June 4, 2010

HEALTHCARE/BIOTECHNOLOGY

Alimera Sciences

Reports 1Q; Iluvien U.S. Filing In DME On Track For 2Q10

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$16.00
ALIM - NASDAQ	$10.90
3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	$11.23-$7.76
Shares Outstanding	31.1M
Float	25.8M
Market Capitalization	$338.5M
Avg. Daily Trading Volume	162,300
Dividend/Div Yield	NA/NM
Fiscal Year Ends	Dec
Book Value	NM
2010E ROE	NA
LT Debt	$15.0M
Preferred	NA
Common Equity	NA
Convertible Available	No

52 WEEK LOW ($): Range since 4/22/10 IPO

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2009A	--	--	--	--	(0.86)	NM
2010E	(0.21)A	(0.30)	(0.24)	(0.26)	(1.02)	NM
Prior (E)	*(0.49)*	*(0.36)*	*(0.28)*	*(0.29)*	*(1.38)*	*NM*
2011E	--	--	--	--	1.86	5.9x
Prior (E)	--	--	--	--	*1.79*	*6.1x*
2012E	--	--	--	--	2.63	4.1x
Prior (E)	--	--	--	--	*2.54*	*4.3x*

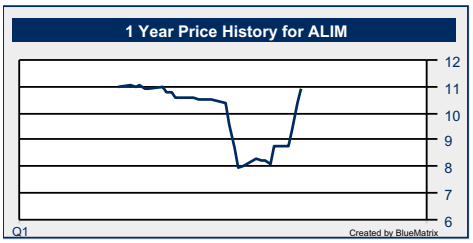
SUMMARY

On 6/3, ALIM reported 1Q results. Importantly, the company reiterated it is on track to file a NDA for Iluvien in diabetic macular edema (DME) in the next few weeks. We continue to see a high probability of U.S. approval of Iluvien in 1H11, based on the impressive visual acuity improvements observed in the two ph.III FAME trials and the implant's outstanding safety profile. We expect Iluvien to become a leading chronic DME therapy as we believe the drug addresses important limitations of the current therapies. We est >$900M peak worldwide sales in this indication. Based on Iluvien's significant commercial potential, we believe ALIM shares represent a compelling value at current levels.

KEY POINTS

- **ALIM reported pro-forma 1Q EPS of ($0.21) vs. our ($0.49) estimate and we are revising our estimates.** Our pro-forma calculation is based on 22.5M shares outstanding. ALIM's net loss of $4.7M excludes a one-time $4M payment from Bausch & Lomb, and revenues related to the accounting treatment of preferred shares that were eliminated following the company's recent IPO.
- **ALIM will file for U.S. approval of Iluvien in the very near term.** We believe a 10-month review is most likely, although Iluvien could receive an accelerated, 6-month FDA review given the unmet medical need in DME. As Iluvien's active agent is a well-known corticosteroid, an AdCom meeting may not be necessary before approval.
- **We expect 1H11 approval of Iluvien for DME.** Although one ph.III trial did not meet the primary endpoint using a modified statistical analysis, both ph.III trials showed significant visual acuity improvements vs. placebo using an ITT analysis. We believe the FDA will focus on the ITT analysis, which better defines benefit/risk in clinical practice.
- **Iluvien will quickly become an important chronic DME treatment, in our view.** Current corticosteroid treatments have drawbacks, including frequent injections and development of cataracts/IOP. We believe Iluvien will offer DME patients efficacy for ~3 years following a single, convenient intravitreal insertion, at a relatively low cost (we est $7,500/placement), with minimal side effects.

Stock Price Performance



Company Description

Alimera Sciences is a biopharmaceutical company focused on the research, development, and commercialization of ophthalmic pharmaceuticals. The company's product candidates include Iluvien, an intravitreal insert for treatment of diabetic macular edema, as well as other ophthalmic diseases, such as the wet form of age-related macular degeneration (AMD), the dry form of AMD, and retinal vein occlusion.

