

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-9314

**ACCESS PHARMACEUTICALS, INC.**  
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

83-0221517

(I.R.S. Employer I.D. No.)

2600 Stemmons Frwy, Suite 176, Dallas, TX 75207

(Address of principal executive offices)

(214) 905-5100

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 13, 2011, there were 19,383,964 shares of Access Pharmaceuticals, Inc. common stock outstanding. Also, as of May 13, 2011, there were 2,958,3617 shares of Series A Convertible Preferred Stock outstanding, and such shares were convertible into 11,601,405 shares of common stock.

ACCESS PHARMACEUTICALS, INC.

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CERTIFICATIONS

## PART I – FINANCIAL INFORMATION

*This Quarterly Report (including the information incorporated by reference) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties including, but not limited to the uncertainties associated with research and development activities, clinical trials, our ability to raise capital, the timing of and our ability to achieve regulatory approvals, dependence on others to market our licensed products, collaborations, future cash flow, the timing and receipt of licensing and milestone revenues, the future success of our marketed products and products in development, our sales projections, and the sales projections of our licensing partners, our ability to achieve licensing milestones and other risks described below as well as those discussed elsewhere in this Quarterly Report, documents incorporated by reference and other documents and reports that we file periodically with the Securities and Exchange Commission. These statements include, without limitation, statements relating to our ability to continue as a going concern, anticipated product approvals and timing thereof, product opportunities, clinical trials and U.S. Food and Drug Administration (“FDA”) applications, as well as our drug development strategy, our clinical development organization, expectations regarding our rate of technological developments and competition, our expectations regarding minimizing development risk and developing and introducing technology, the size of our targeted markets, the terms of future licensing arrangements, our plans to hire additional accounting staff and implement appropriate procedures, the adequacy of our capital resources, and our ability to secure additional financing for our operations. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “could,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of such terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by such forward-looking statements.*

*Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of filing this Quarterly Report to conform such statements to actual results.*

### ITEM 1. FINANCIAL STATEMENTS

The response to this Item is submitted as a separate section of this report.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### OVERVIEW

Access Pharmaceuticals, Inc. (together with our subsidiaries, “We”, “Access” or the “Company”) is a Delaware corporation. We are an emerging biopharmaceutical company focused on developing a range of pharmaceutical products primarily based upon our nanopolymer chemistry technologies and other drug delivery technologies. We currently have one approved product, two products at Phase 2 of clinical development and several products in pre-clinical development. Low priority clinical and pre-clinical programs will be dependent on our ability to enter into collaboration arrangements. Certain of our development programs are dependent upon our ability to secure approved funding for such projects.

- MuGard™ is our approved product for the management of oral mucositis, a frequent side-effect of cancer therapy for which there is no established treatment. The market for mucositis treatment is estimated to be in excess of \$1 billion world-wide. MuGard, a proprietary nanopolymer formulation, has received marketing allowance in the U.S. from the FDA. MuGard has been launched in Germany, Italy, UK, Greece and the Nordic countries by our European commercial partner, SpePharm. We launched MuGard in the United States in the fourth quarter of 2010. We are working with our partners in Korea and China for registration and marketing.
- Our lead development candidate for the treatment of cancer is ProLindac™, a nanopolymer DACH-platinum prodrug. We initiated a study of ProLindac combined with Paclitaxel in second line treatment of platinum pretreated advanced ovarian cancer patients in the fourth quarter of 2010. This multi-center study of up to 25 evaluable patients is being conducted in France. We are also currently planning a number of combination trials, looking at combining ProLindac with other cancer agents in solid tumor indications including colorectal and ovarian cancer. The DACH-platinum incorporated in ProLindac is the same active moiety as that in oxaliplatin (Eloxatin; Sanofi-Aventis), which has sales in excess of \$2.0 billion.
- Thiarabine, or 4-thio Ara-C, is a next generation nucleoside analog licensed from Southern Research Institute. Previously named SR9025 and OSI-7836, the compound has been in two Phase 1/2 solid tumor human clinical trials and was shown to have anti-tumor activity. We are working with leukemia and lymphoma specialists at MD Anderson Cancer Center in Houston and have initiated additional Phase 2 clinical trials in adult AML, ALL and other indications.
- CobOral™ is our proprietary preclinical nanopolymer oral drug delivery technology based on the natural vitamin B12 oral uptake mechanism. We are currently developing a product for the oral delivery of insulin, and have conducted sponsored development of a product for oral delivery of human growth hormone. We have signed or are in discussion with several companies regarding the sponsored development of CobOral drug delivery formulations of proprietary and non-proprietary actives.
- CodaCyte™-mediated cancer targeted delivery is a preclinical technology which makes use of the fact that cell surface receptors for vitamins such as B12 are often overexpressed by cancer cells. This technology uses nanopolymer constructs to deliver more anti-cancer drug to tumors while protecting normal tissues.

