Alimera Sciences (ALIM)

Rating	**OUTPERFORM* [V]**
Price (24 Dec 10, US$)	11.22
Target price (US$)	(from 16.00) 13.00[1]
52-week price range	12.19 - 6.62
Market cap. (US$ m)	349.86
Enterprise value (US$ m)	295.18

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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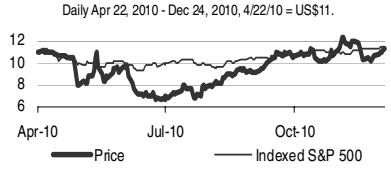
DECREASE TARGET PRICE

Reiterate Outperform Post FDA Response

- **We continue to believe that Iluvien will ultimately be approved and will be a $500 MM+ revenue drug**. FDA's complete response letter (CRL) extends Iluvien's timeline and adds some risk to approval, but is not surprising given the imminence of the 3 year FAME data.
- **CRL is as noteworthy for what it didn't say as for what it said**. The CRL deferred FDA's decision until analyses of the 36 month FAME data are submitted (expected in 1Q11). However FDA did not request any new studies, nor question the missed statistical significance in trial A of FAME.
- **Approval timeline likely pushed back about 9-12 months**. ALIM plans to submit its response to the CRL by end 1Q11, after a meeting with FDA (which it has already requested). If FDA deems a Class 2 resubmission, an approval could follow as early as end 3Q11. We assume a 1Q12 launch in our revised estimates to allow for modest delays to this timeline.
- **Resolution of manufacturing issues needs further clarification**. ALIM has stated that its 2 suppliers with cGMP deficiencies are working to resolve them, but more detail is needed from ALIM on the issues and expected timeline, as ALIM has no readily available backup suppliers. We are assuming that the issues are resolvable in time to allow a 1Q12 launch, but may need to reassess if additional information becomes available.
- **Our 2010-2012 EPS estimates are revised**. 2010 increases from -$1.37 to -$1.17 due to reduced prelaunch marketing expenses. 2011 and 2012 decrease from $0.27 to -$0.70 and $1.53 to $0.71 due to launch delay.
- **We remain buyers of ALIM for the long term, but the stock may remain flat for 1H:2011.** Our DCF-based target price is reduced from $16 to $13 due to launch delay and some increase to approval risk (our probability estimate is reduced from 75% to 65%).

Share price performance



On 12/24/10 the S&P 500 index closed at 1256.77

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	—	—	—	—
2010E	-4.37	-0.27	-0.20	-0.20
2011E	-0.14	-0.14	-0.14	-0.28

Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (US$)	-19.30	-1.17	-0.70	0.71
Prev. EPS (US$)	—	-1.37	0.27	1.53
P/E (x)	NM	NM	NM	15.8
P/E rel. (%)	NM	NM	NM	141.1
Revenue (US$ m)	—	—	—	126.6
EBITDA (US$ m)	-18.1	-21.9	-21.1	42.4
OCFPS (US$)	-16.32	-0.84	-1.46	0.43
P/OCF (x)	—	-13.3	-7.7	26.0
EV/EBITDA (current)	-19.9	-13.5	-16.2	7.7
Net debt (US$ m)	10	-55	-9	-23
ROIC (%)	45.82	213.56	-158.33	30.18

Number of shares (m)	31.18	IC (12/10E, US$ m)	50.54
BV/share (current, US$)	1.4	EV/IC (x)	5.8
Net debt (current, US$ m)	-54.7	Dividend (12/09A, US$)	—
Net debt/tot. cap. (current, %)	-15.4	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates.

Analysis of Iluvien Complete Response Letter

Summary of CRL Points and Outlook

On December 23 after the market close, ALIM announced that it had received a complete response letter (CRL) for Iluvien, a week before the December 30 PDUFA date. According to ALIM the CRL cited three main reasons for the non-approval of the NDA:

(1) FDA is requesting analyses of the safety and efficacy data from the FAME study through month 36.

