

December 27, 2010

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$14.00
ALIM - NASDAQ \$11.22

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$12.70-\$6.30
Shares Outstanding 31.2M
Float 25.8M
Market Capitalization \$349.9M
Avg. Daily Trading Volume 84,703
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	(0.20)A	(0.20)A	(0.22)	(0.82)	NM
2011E	--	--	--	--	(0.69)	NM
Prior (E)	--	--	--	--	2.30	4.9x
2012E	--	--	--	--	1.86	6.0x
Prior (E)	--	--	--	--	2.73	4.1x

HEALTHCARE/BIOTECHNOLOGY

Alimera Sciences

Iluvien CRL a Real Setback, but Long-Term Potential Remains Intact

SUMMARY

On 12/23, ALIM received an FDA complete response letter (CRL), delaying approval of Iluvien for diabetic macular edema (DME). Importantly, the FDA did not request an additional trial, suggesting the agency did not find major inadequacies with the ph.III FAME trials. The agency requested full 36-mo. FAME data, and we believe these results will likely be consistent with the positive 24-mo. results. Based on our discussions with ALIM, we believe the new data analyses, and resolution of outstanding manufacturing issues, should be completed for a late 1Q11 NDA refiling. Although the CRL is a real setback, we would buy ALIM on significant weakness, as we believe Iluvien will likely be approved by 4Q11. Reducing PT to \$14 from \$16.

KEY POINTS

- **The FDA is apparently looking for consistency between 24-mo. and 36-mo. FAME results.** Importantly, a completers analysis showed visual acuity results improved from 24 to 30 mos. We would expect this trend to continue over 36-mos. While an ITT analysis will likely show somewhat diminished efficacy, we expect Iluvien's benefit/risk profile will remain compelling.
- **We expect near-term resolution of the cGMP issues raised by the FDA.** According to ALIM, the company's third-party suppliers have already made initial progress toward addressing the FDA's concerns. Based on this, we believe manufacturing issues are unlikely to derail Iluvien's approval.
- **ALIM expects to resubmit the Iluvien NDA late 1Q11, and we project 4Q11 approval.** ALIM will meet the FDA in February to discuss the CRL, and the company expects to have the full 36-mo. FAME results available by then. Based on this, we believe a 4Q11 approval timeline is reasonable.
- **Physician enthusiasm should remain high.** Based on results from our recent survey, we believe ophthalmologists have a very positive stance on Iluvien. We do not believe the issues raised in the CRL would have any negative impact on physician perception, and continue to expect a strong launch following approval.

Stock Price Performance

Company Description

Alimera Sciences is a biopharmaceutical company focused on the research, development, and commercialization of ophthalmic pharmaceuticals. 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.

Oppenheimer & Co. Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. See "Important Disclosures and Certifications" section at the end of this report for important disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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

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

Eric Chang
212-667-6557
eric.chang@opco.com

Changes to Our Model

Following the FDA's CRL, we have adjusted our US sales estimates to reflect a later launch. Our 2010 EPS estimate remains the same. For 2011-2017 our new EPS estimates are (\$0.69), \$1.86, \$2.55, \$3.08, \$3.96, \$5.06, and \$5.99, respectively, vs. our prior estimates of \$2.30, \$2.73, \$3.13, \$3.64, \$4.40, \$5.32 and \$6.18, respectively.

Alimera Sciences Statement of Operations 2009A-2017E

Amounts in thousands, except per-share figures

	2010									Prior						
	2009A	1QA	2QA	3QA	4QE	Prior 4QE	2010E	Prior 2010E	2011E	Prior 2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues:																
Iluvien U.S. sales	-	-	-	-	-	-	-	-	6,358	139,876	149,271	215,487	283,640	369,173	465,565	554,242
Iluvien Ex-U.S. revenues	-	-	-	-	-	-	-	-	-	-	13,020	32,550	44,221	56,048	68,976	81,296
Total operating revenue	-	-	-	-	-	-	-	-	6,358	139,876	162,291	248,037	327,861	425,221	534,542	635,538
Operating expenses:																
Cost of goods	-	-	-	-	-	-	-	-	318	6,994	7,464	10,774	14,182	18,459	23,278	27,712
Payment to pSivida for Iluvien	-	-	-	-	-	-	-	-	827	18,184	24,344	42,166	59,015	76,540	96,217	114,397
Research & development	15,057	3,065	4,140	3,276	3,000	3,000	13,481	13,481	8,000	8,000	10,000	13,000	13,650	14,333	15,049	15,802
Selling, general & administrative	4,159	1,151	1,553	2,843	4,500	4,500	10,047	10,047	22,606	22,606	36,169	45,212	56,514	70,643	74,175	77,884
Total operating expenses	19,216	4,216	5,693	6,119	7,500	7,500	23,528	23,528	31,750	55,783	77,976	111,152	143,361	179,974	208,720	235,794
Income (Loss) from operations	(19,216)	(4,216)	(5,693)	(6,119)	(7,500)	(7,500)	(23,528)	(23,528)	(25,392)	84,093	84,314	136,885	184,500	245,247	325,822	399,743
Other income (expense)	(1,860)	(472)	872	37	96	96	533	533	327	988	1,027	2,749	5,520	10,803	16,034	22,722
Pretax income (loss)	(21,076)	(4,688)	(4,821)	(6,082)	(7,404)	(7,404)	(22,995)	(22,995)	(25,065)	85,080	85,342	139,634	190,020	256,050	341,856	422,466
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-	12,801	34,909	57,006	76,815	102,557	126,740
Net income (loss)(2)	(21,076)	(4,688)	(4,821)	(6,082)	(7,404)	(7,404)	(22,995)	(22,995)	(25,065)	85,080	72,540	104,726	133,014	179,235	239,299	295,726
Basic & diluted net loss per share	(\$0.86)	(\$0.21)	(\$0.20)	(\$0.20)	(\$0.22)	(\$0.22)	(\$0.82)	(\$0.82)	(\$0.69)	\$2.30	\$1.86	\$2.55	\$3.08	\$3.96	\$5.06	\$5.99
Basic common shares outstanding (1)	22,496	22,496	24,293	31,146	33,646	33,646	27,895	27,895	36,146	36,146	38,146	40,146	42,146	44,146	46,146	48,146
Diluted common shares outstanding	22,496	22,496	24,293	31,146	33,646	33,646	27,895	27,895	37,046	37,046	39,096	41,146	43,196	45,246	47,296	49,346

