

Anthera Pharmaceuticals (ANTH)

Q3:10 Earnings a Non-Event; Clinical Trials Progressing

- Q3:2010 EPS slightly above estimates.** Anthera reported Q3:10 EPS of (\$0.36), compared to our estimate of (\$0.43) and consensus (\$0.47). The company did not report any revenues for the quarter, in-line with our estimate and consensus. Anthera ended the quarter with \$73.1 million in cash and investments, including \$29.1 million in net proceeds from a private placement in late September.

- Trial enrollments progressing well.** During the call, management noted that enrollment in both the Phase III VISTA-16 and Phase IIb PEARL studies is proceeding on schedule. Recall that the VISTA-16 study is evaluating A-002 (varespladib) in Acute Coronary Syndrome and the PEARL study is evaluating A-623 in Lupus. We expect interim biomarker data from both studies in H1:2011, which if positive, should serve to incrementally boost confidence in the trials succeeding. Anthera noted other areas of progress in the trials including a successful DSMB meeting for VISTA-16 and the completion of manufacturing for a second batch of A-623 to be used in the PEARL study.

- Near term focus on Benlysta approval in Lupus.** The next important catalyst for Anthera will likely be the upcoming FDA advisory meeting (11/16/2010) and PDUFA date (12/9/2010) for Benlysta. Recall that Benlysta, developed by Human Genome Sciences (HGSI – Not Rated), is poised to be the first new drug approved for Lupus in decades. Given the high expectations for Benlysta and the similarities between Benlysta and A-623 (both target BLYS), we believe the upcoming attention on Benlysta could draw significant investor interest to Anthera in the near term. Moreover, we expect Benlysta's approval to spur partnership interest in A-623 from large pharma, as a clear regulatory pathway in Lupus will now be established.

- Upcoming milestones should provide initial look into Anthera's key clinical trials.** Aside from the Benlysta related events described above, we anticipate the following near term milestones for ANTH: (1) interim biomarker data from the Phase III data for A-002 in Q1:11; (2) interim B-cell reduction data in A-623 Phase IIb trial in Q2:11; (3) initiation of a Phase IIb program of A-001 in Acute Chest Syndrome in H1:11; and (4) DSMB meeting for VISTA-16 on February 1, 2011 (this will likely be a go/no-go decision with few details expected).

- Reiterate OUTPERFORM rating and fair value of \$8 per share.** Our fair value is calculated using a sum-of-parts analysis, applying a 30% annual discount to our peak annual sales estimate for A-002 in ACS, and A-623 in SLE, incorporating a 1-10 multiple for each based on stage of clinical risk. Based on two compelling later-stage drug candidates each with blockbuster potential, we strongly reiterate our OUTPERFORM rating.

- Risks to the attainment of our fair value include risks that:** Anthera's products obtain disappointing clinical trial results and/or fail to obtain regulatory approval; Physicians are not be impressed with the products' clinical profiles; Anthera or a partner fails to effectively commercialize Anthera's drug candidates; third-party patents prevent the timely commercialization; superior clinical results are obtained by a third-party competitor; Anthera is unable to raise needed capital.

	2009A	2010E			2011E		
REV. (\$m)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar		\$0.0A			\$0.0E	\$0.0E	
Q2 Jun		0.0A			0.0E	0.0E	
Q3 Sep		0.0A	\$0.0E	\$0.0E	0.0E	0.0E	
Q4 Dec		0.0E	0.0E	0.0E	0.0E	0.0E	
Year	\$0.0	\$0.0E	\$0.0E	\$0.0E	\$0.0E	\$0.0E	\$0.0E
	2009A	2010E			2011E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar		(\$0.83)A			(\$0.37)E	(\$0.36)E	
Q2 Jun		(0.36)A			(0.40)E	(0.40)E	
Q3 Sep		(0.36)A	\$(0.43)E	\$(0.47)E	(0.42)E	(0.41)E	
Q4 Dec		(0.31)E	(0.33)E	(0.48)E	(0.47)E	(0.46)E	
Year	(\$8.06)	(\$1.64)E	(\$1.74)E	\$(1.99)E	(\$1.65)E	(\$1.64)E	(\$1.80)E