## Products

We use our drug delivery technologies to develop the following products and product candidates:

### Access Drug Portfolio

<u>Compound</u>	<u>Originator</u>	<u>Technology</u>	<u>Indication</u>	<u>Clinical Stage (1)</u>
MuGard™	Access	Mucoadhesive liquid	Mucositis	Launched U.S. and EU
ProLindac™ (Polymer Platinate, AP5346) (2)	Access / Univ of London	Synthetic polymer	Cancer	Phase 2
Thiarabine (4-thio Ara-C) (3)	Southern Research Institute	Small molecule	Cancer	Phase 1/2
Oral Insulin	Access	Cobalamin	Diabetes	Pre-clinical
CobOral™ Delivery System	Access	Cobalamin	Various	Pre-clinical
CobaCyte™-Targeted Therapeutics	Access	Cobalamin	Anti-tumor	Pre-clinical

(1) For more information, see “Government Regulation” for description of clinical stages.

(2) Licensed from the School of Pharmacy, The University of London.

(3) Licensed from Southern Research Institute of Birmingham, Alabama.

## RECENT EVENTS

On April 13, 2011, we announced that we entered into an agreement with a major pharmaceutical company to exploit our CoaCyte and CobOral technology for the targeted delivery of RNAi therapeutics. We will provide the pharmaceutical company with CobOral and CoaCyte siRNA formulations for evaluation of gene knockdown following oral and intravenous administration. Though the terms of the agreement have not been disclosed, we have indicated that any successful formulation developed will be jointly owned by the parties and subject to a subsequent full licensing agreement.

## LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations primarily through private sales of common stock, preferred stock, convertible notes and through licensing agreements. Our principal source of liquidity is cash and cash equivalents. Royalty revenues provided limited funding for operations during the three months ended March 31, 2011. As of March 31, 2011, our cash and cash equivalents were \$6,174,000 and our net cash burn rate for the three months ended March 31, 2011, was approximately \$295,000 per month. As of March 31, 2011, our working capital deficit was \$8,500,000. Our working capital deficit at March 31, 2011 represented an increase of \$2,364,000 as compared to our working capital deficit as of December 31, 2010 of \$6,136,000. The increase in the working capital deficit at March 31, 2011 reflects three months of net operating costs. As of March 31, 2011, we had one convertible note outstanding in the principal amount of \$5.5 million which is due September 13, 2011.

As of May 16, 2011, we did not have enough capital to achieve our long-term goals. If we raise additional funds by selling equity securities, the relative equity ownership of our existing investors will be diluted and the new investors could obtain terms more favorable than previous investors. A failure to obtain necessary additional capital in the future could jeopardize our operations and our ability to continue as a going concern.

We have incurred negative cash flows from operations since inception, and have expended, and expect to continue to expend in the future, substantial funds to complete our planned product development efforts. Since inception, our expenses have significantly exceeded revenues, resulting in an accumulated deficit as of March 31, 2011 of \$253,472,000. We expect that our capital resources will be adequate to fund our current level of operations into the first quarter of 2012. We are a party to a \$5.5 million promissory note due on September 13, 2011. While our plan is to extend the due date of this note, if we are unable to do so we may not have sufficient capital to continue our operations. However, our ability to fund operations over this time could change significantly depending upon changes to future operational funding obligations or capital expenditures. As a result, we are required to seek additional financing sources within the next twelve months. We cannot assure you that we will ever be able to generate significant product revenue or achieve or sustain profitability.