(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	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	5.7%	6.2%	5.2%	4.2%	3.4%	2.8%	2.5%
SG&A as percent of revenue	NM	NM	NM	NM	NM	NM	NM	NM	NM	16.2%	22.3%	18.2%	17.2%	16.6%	13.9%	12.3%
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	60.1%	52.0%	55.2%	56.3%	57.7%	61.0%	62.9%
Pretax margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	60.8%	52.6%	56.3%	58.0%	60.2%	64.0%	66.5%
Profit margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	60.8%	44.7%	42.2%	40.6%	42.2%	44.8%	46.5%
Tax rate	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 likely be approved by the FDA and the EMA in late 2011. Following approval, Iluvien should become an important treatment for DME, a serious complication of diabetes that can lead to blindness. We currently estimate peak worldwide Iluvien sales of more than \$900 million.

Price Target Calculation

Our new 12-18 month price target of \$14 is based on 12x our probability adjusted 2014E EPS of \$1.83, discounted 3 years at 15%. We believe this multiple is appropriate compared to specialty pharma peer companies.

Key Risks to Price Target

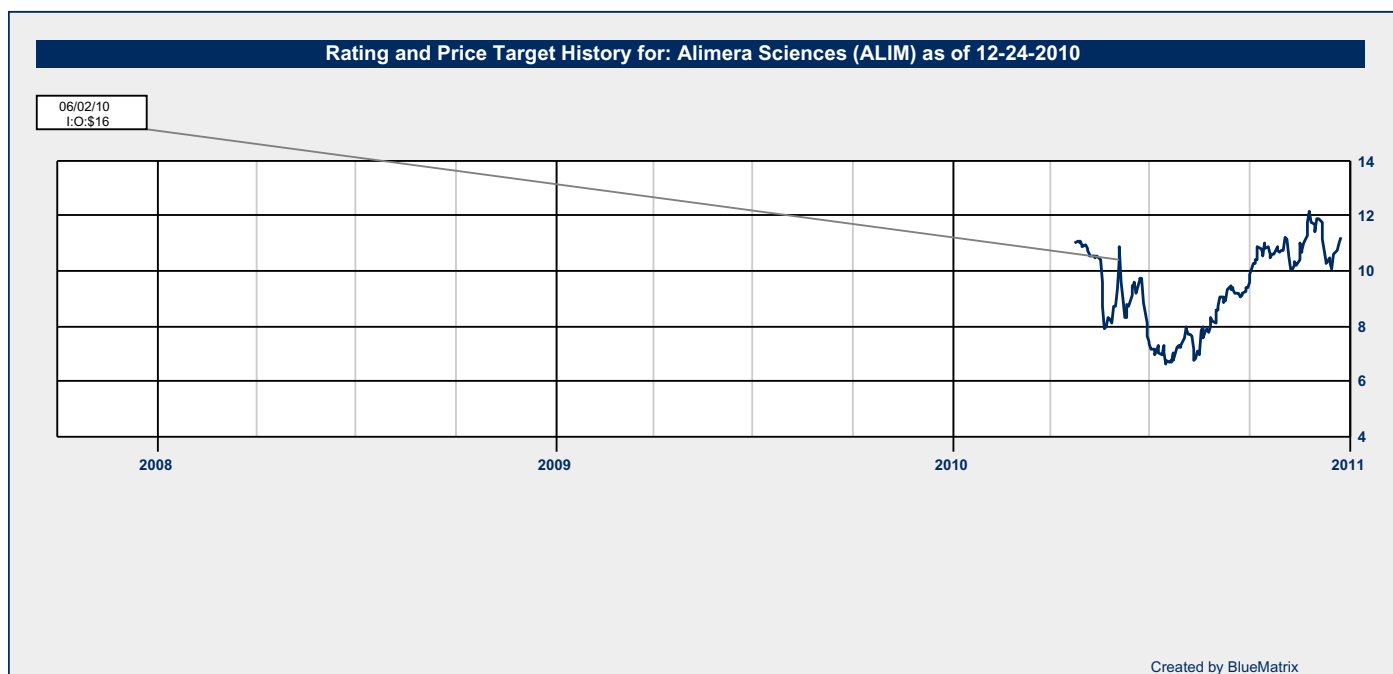
Key risks to our price target include, but are not limited to, failure to gain FDA or EMA approval of Iluvien in diabetic macular edema, difficulty commercializing Iluvien in the US following potential approval, an inability to find a partner to commercialize Iluvien in Europe, and an inability to raise 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

Rating	Count	IB Serv/Past 12 Mos.		Count	Percent
		Percent	Count		
OUTPERFORM [O]	334	50.50	135	40.42	
PERFORM [P]	311	47.00	86	27.65	
UNDERPERFORM [U]	16	2.40	3	18.75	

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.

This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Oppenheimer & Co. Inc. Copyright © Oppenheimer & Co. Inc. 2010.