ALIM submitted the 24 month data in its NDA, as agreed with FDA. However it is not surprising that with the 36 month data imminent – the company has received the raw data and could have analysis completed by January 2011 – that FDA has decided to defer its decision a relatively short time to gain the benefit of considering an extra year of data in its decision.

FDA's decision to wait for 36 month data is also unsurprising, in light of the profile of Iluvien's efficacy over time at month 24. In FAME, the efficacy (as measured by mean change in BVCA letter score) in patients without prior cataract surgery (eg, phakic eyes) bottomed in month 18, then resumed rising from months 18-24, potentially with this dip due to cataract formation and the rise following cataract surgeries. In a subset of FAME patients, efficacy rose significantly from months 24-30 (phakic and pseudophakic eyes combined), but FDA may want to assess the full patient population out to month 36 to see how the efficacy persists, and if the safety data provides for an acceptable risk-benefit ratio over the corresponding period as more drug is administered over the longer timeframe.

(2) FDA is seeking additional information regarding controls and specifications concerning the manufacturing, packaging and sterilization of Iluvien.

ALIM believes it can readily provide this information and it will not impact the approval timeline.

(3) FDA has observed deficiencies in current good manufacturing practices (cGMP) at facilities of 2 of 3 of ALIM's third party manufacturers.

Of the three issues cited, this is perhaps the most opaque for investors, and the one least in ALIM's control. According to ALIM, the cGMP deficiencies are not specific to Iluvien. However, ALIM has not provided any specifics on the nature of the issues, the timeline to resolve them, or which 2 of its 3 suppliers have deficiencies. ALIM does not have backup suppliers readily available, so resolution of the deficiencies will be critical to Iluvien's launch.

Based on the limited information available, we are assuming that the cGMP issues are resolvable in parallel with the submittal and approval of the 36 month FAME data, and will not impede a 1Q12 launch. Should any new information on the manufacturing issues come to light, we would need to reassess these assumptions.

Impact on Our Model and Valuation

We have moved our estimated launch date from 1Q:2011 to 1Q:2012. This revision assumes an ALIM meeting with FDA by the end of 1Q11, followed by a six month class 2 review leading to an approval as early as end of 3Q11, and allows for modest delays and time between approval and launch. Our model changes are summarized in the following section. In addition we have reduced our estimated probability of success for Iluvien from 75% to 65%. Combined, these changes reduce our DCF-based target price from $16 to $13.

Cash Liquidity

The delay to Iluvien's launch will extend ALIM's period of negative operating cash flow. We estimate that ALIM will turn cash flow positive in 2Q12, and that the company will need approximately $5 MM of external financing in 1Q12. It should be able to obtain this financing via its $20 MM line of credit (secured against Iluvien accounts receivable). If ALIM is not able to launch Iluvien by 1Q12, it may need to seek equity financing.

Updated Financial Model

Below is a summary of changes to our model.

Exhibit 1: Credit Suisse Model Changes for Alimera
in thousands except EPS, unless otherwise stated