Since our inception, we have devoted our resources primarily to fund our research and development programs. We have been unprofitable since inception and to date have received limited revenues from the sale of products. We cannot assure you that we will be able to generate sufficient product revenues to attain profitability on a sustained basis or at all. We expect to incur losses for the next several years as we continue to invest in product research and development, preclinical studies, clinical trials and regulatory compliance.

#### **FIRST QUARTER 2011 COMPARED TO FIRST QUARTER 2010**

Our licensing revenue for the first quarter of 2011 was \$87,000 as compared to \$87,000 for 2010. We recognize licensing revenue over the period of the performance obligation under our licensing agreements.

Sponsored research and development revenues were \$30,000 for the first quarter of 2011 with no revenues for the same period of 2010. The revenues in 2011 are for research collaborations on our CobOral and CobaCyte projects.

We recorded royalty revenue for MuGard in Europe of \$20,000 for the first quarter of 2011 as compared to \$15,000 for 2010, an increase of \$5,000.

Product sales of MuGard in the United States totaled \$13,000 for the first quarter of 2011 with no revenues for the same period of 2010. Our first sales were recorded in the fourth quarter of 2010.

Total research and development spending for the first quarter of 2011 was \$1,120,000, as compared to \$786,000 for 2010, an increase of \$334,000. The increase in expenses was primarily due to:

- increased clinical development with trials for ProLindac, MuGard and Thiarabine (\$229,000);
- increased scientific consulting expense (\$80,000) to help with clinical trials;
- increased salary and related costs due to a new employee (\$51,000);
- increased stock compensation expense due to additional option grants for research and development employees (\$30,000);
- and
- other net decreases in research spending (\$56,000).

Product costs for MuGard in the United States were \$92,000 for the first quarter of 2011 with no product costs for the same period in 2010. MuGard was launched in the fourth quarter of 2010.

Total general and administrative expenses were \$1,026,000 for the first quarter of 2011, an increase of \$128,000 compared to the same period in 2010 of \$898,000. The increase in expenses was due primarily to the following:

- increased general business consulting expenses due to the use of outside consultants (\$97,000);
- increased salary and related costs due to new employees (\$45,000);
- increased stock compensation expense due to option grants for general and administrative employees (\$38,000); and
- lower patent and license fees (\$52,000).

Depreciation and amortization was \$61,000 for the first quarter of 2011 as compared to \$61,000 for 2010.

Total operating expenses for the first quarter of 2011 were \$2,299,000 as compared to total operating expenses of \$1,745,000 for 2010, an increase of \$554,000 for the reasons listed above.

Interest and miscellaneous income was \$5,000 for the first quarter of 2011 as compared to \$4,000 for 2010, an increase of \$1,000.

Interest and other expense was \$167,000 for the first quarter of 2011 as compared to \$149,000 in 2010, an increase of \$18,000. The increase in interest and other expense was due to the interest that was accrued on the previous unpaid portion of the long-term notes and dividends.

We recorded a derivative gain related to warrants classified as liabilities of \$1,235,000 for the first quarter of 2011 as compared to \$2,877,000 for the same period of 2010. A derivative for warrants was recorded in the fourth quarter of 2009 when the fair value of the warrants, that were issued with our Series A Convertible Preferred Stock, were reclassified from equity to a liability per the requirements of accounting guidance as a result of the repricing feature.

We recorded a derivative loss for the liability related to preferred stock of \$823,000 for the first quarter of 2011 and none for 2010. The derivative was recorded per the requirements of accounting guidance due to the possibility of repricing our Series A Convertible Preferred Stock if we sold our common stock at a price below the original conversion price.

Preferred stock dividends of \$438,000 were accrued for the first quarter of 2011 and \$442,000 for 2010, a decrease of \$4,000. The decrease is due to some preferred shareholders converting their ownership to common stock. Dividends are paid semi-annually in either cash or common stock.