November 3, 2010

Price (Close 11/2/10)

\$5.90

Rating

OUTPERFORM

Fair Valuation

\$8

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Company Information

52-Week Range	\$2.82 - \$8.55
Shares Outstand.	38.9 million
Avg. daily volume	97,600
Market Cap.	\$230 million

ST / LT Debt	\$0 M / \$0 M
Debt/Capital	N/A
ROE	(44.6%)
Cash & Inv/Share	\$1.90
Book Value/Share	\$2.56

Company Description

Anthera Pharmaceuticals is a biopharmaceutical company focused on developing products to treat inflammatory disorders, including cardiovascular and autoimmune diseases. Anthera currently has one Phase 3 clinical program, A-002, as well as two Phase 2 clinical programs, A-623 and A-001.



Source: Nasdaq.com

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UPCOMING MILESTONES

We estimate the following near-term milestones for Anthera:

2010	Q4:2010	Release of full Phase II IMPACTS data of A-001 in Acute Chest Syndrome
	November 16	FDA advisory panel meeting for Benlysta in Lupus (GSK and HGSI)
	December 9	Expected approval of Benlysta in Lupus (GSK and HGSI)
	YE:2010	Expect 1,000 patients enrolled in VISTA-16 Study
2011	Q1:2011	Biomarker data from interim analysis of VISTA-16 in late Q1:2011
	February 1	Data Safety Monitoring Board (DSMB) meeting for VISTA-16
	Q2:2011	B-cell reduction data for A-623 in Lupus
	H1:2011	Initiate Phase IIb Study of A-001

VALUATION

Our fair value of \$8 per share is calculated using a sum-of-parts analysis of Anthera's clinical pipeline. A 30% annual discount is applied to our estimate of peak annual sales for each clinical stage product/indication and a 1-10x multiple is applied to our current value based on stage of clinical development to reflect risk. While we list fair value estimates for each product in the pipeline, our overall fair value for the stock only includes fair value estimates for product candidates/indications which, in our view, have at least positive clinical proof-of-concept data. As a result, this fair value does not yet include A-002 in stable coronary artery disease, or A-001 and A-003 in any indications. Because Anthera is not yet profitable, we do not include the company's \$73 million in cash in our valuation on the assumption that these funds will be used for continued clinical development. We currently estimate Anthera's cash runway through YE:2011, which is well past the upcoming interim analyses for A-002 and A-623 anticipated in H1:2011.

Anthera Pharmaceuticals (NASDAQ: ANTH)

Wedbush PacGrow LifeSciences

Duane Nash, MD JD MBA

Historical and Projected Income Statement

(In thousands except per share data)

(Fiscal Year Ends on December 31)

	2009A	2010					2011E	2012E
	FY:09A	Q1A	Q2A	Q3A	Q4E	FY:10E	FY:11E	FY:12E
Revenues:								
Royalties on Product Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
A-002 in Acute Coronary Syndrome - Acute Therapy	-	-	-	-	-	-	-	-
A-002 in Acute Coronary Syndrome - Chronic Therapy	-	-	-	-	-	-	-	-
A-001 in Acute Chest Syndrome (Sickle Cell Disease)	-	-	-	-	-	-	-	-
A-623 in Systemic Lupus Erythematosus	-	-	-	-	-	-	-	-
Collaboration Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Milestones	-	-	-	-	-	-	-	-
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses								
Cost of Goods								
R&D	8,415	5,242	6,438	6,885	8,429	26,994	47,190	28,314
Sales, General and Administrative	3,425	1,224	1,510	1,510	1,831	6,075	8,910	12,122
Other	-	-	-	-	-	-	-	-
Total Operating Expenses	11,840	6,466	7,948	8,395	10,260	33,069	56,100	40,436
Operating Income (Loss)	(11,840)	(6,466)	(7,948)	(8,395)	(10,260)	(33,069)	(56,100)	(40,436)
Interest income	24	3	12	62	78	154	247	151
Interest expense	(386)	(4,641)	-	-	-	(4,641)	-	-
Beneficial conversion feature	-	-	-	-	-	-	-	-
Income Before Income Taxes	(12,203)	(11,104)	(7,936)	(8,334)	(10,183)	(37,556)	(55,852)	(40,285)
Other comprehensive income (loss)								
Provision for Income Taxes (benefit)	-	-	-	-	-	-	-	-
Net Income (Loss)	\$ (12,203)	\$ (11,104)	\$ (7,936)	\$ (8,334)	\$ (10,183)	\$ (37,556)	\$ (55,852)	\$ (40,285)
EPS (Basic & Diluted)	(8.06)	(0.83)	(0.36)	(0.36)	(0.31)	(1.64)	(1.65)	(1.16)
Shares Outstanding (Basic)	1,514	13,344	22,224	22,964	33,225	22,939	33,850	34,850
Fully Diluted Shares Outstanding (Pro forma)	10,190	14,953	23,664	24,604	38,900	25,530	39,150	39,550
Net Cash	\$3,803	\$56,662	\$51,038	\$73,088	\$62,133	\$62,133	\$7,702	(\$35,058)