	1Q10A	2Q10A	3Q10A	4Q10E	FY 2010E	1Q11E	2Q11E	3Q11E	4Q11E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Total Net Sales														
Old	0	0	0	0		12,211	19,721	26,290	30,978	89,199	191,412	263,739	445,448	559,511
Revised	0	0	0	0	0	0	0	0	0	0	126,568	220,049	288,758	470,448
Change	0	0	0	0	0	(12,211)	(19,721)	(26,290)	(30,978)	(89,199)	(64,844)	(43,690)	(156,689)	(89,064)
Gross Margin														
Old						11,736	17,411	22,551	26,219	77,917	158,082	214,976	356,809	446,903
Revised	0	0	0	0	0	0	0	0	0	0	108,582	180,789	234,294	377,197
Change	0	0	0	0	0	(11,736)	(17,411)	(22,551)	(26,219)	(77,917)	(49,500)	(34,187)	(122,515)	(69,706)
R&D Expense														
Old	3,065	4,140	3,276	3,000	13,481	1,391	1,660	2,591	2,725	8,367	13,231	16,451	17,846	19,380
Revised	3,065	4,140	3,276	3,000	13,481	1,000	1,000	1,000	1,000	4,000	6,700	15,500	16,800	18,230
Change	0	0	0	0	0	(391)	(660)	(1,591)	(1,725)	(4,367)	(6,531)	(951)	(1,046)	(1,150)
Marketing Expense														
Old	247	379	1,583	5,000	7,209	7,500	6,500	6,500	6,500	27,000	27,000	27,000	24,200	26,620
Revised	247	379	1,583	1,700	3,909	1,700	1,700	1,700	5,000	10,100	33,000	27,000	24,200	26,620
Change	0	0	0	(3,300)	(3,300)	(5,800)	(4,800)	(4,800)	(1,500)	(16,900)	6,000	0	0	0
Sales Force Expense														
Old	0	0	0	1,056	1,056	3,413	3,413	3,413	3,413	13,650	14,333	15,049	15,802	16,592
Revised	0	0	0	0	0	0	0	0	1,109	1,109	14,333	15,049	15,802	16,592
Change	0	0	0	(1,056)	(1,056)	(3,413)	(3,413)	(3,413)	(2,303)	(12,541)	0	0	0	0
G&A Expense														
Old	904	1,174	1,260	1,364	4,702	1,446	1,468	1,512	1,636	6,062	7,275	8,584	9,958	11,551
Revised	904	1,174	1,260	1,364	4,702	1,446	1,468	1,512	1,636	6,062	7,275	8,584	9,958	11,551
Change	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBIT														
Old	(4,216)	(5,693)	(6,119)	(10,420)	(26,448)	(2,747)	3,188	6,958	10,086	17,486	84,758	132,067	262,277	339,190
Revised	(4,216)	(5,693)	(6,119)	(6,064)	(22,092)	(4,146)	(4,168)	(4,212)	(8,745)	(21,271)	39,680	101,453	150,209	275,978
Change	0	0	0	4,356	4,356	(1,400)	(7,356)	(11,170)	(18,832)	(38,757)	(45,078)	(30,615)	(112,067)	(63,212)
Net income from cont. ops.														
Old	($4,688)	($5,823)	($6,082)	($10,461)	($27,054)	($2,900)	$1,748	$4,060	$5,998	$8,905	$51,615	$81,067	$161,584	$209,202
Revised	(4,688)	(5,823)	(6,082)	(6,105)	(22,698)	(4,280)	(4,309)	(4,357)	(8,880)	(21,826)	23,965	62,208	92,576	170,057
Change	$0	$0	$0	$4,356	$4,356	($1,380)	($6,056)	($8,417)	($14,878)	($30,731)	($27,650)	($18,859)	($69,008)	($39,145)
EPS														
Old	($4.37)	($0.27)	($0.20)	($0.34)	($1.37)	($0.09)	$0.05	$0.12	$0.18	$0.27	$1.53	$2.36	$4.63	$5.88
Revised	($4.37)	($0.27)	($0.20)	($0.20)	($1.17)	($0.14)	($0.14)	($0.14)	($0.28)	($0.70)	$0.71	$1.81	$2.65	$4.78
Change	$0.00	$0.00	$0.00	($0.14)	$0.20	($0.04)	($0.19)	($0.26)	($0.46)	($0.97)	($0.82)	($0.55)	($1.98)	($1.10)

Source: Company data, Credit Suisse estimates

Exhibit 2: Alimera Summary of Revenue Model
in thousands, unless otherwise stated