Net loss allocable to common stockholders for the first quarter of 2011 was \$2,337,000, or a \$0.12 basic and diluted loss per common share, compared with net income of \$647,000, or a \$0.04 basic and diluted earnings per common share for the same period in 2010, an increased loss of \$2,984,000.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Act”)) as of March 31, 2011. Based on this evaluation, our CEO and CFO concluded that, as of March 31, 2011, our disclosure controls and procedures were not effective. This conclusion was based on the existence of the material weaknesses in our internal control over financial reporting previously disclosed and discussed below.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles. Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our principal executive officer and principal accounting officer, conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on its evaluation, our management concluded in our Annual Report on Form 10-K for the year ended December 31, 2010 that there is a material weakness in our internal control over financial reporting. As of the date of this report on Form 10-Q, we have not remediated such material weakness and as a result, our Chief Executive Officer and Chief Financial Officer have concluded that a material weakness continues to exist as of the end of the period covered by this Quarterly Report on Form 10-Q and our disclosure controls and procedures were not effective. The material weakness identified did not result in the restatement of any previously reported financial statements or any related financial disclosure, nor does management believe that it had any effect on the accuracy of the Company’s financial statements for the current reporting period. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness relates to the monitoring and review of work performed by our Chief Financial Officer in the preparation of financial statements, footnotes and financial data provided to the Company’s registered public accounting firm in connection with the annual audit. All of our financial reporting is carried out by our Chief Financial Officer. This lack of accounting staff results in a lack of segregation of duties and accounting technical expertise necessary for an effective system of internal control.



In order to mitigate this material weakness to the fullest extent possible, all financial statements are reviewed by the Chief Executive Officer as well as the Chairman of the Audit Committee for reasonableness. All unexpected results are investigated. At any time, if it appears that any control can be implemented to continue to mitigate such weaknesses, it is immediately implemented. As soon as our finances allow, we plan to hire sufficient accounting staff and implement appropriate procedures for monitoring and review of work performed by our Chief Financial Officer.

#### Changes In Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2011 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

## **PART II -- OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to any legal proceedings that we believe could have a material impact on our financial condition or results of operations.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In March 2011, we issued 5,000 shares of our common stock to a consultant as payment for their consulting expenses. The issuance of shares of our common stock in settlement of these accounts was made pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933, as amended.

In February 2011, we issued 5,000 shares of our common stock to a consultant as payment for his consulting expenses. The issuance of shares of our common stock in settlement of these accounts was made pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933, as amended.

In January 2011, we issued 55,000 shares of our common stock to several consultants as payment for their consulting expenses. The issuance of shares of our common stock in settlement of these accounts was made pursuant to Section 4(2) and Rule 506 of the Securities Act of 1933, as amended.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Pursuant to the terms of the Certificate of Designations, Rights and Preferences of our Series A Cumulative Convertible Preferred Stock, we are required to pay dividends in cash or shares of our common stock, semi-annually, at the rate of 6% per annum. If funds are not currently available to pay cash dividends or if a cash payment of dividends would be impermissible under Delaware law, we may in certain circumstances pay such dividends in shares of the Company's common stock. In order to pay such dividends in shares of the Company's common stock, there must either be an effective registration statement covering the resale of the dividend shares, the resale must be permissible subject to an exemption from registration, or the respective holders of Series A Preferred Stock must agree to accept restricted common stock as payment of such dividends. In the event none of these three circumstances are met, and the dividends have not been paid in cash or shares of the Company's common stock, the dividends shall continue to accrue until they are paid in cash or shares of the Company's common stock. The Company has accrued as of March 31, 2011, dividends payable in the aggregate amount of \$4,941,000.

Pursuant to the terms of an Investor Rights Agreement with the purchasers of Series A Preferred Stock, the Company is required to maintain an effective registration statement with respect to certain shares issuable upon conversion of our outstanding preferred stock. As of March 31, 2011, the Securities and Exchange Commission had not yet declared a registration statement effective with respect to all of the shares covered by the Investor Rights Agreement, and as a result, we have accrued as of March 31, 2011, \$857,000 in liquidated damages. A registration statement filed by us relating to a portion of such securities was declared effective on November 13, 2008.