Source: Company reports, Wedbush Securities estimates

We use multiples to account for clinical and regulatory risk at various stages of development.		Today:	11/2/10	Stock	MktCap (\$000)	Upside
		Wedbush Current Fair Value for ANTH				
NOVEL DRUGS		Current Full Pipeline Value:				
1: In preclinical testing		Cash:				
2: passed preclinical		ANTH Total Value:				
3: IND filing		Current ANTH Stock:				
4: Phase I data		ANTH Shares Outstanding (000):				
5: Phase II data						

Anthera Product Pipeline Valuation

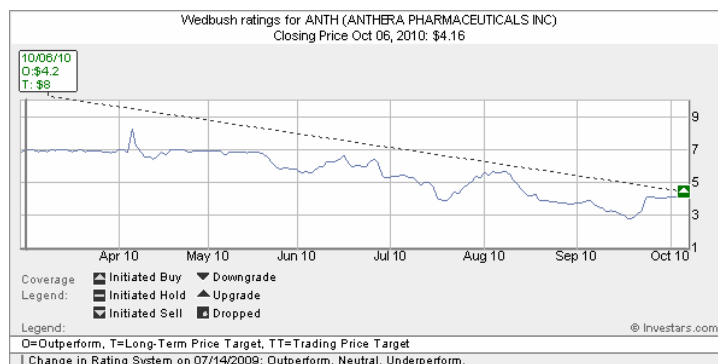
Product		Indication	Eligible # Annual WW Treatments Est	Pricing \$ per Patient per Year Est/Actual	Peak Penetration Est	Gross WW Peak Sales Est (\$000)	ANTH Net Peak Revs Est WW (\$000)	Est/Actual Launch	Multiple	Annual Discount Rate	Wedbush MktCap Fair Value (\$000)	Wedbush Stock Fair Value
sPLA2 Antagonists	A-002	Acute Therapy	3,500,000	\$2,114	15%	\$1,110,000	\$194,250	7/1/2013	6	30%	\$202,911	\$5.22
		Chronic Therapy	10,000,000	\$2,363	5%	\$1,181,250	\$206,719	6/1/2015	5	30%	\$108,798	\$2.80
	A-001	Sickle Cell Crisis	175,000	\$22,143	20%	\$775,000	\$135,625	1/1/2017	4	30%	\$48,928	\$1.26
BLyS Antagonist	A-623	Systemic Lupus Erythematosus	600,000	\$17,083	10%	\$1,025,000	\$205,000	12/1/2015	5	30%	\$94,595	\$2.43

Source: Company reports, Wedbush Securities estimates

ANALYST CERTIFICATION

I, Duane Nash, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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OUTPERFORM – Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

NEUTRAL – Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

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WS provided investment banking services to Anthera Pharmaceuticals (ANTH), Heartware (HTWR), Rockwell Medical (RMTI) and World Heart (WHRT) within the last 12 months.

WS expects to receive compensation for investment banking services from Anthera Pharmaceuticals (ANTH) and World Heart (WHRT) within the next 3 months.

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