	FY 2007	FY 2008	FY 2009	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Treatable Population									
Diagnosed diabetic population	17,900,000	18,347,500	18,806,188	19,276,342	19,758,251	20,252,207	20,758,512	21,277,475	21,809,412
Growth rate									
Annual incidence of DME (CSME)	232,700	238,518	244,480	250,592	256,857	263,279	269,861	276,607	283,522
% of diagnosed diabetics	*1.30%*	*1.30%*	*1.30%*	*1.30%*	*1.30%*	*1.30%*	*1.30%*	*1.30%*	*1.30%*
Effectively treated by laser	(69,810)	(71,555)	(73,344)	(75,178)	(77,057)	(78,984)	(80,958)	(82,982)	(85,057)
percentage	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*	*30.0%*
New patients available	162,890	166,962	171,136	175,415	179,800	184,295	188,902	193,625	198,466
Treatable population, year end			**500,989**	**513,513**	**526,351**	**539,510**	**552,998**	**566,823**	**580,993**
(assumed = trailing 3 yrs incidence)									
Iluvien									
Market share					0.0%	2.5%	5.5%	8.5%	12.5%
Total patients					-	13,488	30,415	48,180	72,624
Total units sold					-	18,292	31,502	40,889	67,243
Price per unit (net)					$6,750	$6,750	$6,750	$6,750	$6,750
Net US sales					**$0**	**$123,468**	**$212,641**	**$276,000**	**$453,888**
Assumed retreatment rates									
Bilateral disease (second eye)					40%	40%	40%	40%	40%
Second treatment					50%	50%	50%	50%	50%
Third treatment					25%	25%	25%	25%	25%

