510	335	1,813	656	630	730	830	2,846	2,550
Cost of development revenue		263	235	130	268	97	702	1,260	2,326	659	540	600	660	2,459	1,380
Total cost of revenue	1,137	1,556	2,003	2,020	712	621	1,212	1,595	4,140	1,315	1,170	1,330	1,490	5,305	3,930
Gross profit	1,088	2,712	5,854	3,641	1,653	1,089	442	987	4,171	2,049	2,280	2,620	2,960	9,909	18,070
Operating expenses:															
Research and development	3,677	3,778	5,362	7,866	2,207	1,745	2,005	1,945	7,902	2,086	2,150	2,200	2,250	8,686	9,500
Sales, marketing and business dev.	1,161	1,350	1,641	1,625	336	217	174	325	1,051	331	350	400	450	1,531	2,250
General and administrative	4,839	5,861	6,057	6,348	1,312	1,141	1,263	1,196	4,912	1,218	1,250	1,270	1,290	5,028	5,500
Total expenses	9,677	10,989	13,061	15,839	3,854	3,103	3,441	3,466	13,865	3,634	3,750	3,870	3,990	15,244	17,250
Operating income (loss)	(8,589)	(8,277)	(7,207)	(12,198)	(2,201)	(2,014)	(2,999)	(2,479)	(9,693)	(1,585)	(1,470)	(1,250)	(1,030)	(5,335)	820
Other income (expense)															
Interest income		353	872	553	19	6	1	1	27	1	10	20	30	61	500
Interest expense		(3)	(772)	(1,022)	(195)	(165)	(270)	(4)	(633)	(1)	0	0	0	(1)	0
Other, net		(273)	(1,472)	(24)	(20)	(34)	(12)	75	9	(24)	(10)	(5)	0	(39)	100
Total other	41	77	(1,372)	(492)	(197)	(192)	(282)	73	(597)	(24)	0	15	30	21	600
Net income (loss) before taxes	(8,548)	(8,199)	(8,579)	(12,690)	(2,398)	(2,206)	(3,281)	(2,406)	(10,291)	(1,608)	(1,470)	(1,235)	(1,000)	(5,314)	1,420
Income taxes (benefit)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income (loss)	(8,548)	(8,199)	(8,579)	(12,690)	(2,398)	(2,206)	(3,281)	(2,406)	(10,291)	(1,608)	(1,470)	(1,235)	(1,000)	(5,314)	1,420
Basic income per share	(\$0.21)	(\$0.16)	(\$0.14)	(\$0.19)	(\$0.04)	(\$0.03)	(\$0.04)	(\$0.03)	(\$0.14)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.06)	\$0.02
Diluted income per share	(\$0.21)	(\$0.16)	(\$0.14)	(\$0.19)	(\$0.04)	(\$0.03)	(\$0.04)	(\$0.03)	(\$0.14)	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.06)	\$0.02
Basic shares outstanding	41,460	51,582	59,605	67,233	68,050	68,101	75,871	81,756	73,489	82,265	82,500	82,600	82,700	82,516	82,800
Diluted shares outstanding	41,460	51,582	59,605	67,233	68,050	68,101	75,871	81,756	73,489	82,265	82,500	82,600	82,700	82,516	82,800
Key ratios:															
Revenue growth	-19.0%	91.8%	84.1%	-28.0%	249.6%	23.0%	19.1%	46.1%	46.8%	42.2%	101.8%	138.8%	72.3%	83.1%	44.6%
Gross margin-product sales		41.1%	44.9%	43.6%	46.1%	55.2%	44.7%	43.3%	48.3%	50.5%	50.0%	50.0%	50.0%	49.9%	70.0%
Gross margin - development		55.7%	75.4%	75.9%	60.6%	67.7%	-83.4%	-1.3%	10.7%	18.2%	40.0%	40.0%	40.0%	35.4%	75.0%
R&D/revenues	165.3%	88.5%	68.2%	139.0%	93.3%	102.1%	121.2%	75.3%	95.1%	62.0%	62.3%	55.7%	50.6%	57.1%	43.2%
Sales and related expenses/revenues	52.2%	31.6%	20.9%	28.7%	14.2%	12.7%	10.5%	12.6%	12.6%	9.8%	10.1%	10.1%	10.1%	10.1%	10.2%
General & admin/revenues	217.5%	137.3%	77.1%	112.1%	55.5%	66.7%	76.3%	46.3%	59.1%	36.2%	36.2%	32.2%	29.0%	33.0%	25.0%
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	(\$0.17)	(\$0.12)	(\$0.07)	(\$0.16)	(\$0.03)	(\$0.03)	(\$0.04)	(\$0.02)	(\$0.12)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.05)	\$0.04
EBITDA/share	(\$0.06)	(\$0.01)	\$0.05	(\$0.15)	(\$0.03)	(\$0.02)	(\$0.03)	(\$0.02)	(\$0.11)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.05)	\$0.04