**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibits:

- 31.1 Certification of Chief Executive Officer of Access Pharmaceuticals, Inc. pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer of Access Pharmaceuticals, Inc. pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1\* Certification of Chief Executive Officer of Access Pharmaceuticals, Inc. pursuant to 18 U.S.C. Section 1350
- 32.2\* Certification of Chief Financial Officer of Access Pharmaceuticals, Inc. pursuant to 18 U.S.C. Section 1350

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\* This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities and Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

† Management contract or compensatory plan required to be filed as an Exhibit to this Form pursuant to Item 6 of the report.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACCESS PHARMACEUTICALS, INC.

Date: May 16, 2011

By: /s/ Jeffrey B. Davis  
Jeffrey B. Davis  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 16, 2011

By: /s/ Stephen B. Thompson  
Stephen B. Thompson  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Access Pharmaceuticals, Inc. and Subsidiaries**

Condensed Consolidated Balance Sheets

	March 31, 2011	December 31, 2010
ASSETS		
(unaudited)		
Current assets		
Cash and cash equivalents	\$ 6,174,000	\$ 7,033,000
Receivables	46,000	1,018,000
Prepaid expenses and other current assets	49,000	70,000
<b>Total current assets</b>	<b>6,269,000</b>	<b>8,121,000</b>
Property and equipment, net	46,000	32,000
Patents, net	521,000	574,000
Other assets	40,000	44,000
<b>Total assets</b>	<b>\$ 6,876,000</b>	<b>\$ 8,771,000</b>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 2,892,000	\$ 2,984,000
Accrued expenses	857,000	857,000
Dividends payable	4,941,000	4,443,000
Accrued interest payable	232,000	126,000
Convertible debt, current portion	5,500,000	5,500,000
Current portion of deferred revenue	347,000	347,000
<b>Total current liabilities</b>	<b>14,769,000</b>	<b>14,257,000</b>
Derivative liability - warrants	3,852,000	5,087,000
Derivative liability - preferred stock	6,663,000	5,840,000
Long-term deferred revenue	4,296,000	4,382,000
<b>Total liabilities</b>	<b>29,580,000</b>	<b>29,566,000</b>
Commitments and contingencies		
Stockholders' deficit		
Convertible Series A preferred stock - \$.01 par value; authorized 2,000,000 shares; 2,958.3617 shares issued at March 31, 2011 and 2,978.3617 shares issued at December 31, 2010	-	-
Common stock - \$.01 par value; authorized 100,000,000 shares; issued, 19,299,798 at March 31, 2011 and 19,115,010 at December 31, 2010	193,000	191,000
Additional paid-in capital	230,579,000	230,153,000
Treasury stock, at cost – 163 shares	(4,000)	(4,000)
Accumulated deficit	(253,472,000)	(251,135,000)
<b>Total stockholders' deficit</b>	<b>(22,704,000)</b>	<b>(20,795,000)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 6,876,000</b>	<b>\$ 8,771,000</b>

The accompanying notes are an integral part of these consolidated statements.

**Access Pharmaceuticals, Inc. and Subsidiaries**Condensed Consolidated Statements of Operations  
(unaudited)

	Three Months ended March 31,	
	2011	2010
<b>Revenues</b>		
License revenues	\$ 87,000	\$ 87,000
Sponsored research and development	30,000	-
Royalties	20,000	15,000
Product sales	13,000	-
<b>Total revenues</b>	<b>150,000</b>	<b>102,000</b>
<b>Expenses</b>		
Research and development	1,120,000	786,000
Product costs	92,000	-
General and administrative	1,026,000	898,000
Depreciation and amortization	61,000	61,000
<b>Total expenses</b>	<b>2,299,000</b>	<b>1,745,000</b>
<b>Loss from operations</b>	<b>(2,149,000)</b>	<b>(1,643,000)</b>
Interest and miscellaneous income	5,000	4,000
Interest and other expense	(167,000)	(149,000)
Gain on change in fair value of derivative – warrants	1,235,000	2,877,000
Loss on change in fair value of derivative – preferred stock	(823,000)	-
	250,000	2,732,000
<b>Net income (loss)</b>	<b>(1,899,000)</b>	<b>1,089,000</b>
Less preferred stock dividends	438,000	442,000
<b>Net income (loss) allocable to common stockholders</b>	<b>\$ (2,337,000)</b>	<b>\$ 647,000</b>
<b>Net income (loss) per share</b>		
Basic	\$ (0.12)	\$ 0.04
Diluted	\$ (0.12)	\$ 0.04
<b>Weighted average number of common shares outstanding</b>		
Basic	19,241,570	14,766,947
Diluted	19,241,570	17,756,979

The accompanying notes are an integral part of these consolidated statements.