Source: Company data, Credit Suisse estimates

Exhibit 3: **Alimera Income Statement Forecast**

n thousands, unless otherwise stated

	FY 2007	FY 2008	FY 2009	2010E 1Q10A	2Q10A	3Q10A	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Iluvien - US									$0	$123,468	$212,641	$276,000	$453,888
Iluvien - ROW royalty (based on below sales)									$0	$3,100	$7,408	$12,758	$16,560
Total net sales									**$0**	**$126,568**	**$220,049**	**$288,758**	**$470,448**
Iluvien - ROW sales										$15,500	$37,040	$63,792	$82,800
% of prior year's US sales										NA	30%	30%	30%
COGS									0	4,573	7,876	10,222	16,811
Profit Sharing										13,414	31,384	44,242	76,440
Gross margin									**0**	**108,582**	**180,789**	**234,294**	**377,197**
R&D Expense	8,363	13,964	15,057	3,065	4,140	3,276	3,000	13,481	4,000	6,700	15,500	16,800	18,230
Marketing Expense	969	1,259	752	247	379	1,583	1,700	3,909	10,100	33,000	27,000	24,200	26,620
Sales Force Expense	0	0	0	0	0	0	0	0	1,109	14,333	15,049	15,802	16,592
Logistics	0	0	0	0	0	0	0	0	0	7,594	13,203	17,325	28,227
G&A	3,184	3,758	3,407	904	1,174	1,260	1,364	4,702	6,062	7,275	8,584	9,958	11,551
Total SG&A	4,153	5,017	4,159	1,151	1,553	2,843	3,064	8,611	17,271	62,201	63,836	67,285	82,989
Total expenses	12,516	18,981	19,216	4,216	5,693	6,119	6,064	22,092	21,271	68,901	79,336	84,085	101,219
Operating Income/EBIT	**(12,516)**	**(18,981)**	**(19,216)**	**(4,216)**	**(5,693)**	**(6,119)**	**(6,064)**	**($22,092)**	**($21,271)**	**$39,680**	**$101,453**	**$150,209**	**$275,978**
Interest Income	1,079	585	37	$2	$14	$37	$14	67	151	24	129	565	989
Interest Expense	(2)	(1,514)	(1,897)	(474)	(144)	0	(55)	(673)	(705)	(673)	(266)	0	0
Pretax Income/(Loss)	($11,439)	($19,910)	($21,076)	($4,688)	($5,823)	($6,082)	($6,105)	($22,698)	($21,826)	$39,031	$101,315	$150,775	$276,967
Tax Expense/(benefit), fully taxed					0	0	0	0	0	15,066	39,108	58,199	106,909
Net income from continuing operations	**($11,439)**	**($19,910)**	**($21,076)**	**($4,688)**	**($5,823)**	**($6,082)**	**($6,105)**	**($22,698)**	**($21,826)**	**$23,965**	**$62,208**	**$92,576**	**$170,057**
Benefl Conv Feature of Pfd Stock			(355)										
Preferred stock accretion	(248)	(718)	(623)	(359)	(107)			(466)					
Preferred stock dividends	(4,685)	(6,573)	(7,225)	(2,025)	(613)	0	0	(2,638)	0	0	0	0	0
Net income to common	**($16,372)**	**($27,201)**	**($29,279)**	**($7,072)**	**($6,543)**	**($6,082)**	**($6,105)**	**($25,802)**	**($21,826)**	**$23,965**	**$62,208**	**$92,576**	**$170,057**
Wtd Avg Shares (diluted)	*1,500*	*1,510*	*1,517*	*1,619*	*24,293*	*31,146*	*31,185*	*22,061*	*31,200*	*33,759*	*34,331*	*34,893*	*35,554*
Earnings per Share (diluted)	**($10.92)**	**($18.01)**	**($19.30)**	**($4.37)**	**($0.27)**	**($0.20)**	**($0.20)**	**($1.17)**	**($0.70)**	**$0.71**	**$1.81**	**$2.65**	**$4.78**
Margins & Growth													
Margin Analysis													
ROW royalty, % of sales										20.0%	20.0%	20.0%	20.0%
Gross margin, excl profit share										96.4%	96.4%	96.5%	96.4%
Gross margin										**85.8%**	**82.2%**	**81.1%**	**80.2%**
Rsch & Devel. % sales										5.3%	7.0%	5.8%	3.9%
Marketing % sales										26.1%	12.3%	8.4%	5.7%
Sales force % sales										11.3%	6.8%	5.5%	3.5%
Logistics % sales										6.0%	6.0%	6.0%	6.0%
G&A % sales										5.7%	3.9%	3.4%	2.5%
Total SG&A % sales										49.1%	29.0%	23.3%	17.6%
EBIT margin										**31.4%**	**46.1%**	**52.0%**	**58.7%**
Effective tax rate									38.6%	38.6%	38.6%	38.6%	38.6%
Net margin										18.9%	28.3%	32.1%	36.1%
Growth Analysis													
Net sales											**73.9%**	**31.2%**	**62.9%**
Gross margin											66.5%	29.6%	61.0%
Research & Development									(70.3%)	67.5%	10.0%	10.0%	10.0%
Marketing		29.9%	(40.3%)					419.8%	158.4%	226.7%	(18.2%)	(10.4%)	10.0%
Sales force									#DIV/0!	1192.3%	5.0%	5.0%	5.0%
Logistics											73.9%	31.2%	62.9%
G&A		18.0%	(9.3%)					38.0%	28.9%	20.0%	18.0%	16.0%	16.0%
Total SG&A		20.8%	(17.1%)					107.0%	100.6%	260.1%	2.6%	5.4%	23.3%
EBIT									**(3.7%)**	**(286.5%)**	**155.7%**	**48.1%**	**83.7%**
Net income									(15.4%)	(209.8%)	159.6%	48.8%	83.7%
Earnings per Share											**155.3%**	**46.4%**	**80.3%**