**Balance Sheets**

(\$000s)

	12/31/09	3/31/10
<b>Assets:</b>		
Cash and equivalents	\$13,559	\$11,546
Accounts receivable, net	1,542	1,719
Inventories	330	313
Prepaid expenses & other	1,118	980
Total current	16,549	14,557
Property & equip., net	317	308
Goodwill & intangibles	1,838	1,826
Other	439	439
<b>TOTAL ASSETS</b>	\$19,143	\$17,131
<b>Liabilities:</b>		
Accounts payable	\$1,882	\$2,008
Accrued expenses	1,049	954
Notes payable & other		
Deferred revenue	5,312	4,168
Total current	8,242	7,130
Long-term debt		
Deferred revenue-long-term	2,051	1,996
Total long-term liabilities	10,293	9,126
Stockholders' equity	8,851	8,005
<b>TOTAL LIAB &amp; EQ</b>	\$19,143	\$17,131

**Investor Catalyst Timeline**

	1Q09	2Q09	3Q09	4Q09	2010E	2011E
	March	June	Sept	Dec		
TevTropin launch-TEVA			X			
Additional new pen product launches-TEVA					X(2)	X(2)
Elestrin relaunch - BioSante (AZUR)				X		
hGH launch- high-dose Europe-Ferring			X			
hGH launch- Australia - Ferring				X		
Anturool Phase III trial completed				X		
Anturool partnership					X	
Libigel-BioSante-NDA Filed					Q4	
Nesterone - Population Council - Phase II results published					Q2	
Feasibility agreements					X(2)	X(2)

**Net revenues by partner (\$000s)**

	2008	1Q09	2Q09	3Q09	4Q09	2009	2010E	2011E
		March	June	Sept	Dec	Total		
Ferring	\$3,400	\$820	\$753	\$498	\$1,177	\$3,248	\$6,200	\$8,500
BioSante	700	340	100	100	(333)	207	1,500	2,500
JCR	300	60	70	30	50	210	500	600
Teva		250	608	1,163	1,114	3,135	4,000	6,500
Population Council		390	41	201	250	882	2,500	2,500
Other	1,260	160	90	50	324	624	3,000	3,900
<b>Total</b>	\$5,660	\$2,020	\$1,662	\$2,041	\$2,582	\$8,305	\$15,200	\$22,000

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

## Important Disclosures:

### Price Chart:



#### Price target and ratings changes over the past 3 years:

Initiated – June 23, 2005 – Speculative Buy - Target \$4.00

Upgraded – March 16, 2006 – Strong Buy – Price Target \$4.00

Price Target change – April 2, 2008 – Strong Buy – Target \$3.00

Downgraded – January 20, 2009 – Speculative Buy – Target \$1.20

Price Target change – July 8, 2009 – Speculative Buy – Target \$1.20

Rating change – December 16, 2009 – BUY (Elimination of Speculative Buy rating)

Downgraded – May 21, 2010 – Neutral

**Analyst Certification:** The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

Dawson James has received investment banking compensation from the company mentioned in this report and may actively seek compensation for investment banking services in the future. Dawson James does not make a market in this security. Neither the research analyst whose name appears on this report nor any member of his household is an officer, director or advisory board member of the company. Dawson James did not receive any other compensation from the company in the previous 12 months. The Firm and/or its directors and employees may own securities of the company(s) in this report and may increase or decrease holdings in the future.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	10	71%	5	50%
Neutral	4	29%	3	75%
Sell	0	0%	0	0%
Total	14	100%	8	57%

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

DAWSON JAMES SECURITIES, INC., Member SIPC, FINRA, (the "Firm") does not make a market in these securities. The Firm may perform or seek to perform investment banking services for these companies in the future. Analysts receive no direct compensation in connection with the firm's investment banking business. All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report. The Firm, its officers, directors, analysts or employees may effect transactions in and have long or short positions in the securities (or options or warrants with respect thereto) mentioned herein. Although the statements of fact in this report have been obtained from and are based upon recognized statistical services, issuer reports or communications, or other sources that the Firm believes to be reliable, we cannot guarantee their accuracy. All opinions and estimates included in this report constitute the analyst's judgment as of the date of this report and are subject to change without notice. The Firm may effect transactions as principal or agent in the securities mentioned herein. The securities discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. This report is offered for informational purposes only, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. Additional information is available upon request.