Bret Holley, Ph.D
212-667-7289
Bret.Holley@opco.com

Brian Abrahams, M.D.
212-667-6795
Brian.Abrahams@opco.com

Job Taylor, Ph.D
212 667-6586
Job.Taylor@opco.com

Matthew Lowe, Ph.D
212-667-6557
Matthew.Lowe@opco.com

Changes to Our model

Based on 1Q10 results, we have adjusted our financial model. For 2Q10-4Q10 our EPS estimates are now ($0.30), ($0.24), and ($0.26), respectively. Our full-year 2010 EPS estimate is now ($1.02). For 2011-2017 our new EPS estimates are $1.86, $2.63, $3.23, $3.82, $4.63, $5.61, and $6.53, respectively.

Alimera Sciences Statement of Operations 2009A-2017E

Amounts in thousands, except per-share figures

		2010																	
	2009A	1QA	Prior 1QE	2QE	Prior 2QE	3QE	Prior 3QE	4QE	Prior 4QE	2010E	Prior 2010E	2011E	Prior 2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues:																			
Iluvien U.S. sales	-	-	-	-	-	-	-	-	-	-	-	127,160	127,160	191,598	251,591	324,227	399,100	481,019	563,761
Iluvien Ex-U.S. revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	13,020	32,550	44,221	56,048	68,976	81,296
Total operating revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**127,160**	**127,160**	**204,618**	**284,141**	**368,448**	**455,148**	**549,995**	**645,057**
Operating expenses:																			
Cost of goods	-	-	-	-	-	-	-	-	-	-	-	6,358	6,358	9,580	12,580	16,211	19,955	24,051	28,188
Payment to pSivida for Iluvien	-	-	-	-	-	-	-	-	-	-	-	16,531	16,531	30,693	48,304	66,321	81,927	98,999	116,110
Research & development	15,057	3,065	4,500	3,500	4,500	4,000	4,500	4,500	4,500	15,065	18,000	21,091	20,700	21,724	22,375	23,047	23,738	24,450	25,184
Selling, general & administrative	4,159	1,151	4,100	3,500	4,150	3,500	4,225	3,500	4,500	11,651	16,975	22,137	24,614	35,419	44,274	55,342	69,178	72,637	76,269
Total operating expenses	**19,216**	**4,216**	**8,600**	**7,000**	**8,650**	**7,500**	**8,725**	**8,000**	**9,000**	**26,716**	**34,975**	**66,117**	**68,203**	**97,415**	**127,533**	**160,921**	**194,798**	**220,137**	**245,751**
Income (Loss) from operations	**(19,216)**	**(4,216)**	**(8,600)**	**(7,000)**	**(8,650)**	**(7,500)**	**(8,725)**	**(8,000)**	**(9,000)**	**(26,716)**	**(34,975)**	**61,043**	**58,957**	**107,203**	**156,608**	**207,527**	**260,351**	**329,858**	**399,307**
Other income (expense)	(1,860)	(472)	(2,332)	(2,270)	(2,288)	155	134	136	112	(2,450)	(4,373)	1,040	905	2,541	4,840	8,252	14,610	20,077	26,868
Pretax income (loss)	**(21,076)**	**(4,688)**	**(10,932)**	**(9,270)**	**(10,938)**	**(7,345)**	**(8,591)**	**(7,864)**	**(8,888)**	**(29,166)**	**(39,348)**	**62,084**	**59,862**	**109,743**	**161,448**	**215,779**	**274,960**	**349,936**	**426,175**
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-	-	-	-	16,462	40,362	64,734	82,488	104,981	127,853
Net income (loss)(2)	**(21,076)**	**(4,688)**	**(10,932)**	**(9,270)**	**(10,938)**	**(7,345)**	**(8,591)**	**(7,864)**	**(8,888)**	**(29,166)**	**(39,348)**	**62,084**	**59,862**	**93,282**	**121,086**	**151,046**	**192,472**	**244,955**	**298,323**
Basic & diluted net loss per share	**($0.86)**	**($0.21)**	**($0.49)**	**($0.30)**	**($0.36)**	**($0.24)**	**($0.28)**	**($0.26)**	**($0.29)**	**($1.02)**	**($1.38)**	**$1.86**	**$1.79**	**$2.63**	**$3.23**	**$3.82**	**$4.63**	**$5.61**	**$6.53**
Basic common shares outstanding (1)	22,496	22,496	22,496	30,501	30,501	30,501	30,501	30,501	30,501	28,500	28,500	32,501	32,501	34,501	36,501	38,501	40,501	42,501	44,501
Diluted common shares outstanding	22,496	22,496	22,496	30,501	30,501	30,501	30,501	30,501	30,501	28,500	28,500	33,401	33,401	35,451	37,501	39,551	41,601	43,651	45,701