**Access Pharmaceuticals, Inc. and Subsidiaries**

Condensed Consolidated Statements of Stockholders' Deficit  
(unaudited)

	Common Stock		Preferred Stock		Additional paid-in capital	Treasury stock	Accumulated deficit
	Shares	Amount	Shares	Amount			
Balance December 31, 2010	19,115,000	\$ 191,000	2,978.3617	\$ -	\$ 230,153,000	\$ (4,000)	\$ (251,135,000)
Restricted common stock issued for services	21,000	-	-	-	50,000	-	-
Common stock issued for services	85,000	1,000	-	-	195,000	-	-
Preferred stock converted into common stock	78,000	1,000	(20.0000)	-	-	-	-
Common stock issued for preferred dividends	1,000	-	-	-	-	-	-
Stock option compensation expense	-	-	-	-	181,000	-	-
Preferred dividends	-	-	-	-	-	-	(438,000)
Net loss	-	-	-	-	-	-	(1,899,000)
Balance at March 31, 2011	<u>19,300,000</u>	<u>\$ 193,000</u>	<u>2,958.3617</u>	<u>\$ -</u>	<u>\$ 230,579,000</u>	<u>\$ (4,000)</u>	<u>\$ (253,472,000)</u>

The accompanying notes are an integral part of these consolidated statements.

**Access Pharmaceuticals, Inc. and Subsidiaries**

Condensed Consolidated Statements of Cash Flows  
(unaudited)

	Three Months ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ (1,899,000)	\$ 1,089,000
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Gain on change in fair value of derivative - warrants	(1,235,000)	(2,877,000)
Loss on change in fair value of derivative - preferred stock	823,000	-
Depreciation and amortization	61,000	61,000
Stock option compensation expense	181,000	114,000
Stock and warrants issued for services	246,000	37,000
Change in operating assets and liabilities:		
Receivables	972,000	1,000
Prepaid expenses and other current assets	21,000	(8,000)
Other assets	4,000	5,000
Accounts payable and accrued expenses	(92,000)	(235,000)
Dividends payable	61,000	39,000
Accrued interest payable	106,000	(331,000)
Deferred revenue	(86,000)	(86,000)
Net cash used in operating activities	<u>(837,000)</u>	<u>(2,191,000)</u>
Cash flows from investing activities:		
Capital expenditures	(22,000)	-
Net cash used in investing activities	<u>(22,000)</u>	<u>-</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	-	14,000
Proceeds from common stock issuances, net of costs	-	5,848,000
Net cash provided by financing activities	<u>-</u>	<u>5,862,000</u>
Net increase (decrease) in cash and cash equivalents	(859,000)	3,671,000
Cash and cash equivalents at beginning of period	7,033,000	607,000
Cash and cash equivalents at end of period	<u>\$ 6,174,000</u>	<u>\$ 4,278,000</u>
<i>Supplemental cash flow information:</i>		
Cash paid for interest	\$ -	\$ 440,000
<i>Supplemental disclosure of noncash transactions:</i>		
Shares issued for dividends on preferred stock	1,000	-
Preferred stock dividends in dividends payable	438,000	442,000

The accompanying notes are an integral part of these consolidated statements.

**Access Pharmaceuticals, Inc. and Subsidiaries**

Notes to Condensed Consolidated Financial Statements  
Three Months Ended March 31, 2011 and 2010  
(unaudited)

**(1) Interim Financial Statements**

The condensed consolidated balance sheet as of March 31, 2011, the condensed consolidated statements of operations for the three months ended March 31, 2011 and 2010, the condensed consolidated statements of stockholders deficit for the three months ended March 31, 2011, and the condensed consolidated statements of cash flows for the three months ended March 31, 2011 and 2010, were prepared by management without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, except as otherwise disclosed, necessary for the fair presentation of the financial position, results of operations, and changes in financial position for such periods, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these interim financial statements be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the period ended March 31, 2011 are not necessarily indicative of the operating results which may be expected for a full year. The condensed consolidated balance sheet as of December 31, 2010 contains financial information taken from the audited Access financial statements as of that date.