Source: Company data, Credit Suisse estimates

Exhibit 4: **Alimera Balance Sheet Forecast**

n thousands, unless otherwise stated

	FY 2008	FY 2009	2010 1Q10A	2Q10A	3Q10A	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
ASSETS												
Current Assets												
Cash & cash equivalents	$17,875	$4,858	$14,178	$45,635	$14,711	$60,934	$60,934	$14,171	$25,762	$113,047	$197,721	$337,309
Investments				14,544	39,966	0	0	0	0	0	0	0
Accounts receivable								0	40,405	55,012	72,190	117,612
Inventory					0	0	0	850	1,969	2,556	4,203	4,724
Prepaid Expenses	1,593	634	751	1,112	833	697	697	767	844	928	1,021	1,123
Prelaunch Costs Receivable - pSivida								1,740	0	0	0	0
Other current assets		815	1,093									
Total current assets	$19,468	$6,307	$16,022	$61,291	$55,510	$61,631	$61,631	$17,528	$68,979	$171,543	$275,134	$460,768
Long-term Assets												
Property and Equipment, net	796	254	229	237	262	244	244	202	168	148	133	123
Deferred tax assets				0	0	0	0	0	43,595	4,487	0	0
Other assets								$25,000	$22,500	$20,000	$17,500	$15,000
TOTAL ASSETS	**$20,264**	**$6,561**	**$16,251**	**$61,528**	**$55,772**	**$61,875**	**$61,875**	**$42,730**	**$135,242**	**$196,178**	**$292,767**	**$475,891**
LIABILITIES AND EQUITY												
Current Liabilities												
Accounts Payable & Accrued Interest	$1,575	$1,758	$2,841	$1,457	$1,517	$6,064	$6,064	$7,636	$13,063	$16,072	$17,071	$21,157
Accrued Expenses	2,308	3,314	2,258	2,498	2,980	3,645	3,645	5,833	9,332	4,371	4,836	5,769
Outsourced Services Payable	1,024	1,157	1,440	1,240	798	798	798	798	798	798	798	798
Note Payable		4,500	6,000	0	0	0	0	0	0	0	0	0
Capital Lease Obligations	10	6	5	10	10	0	0	0	0	0	0	0
Total Current Liabilities	$4,917	$10,735	$12,544	$5,205	$5,305	$10,507	$10,507	$14,267	$23,193	$21,241	$22,705	$27,724
Long-term Liabilities												
Note Payable, less Current Portion	15,000	10,500	9,000	0	0	6,250	6,250	5,093	2,315	0	0	0
Capital Lease Obligations	6											
Profit Share Payable to pSivida								0	4,606	7,846	11,060	19,110
Fair Value of Pfd Stk Conv Feature	12,656	36,701	36,907	0	0	0	0	0	0	0	0	0
Other Long-term Liabilities	555	708	524	25	23	779	779	857	942	697	33	31
Total Long-term Liabilities	28,217	47,909	46,431	25	23	7,029	7,029	5,949	7,863	8,543	11,094	19,141
Preferred Stock												
Series A Redeemable Preferred Stock	34,199	36,467	37,026									
Series B Redeemable Preferred Stock	37,963	40,617	41,271									
Series C Redeemable Preferred Stock	30,855	33,452	34,092									
Series C-1 Redeemable Preferred Stock		2,853	11,382									
Total Preferred Stock	103,017	113,389	123,771									
Shareholders' Equity												
Common Stock	51	54	56	351	351	351	351	351	351	351	351	351
Add'l Paid-in Capital	3,474	4,836	5,090	232,412	232,640	232,640	232,640	232,640	232,640	232,640	232,640	232,640
Series C-1 Preferred Warrants		1,472	0	0	0	0	0	0	0	0	0	0
Common Stock Warrants	58	57	57	54	54	54	54	54	54	54	54	54
Retained Earnings/(deficit)	(119,470)	(171,891)	(171,698)	(176,519)	(182,601)	(188,706)	(188,706)	(210,531)	(128,859)	(66,652)	25,924	195,981
Total shareholders' equity	(115,887)	(165,472)	(166,495)	56,298	50,444	44,339	44,339	22,514	104,186	166,393	258,969	429,026
TOTAL LIABILITIES & EQUITY	**$20,264**	**$6,561**	**$16,251**	**$61,528**	**$55,772**	**$61,875**	**$61,875**	**$42,730**	**$135,242**	**$196,178**	**$292,767**	**$475,891**