(1) Pre-IPO share count for 2009 and 1Q 2010 are based on the pro-forma share count provided in ALIM's form S-1A

(2) Excludes one-time items

Ratios and Margins																			
Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
R&D as percent of revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	16.6%	16.3%	10.6%	7.9%	6.3%	5.2%	4.4%	3.9%
SG&A as percent of revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	17.4%	19.4%	17.3%	15.6%	15.0%	15.2%	13.2%	11.8%
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	48.0%	46.4%	52.4%	55.1%	56.3%	57.2%	60.0%	61.9%
Pretax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	48.8%	47.1%	53.6%	56.8%	58.6%	60.4%	63.6%	66.1%
Profit margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	48.8%	47.1%	45.6%	42.6%	41.0%	42.3%	44.5%	46.2%
Tax rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%	0.0%	15.0%	25.0%	30.0%	30.0%	30.0%	30.0%

Source: Company documents and Oppenheimer & Co. Inc.

Investment Thesis

Based on Iluvien's significant commercial potential, we believe ALIM shares are substantially undervalued. We believe Iluvien, Alimera's treatment for diabetic macular edema (DME), will be approved by the FDA and the EMEA in 2011. Following approval, Iluvien should become an important treatment for DME, a serious complication of diabetes that can lead to blindness. We estimate peak worldwide Iluvien sales of more than $900 million.

Price Target Calculation

Our 12-18 month price target of $16 is based on 12x our probability adjusted 2012 EPS of $1.69, discounted 1.5 years at 15%. We have chosen to use a 12x multiple based on the average multiple for specialty pharma peer companies, which is 11.4x for 2012. We chose 2012 as the year upon which to value Alimera, as it should be the first full year of U.S. Iluvien sales. We view this as a conservative choice, as 2012 includes limited E.U. revenues for Iluvien, assuming a launch in 1Q12.