The report of our independent registered public accounting firm for the fiscal year ended December 31, 2010, contained a fourth explanatory paragraph to reflect its significant doubt about our ability to continue as a going concern as a result of our history of losses and our liquidity position, as discussed herein and in this Form 10-Q. We expect that our capital resources and expected receipts due under our license agreements will be adequate to fund our current level of operations into the first quarter of 2012. We are a party to a \$5.5 million promissory note due on September 13, 2011. While our plan is to extend the due date of this note, if we are unable to do so we may not have sufficient capital to continue our operations. If we are unable to obtain adequate capital funding in the future or enter into future license agreements for our products, we may not be able to continue as a going concern, which would have an adverse effect on our business and operations, and investors' investment in us may decline.



**(2) Intangible Assets**

Intangible assets consist of the following (in thousands):

	March 31, 2011		December 31, 2010	
	Gross carrying value	Accumulated amortization	Gross carrying value	Accumulated Amortization
Amortizable intangible assets				
Patents	\$ 2,624	\$ 2,103	\$ 2,624	\$ 2,050

Amortization expense related to intangible assets totaled \$53,000 for each of the three months ended March 31, 2011 and March 31, 2010. The aggregate estimated amortization expense for intangible assets remaining as of March 31, 2011 is as follows (in thousands):

2011	\$ 159
2012	82
2013	44
2014	44
2015	44
over 5 years	148
Total	<u>\$ 521</u>

**(3) Liquidity**

The Company generated net loss allocable to common stockholders of \$2,337,000 for the three months ended March 31, 2011 and a loss of \$9,328,000 for the year ended December 31, 2010. At March 31, 2011, our working capital deficit was \$8,500,000. Management believes that our current cash and expected license fees should fund our expected burn rate into the first quarter of 2012. We are a party to a \$5.5 million promissory note due on September 13, 2011. While our plan is to extend the due date of this note, if we are unable to do so we may not have sufficient capital to continue our operations. We will require additional funds to continue operations. These funds are expected to come from the future sales of equity and/or license agreements. If we are unable to obtain adequate capital funding in the future or enter into future license agreements for our products, we may not be able to continue as a going concern, which would have an adverse effect on our business and operations, and investors' investment in us may decline.

**(4) Fair Value of Financial Instruments**

The carrying value of cash, cash equivalents, receivables, accounts payable and accruals approximate fair value due to the short maturity of these items. The carrying value of the convertible long-term debt is at book value which approximates the fair value as the interest rate is at market value.

Effective January 1, 2008, we adopted fair value measurement guidance issued by the FASB related to financial assets and liabilities which define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. This guidance establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar valuation techniques that use significant unobservable inputs.

The guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

We have segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

Financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010 are summarized below:

(in thousands)

Description	As of March 31, 2011	Level 1	Level 2	Level 3	Total Gains (Losses)
Liabilities:					
Derivative liability- warrants	\$ 3,852	\$ -	\$ 3,852	\$ -	\$ 1,235
preferred stock	\$ 6,663	\$ -	\$ -	\$ 6,663	\$ (823)

(in thousands)

Description	As of December 31, 2010	Level 1	Level 2	Level 3	Total Gains (Losses)
Liabilities:					
Derivative liability- warrants	\$ 5,087	\$ -	\$ 5,087	\$ -	\$ 4,621
preferred stock	\$ 5,840	\$ -	\$ -	\$ 5,840	\$ (5,840)

In order to calculate the Level 3 Derivative liability - preferred stock, we used the Monte Carlo simulation to estimate future stock prices. The use of valuation techniques requires the Company to make various key assumptions for inputs into the model, including assumptions about the expected future volatility of the price of the Company's stock. In estimating the fair value at March 31, 2011 and December 31, 2010, we based our selected volatility on the one-year historic volatility of the Company's stock as we believe this is most representative of the expected volatility in the near future for the Company.