Source: Company data, Credit Suisse estimates

Exhibit 5: **Alimera Cash Flow Statement Forecast**

n thousands, unless otherwise stated

			2010									
	FY 2008	FY 2009	1Q10	2Q10E	3Q10	4Q10	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
STATEMENT OF CASH FLOWS												
Net income/(loss)	($61,464)	($44,218)	$2,577	($4,101)	($6,082)	($6,105)	($13,711)	($21,826)	$81,672	$62,208	$92,576	$170,057
Income from Discontinued Operations			(4,000)				(4,000)					
Depreciation & Amortization	241	1,098	$48	$47	$50	$50	195	212	224	230	235	240
Change in Fair Value of Pfd Stk Conv Feature	10,454	23,142	(3,265)	(379)	0		(3,644)					
Stock Compensation Expense	750	551	108	271	188		567					
Noncash R&D Expense/Investment loss	17,809	300		5	(9)		(4)					
Noncash gain on extinguishment of debt				(1,343)			(1,343)					
Change in Current Assets:												
Decr/(Incr) in Accounts Receivable			0	0	0	0	0	0	(40,405)	(14,607)	(17,177)	(45,422)
Decr/(Incr) in Inventory			0	0	0	0	0	(850)	(1,119)	(587)	(1,647)	(521)
Decr/(Incr) in Prepaid Expenses	(1,213)	591	(118)	(481)	279	136	(184)	(70)	(77)	(84)	(93)	(102)
Decr/(Incr) in Prelaunch Costs Recvbl			0	0	0	0	0	(1,740)	1,740	0	0	0
Decr/(Incr) in Other Curr. Assets				0	0	0	0	0	0	0	0	0
Change in Current Liabilities:												
Incr/(decr) in Accounts Payable	615	183	962	(1,025)	294	4,547	4,778	1,573	5,427	3,009	999	4,086
Incr/(decr) in Accr. Exps. & Other Curr. Liabs.	85	705	(767)	675	39	655	602	2,187	3,500	(4,961)	465	933
Change in Other Assets & Liabilities:												
Decr/(Incr) in defd tax assets			0	0	0	0	0	0	(43,595)	39,108	4,487	0
Decr/(Incr) in other long-term assets	24		0	0	0	0	0	(25,000)	2,500	2,500	2,500	2,500
Incr/(Decr) in other long-term liabs.	540	153	(184)	186	0	756	758	78	86	(245)	(664)	(3)
Incr/(decr) in profit split payable			0	0	0	0	0	0	4,606	3,240	3,214	8,049
Cash from Discontinued Operations	43	(43)										
Cash from Operating Activities	**($32,116)**	**($17,538)**	**($4,639)**	**($6,145)**	**($5,241)**	**$39**	**($15,986)**	**($45,435)**	**$14,559**	**$89,810**	**$84,894**	**$139,818**
Sale/(Purchase) of Investments				($14,550)	($25,412)	$39,966	$4	$0	$0	$0	$0	$0
Purchase of PP&E	(640)	(65)	($23)	(24)	(74)	(32)	(153)	(170)	(190)	(210)	(220)	(230)
Net cash used in investing activs of cont ops			(23)	(14,574)	(25,486)	39,934	(149)	(170)	(190)	(210)	(220)	(230)
Net cash provided by investing activs of discont ops			4,000				4,000					
Cash from Investing Activities	**(640)**	**($65)**	**$3,977**	**($14,574)**	**($25,486)**	**$39,934**	**$3,851**	**($170)**	**($190)**	**($210)**	**($220)**	**($230)**
Increase/(Decr.) in Note Payable			0	(15,000)	0	6,250	(8,750)	(1,157)	(2,778)	(2,315)	0	0
Proceeds from Series C Stock Offering	29,938						0					
Proceeds from Series C-1 Stock Offering		4,897					0					
Proceeds from Exercise of Stock Options		7		20	8		28					
Repurchase of Common Stock	(150)						0					
Proceeds from Common Stock Offering				68,395	0		68,395					
Proceeds from Exercise of C-1 Warrants	6	31	9,998	(1)	0		9,997					
Proceeds from Exercise of Common Warrants			148	310	31		489					
Deferred Offering Costs		(339)	(163)	(1,545)	(234)		(1,942)					
Payments on Capital Lease Obligations	(10)	(10)	(1)	(3)	(2)		(6)					
Cash from Financing Activities	**$29,784**	**$4,586**	**$9,982**	**$52,176**	**($197)**	**$6,250**	**$68,211**	**($1,157)**	**($2,778)**	**($2,315)**	**$0**	**$0**
Net Increase/(Decrease) in Cash	**($2,972)**	**($13,017)**	**$9,320**	**$31,457**	**($30,924)**	**$46,223**	**$56,076**	**($46,763)**	**$11,591**	**$87,285**	**$84,674**	**$139,588**
Cash at beginning of year	20,847	17,875	$4,858	$14,178	$45,635	$14,711	$4,858	60,934	14,171	25,762	113,047	197,721
Cash at end of year	**$17,875**	**$4,858**	**$14,178**	**$45,635**	**$14,711**	**$60,934**	**$60,934**	**$14,171**	**$25,762**	**$113,047**	**$197,721**	**$337,309**