Key Risks to Price Target

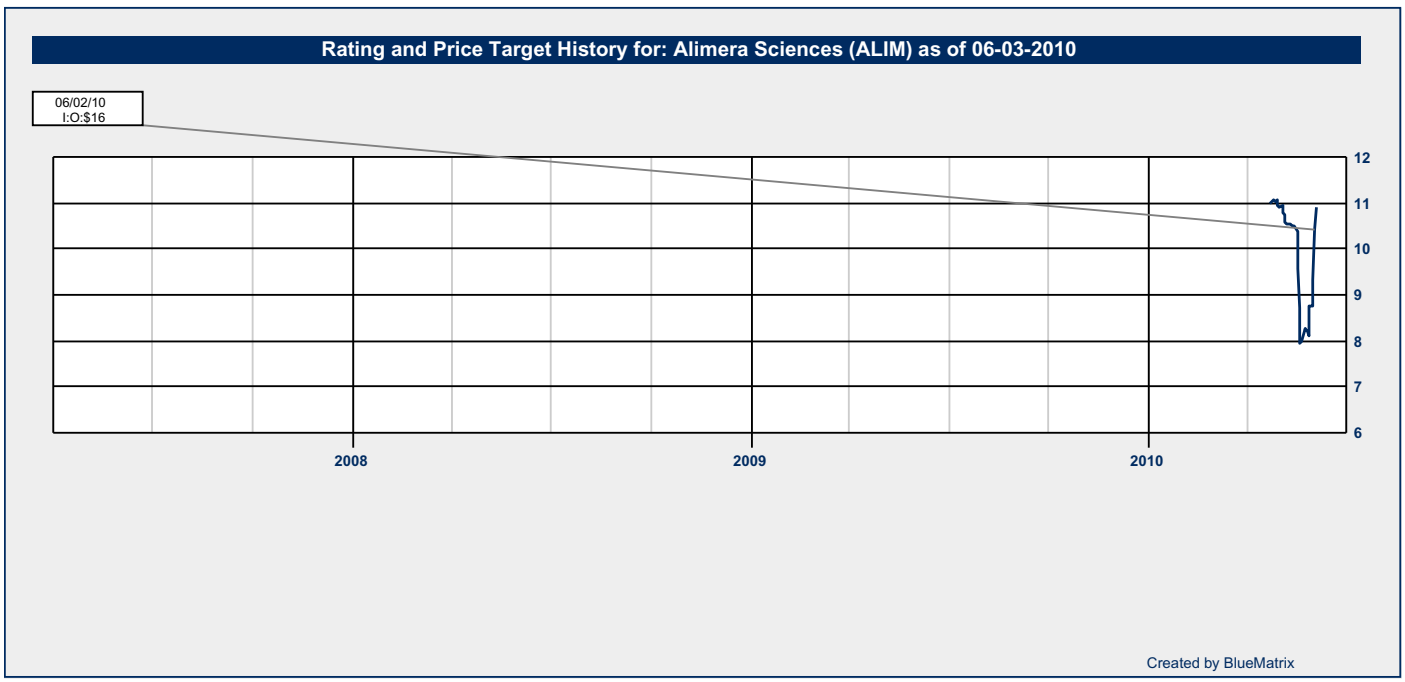
Key risks to our price target include, but are not limited to, failure to gain FDA or EMEA approval of Iluvien in diabetic macular edema (DME), difficulty commercializing Iluvien in the U.S. following potential approval, an inability to find a partner to commercialize Iluvien in Europe, and an inability to raise additional funding if required. We also view potential competition in the DME market as an important risk to our price target.

Important Disclosures and Certifications

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report.The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Potential Conflicts of Interest:

Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.



All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
OUTPERFORM [O]	336	51.10	130	38.69
PERFORM [P]	301	45.80	82	27.24
UNDERPERFORM [U]	20	3.00	3	15.00

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

Company Specific Disclosures

In the past 12 months Oppenheimer & Co. Inc. has provided investment banking services for ALIM.

Oppenheimer & Co. Inc. expects to receive or intends to seek compensation for investment banking services in the next 3 months from ALIM.

In the past 12 months Oppenheimer & Co. Inc. has managed or co-managed a public offering of securities for ALIM.

In the past 12 months Oppenheimer & Co. Inc. has received compensation for investment banking services from ALIM.

Oppenheimer & Co. Inc. makes a market in the securities of ALIM.

Additional Information Available

Please log on to http://www.opco.com or write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

Other Disclosures

This report is issued and approved for distribution by Oppenheimer & Co. Inc., a member of all Principal Exchanges and SIPC. This report is provided, for informational purposes only, to institutional and retail investor clients of Oppenheimer & Co. Inc. and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Oppenheimer & Co. Inc. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances.

We recommend that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor.Oppenheimer & Co. Inc. will not treat non-client recipients as its clients solely by virtue of their receiving this report.Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Oppenheimer & Co. Inc. accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to Oppenheimer & Co. Inc.All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Oppenheimer & Co. Inc. does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by Oppenheimer & Co. Inc. or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.This report may provide addresses of, or contain hyperlinks to, Internet web sites. Oppenheimer & Co. Inc. has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.