**(5) Stock Based Compensation**

For the three months ended March 31, 2011 we recognized stock-based compensation expense of \$181,000. For the three months ended March 31, 2010 we recognized stock-based compensation expense of \$114,000.

The following table summarizes stock-based compensation for the three months ended March 31, 2011 and 2010:

	Three months ended March 31,	
	2011	2010
Research and development	\$ 103,000	\$ 73,000
General and administrative	78,000	41,000
Stock-based compensation expense included in operating expense	\$ 181,000	\$ 114,000

We granted 100,000 stock options during the first quarter of 2011 and granted 230,000 stock options in the same quarter of 2010.

Our weighted average Black-Scholes fair value assumptions used to value the 2011 and 2010 first three months grants are as follows:

	3/31/11	3/31/10
Expected life <sup>(b)</sup>	6.25 yrs	5.97 yrs
Risk free interest rate	1.1%	2.4%
Expected volatility <sup>(a)</sup>	112%	118%
Expected dividend yield	0.0%	0.0%

<sup>(a)</sup> Reflects movements in our stock price over the most recent historical period equivalent to the expected life.

<sup>(b)</sup> Based on the simplified method.

**(6) Basic and Diluted Net Income (Loss) Per Common Share**

Basic net income or loss per share is based upon the weighted average number of common shares outstanding during the period. Diluted net income or loss per share is based upon the weighted average number of common shares outstanding during the period, plus the effect of additional weighted average common equivalent shares outstanding during the period when the effect of adding such shares is dilutive. Common equivalent shares result from the assumed exercise of outstanding stock options and warrants (the proceeds of which are then assumed to have been used to repurchase outstanding stock using the treasury stock method). In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money. This results in the "assumed" buyback of additional shares, thereby reducing the dilutive impact of stock options and warrants. Common equivalent shares have not been included in the net loss per share calculations for three months ended March 31, 2011, because the effect of including them would have been anti-dilutive.

Basic and diluted net income (loss) per share were determined as follows:

(in thousands, except share and per share amounts)	Three months ended March 31,	
	2011	2010
Net income (loss)	\$ (2,337)	\$ 647
Weighted average shares outstanding	19,241,570	14,766,947
Basic net income (loss) per common share	\$ (0.12)	\$ 0.04
Net income (loss)	\$ (2,337)	\$ 647
Weighted average shares outstanding	19,241,570	14,766,947
Effect of dilutive options and warrants	-	2,990,032
Weighted average shares outstanding assuming dilution	19,241,570	17,756,979
Diluted net income (loss) per common share	\$ (0.12)	\$ 0.04

We did not include the following securities in the table below in the computation of diluted net income (loss) per common share because the securities were anti-dilutive during the periods presented:

	Three months ended March 31,	
	2011	2010
Warrants	12,060,907	6,124,749
Stock options	1,846,284	886,404
Convertible note	200,000	200,000
Preferred stock	11,601,405	9,951,198
Total	25,708,596	17,162,351



**CERTIFICATION**

I, Jeffrey B. Davis, certify that:

1. I have reviewed this report on Form 10-Q of Access Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2011

/s/ Jeffrey B. Davis  
Jeffrey B. Davis  
Chief Executive Officer

**CERTIFICATION**

I, Stephen B. Thompson, certify that:

1. I have reviewed this report on Form 10-Q of Access Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2011

/s/ Stephen B. Thompson  
Stephen B. Thompson  
Chief Finance Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is hereby made solely for the purpose of satisfying the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 and may not be relied upon or used for any other purposes.

In connection with the Quarterly Report of Access Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey B. Davis, Chief Executive Officer certify pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Signed at the City of Dallas, in the State of Texas, this 16th day of May, 2011.

/s/ Jeffrey B. Davis  
Jeffrey B. Davis  
Chief Executive Officer



CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is hereby made solely for the purpose of satisfying the requirements of Section 906 of the Sarbanes-Oxley Act of 2002 and may not be relied upon or used for any other purposes.

In connection with the Quarterly Report of Access Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen B. Thompson, Chief Finance Officer certify pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Signed at the City of Dallas, in the State of Texas, this 16th day of May, 2011.

/s/ Stephen B. Thompson  
Stephen B. Thompson  
Chief Finance Officer