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 24 Dec 10)*
Alimera Sciences (ALIM, $11.22, OUTPERFORM [V], TP $13.00)

Disclosure Appendix

Important Global Disclosures

I, Michael Faerm, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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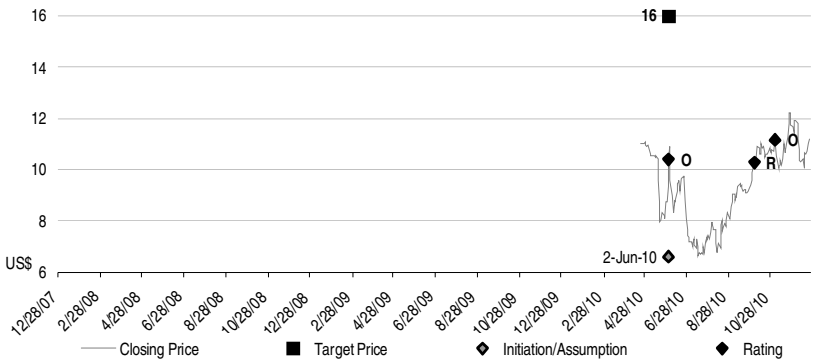
3-Year Price, Target Price and Rating Change History Chart for ALIM

ALIM Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
6/2/10	10.41	16	O	X
10/4/10	10.27		R	
11/4/10	11.15		O	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Restricted	2%	

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Price Target: (12 months) for (ALIM)

Method: Our $13 target price for ALIM is based on a discounted cash flow analysis (DCF). We have estimated ALIM's future cash flows by forecasting the company's income statement, balance sheet and cash flows through 2020 (the year of patent expiration), and by assuming a fading of cash flows to zero by 2030, with no terminal value. We have used this methodology because we believe that the vast majority of ALIM's value is attributable to a a single product, Iluvien, with a finite commercial life. We have applied a 65% probability of success adjustment to our cash flow estimates to account for the risks to approval and launch of the Iluvien. We have used a 12% discount rate for our DCF, applied to the probability-adjusted cash flows. Our ALIM revenue forecast is based on our estimates for the addressable patient population in diabetic macular edema, and our assumption that Iluvien will achieve a peak penetration rate of 15%.

Risks: Risks to our $13 target price include: (1) single product risk (ALIM's value is virtually entirely attributable to Iluvien, and the company's near to medium term revenues, profits and value depend on the FDA's approval and Alimera's successful commercialization of Iluvien in diabetic macular edema. There is little visibility on additional indications for Iluvien or on the new product pipeline; (2) regulatory risk to timely Iluvien approval, due to missed statistical significance on the MART data set, the possibility that the FDA may wait for 3 year FAME data before issuing an approval decision, and the the possibility that FDA may not grant priority review; (3) commercial risk, due to the presence of several established treatments for DME and competing companies that are better-capitalized and have a longer-standing presence in the ophthalmology community than ALIM; (4) liquidity and financing risk, due to the potential need for ALIM to raise additional funds, particularly if Iluvien approval is delayed beyond the expected December 2010; and (5) reimbursement risk, as securing reimbursement from payors is crucial to Iluvien's success and the fact that Iluvien will compete against some relatively inexpensive products.

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