

## Alimera Sciences (ALIM)

### FORECAST INCREASE

Rating	<b>OUTPERFORM*</b> [V]
Price (12 Aug 10, US\$)	6.80
Target price (US\$)	16.00 <sup>1</sup>
52-week price range	11.06 - 6.62
Market cap. (US\$ m)	224.40
Enterprise value (US\$ m)	199.22

\*Stock ratings are relative to the relevant country benchmark.

<sup>1</sup>Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

#### Research Analysts

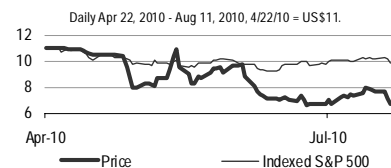
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## FDA Review Remains the Priority; 2Q10 Earnings a Non-Event

- **Pending FDA decisions continue to overshadow near term operating results.** Alimera's 2Q10 earnings report was not a material event. The primary 2010 stock drivers remain FDA's priority review decision, expected in late August (60 days post ALIM's NDA submittal announced on June 29), and a late December action date assuming priority review.
- **2Q10 EPS was 7 cents above our estimate**, coming in at -\$0.27 excluding nonrecurring items (see Exhibit 1). The difference was mainly due to lower R&D expense than anticipated (\$4.1 MM versus our \$4.8 MM). GAAP EPS was -\$0.20, which benefited by \$0.07 from two nonrecurring items: \$1.3 MM gain due to early repayment of the pSivida note (resulting in reversal of accruals for interest expense), and \$0.4 MM gain from a decrease in fair value of preferred stock.
- **We continue to like the stock for three main reasons:** (1) Diabetic Macular Edema (DME) is a large, underserved market; (2) Iluvien has a differentiated product profile with demonstrated clinical advantages; and (3) Alimera's leverageable commercial model can potentially achieve high margins and rapid profitability.
- **Modest EPS estimate increases due to reduced R&D expense.** Our EPS estimates are raised as follows, primarily due to trimming of our R&D expense estimates: 2010 from -\$1.58 to -\$1.51; 2011 from \$0.26 to \$0.36, and 2012 from \$1.51 to \$1.56.
- **Valuation and rating unchanged:** We maintain our Outperform rating with a target price of \$16, based on discounted cash flow analysis (DCF).

#### Share price performance



On 08/11/10 the S&P 500 index closed at 1089.47

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	—	—	—	—
2010E	-4.37	-0.27	-0.26	-0.38
2011E	0.00	0.03	0.14	0.18

#### Financial and valuation metrics

Year	12/09A	12/10E	12/11E	12/12E
EPS (CS adj.) (US\$)	-19.30	-1.51	0.36	1.56
Prev. EPS (US\$)	—	-1.58	0.26	1.51
P/E (x)	NM	NM	19.0	4.3
P/E rel. (%)	NM	NM	172.3	44.7
Revenue (US\$ m)	—	—	96.5	197.7
EBITDA (US\$ m)	-18.1	-29.9	22.4	90.5
OCFPS (US\$)	-11.56	-2.09	-0.08	2.18
P/OCF (x)	—	-3.3	-86.5	3.1
EV/EBITDA (current)	-12.9	-6.7	9.0	1.4
Net debt (US\$ m)	10	-25	-22	-98
ROIC (%)	—	—	—	—
Number of shares (m)	33.00	IC (12/09A, US\$ m)	—	—
BV/share (current, US\$)	1.8	EV/IC (x)	—	—
Net debt (current, US\$ m)	-45.6	Dividend (12/09A, US\$)	—	—
Net debt/tot. cap. (%) (12/09A,	—	Dividend yield (%)	—	—

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse 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.

## 2Q:2010 Variance Analysis

### Exhibit 1: Alimera 2Q10 Variance Analysis

in thousands, unless otherwise stated

	2Q 2010		
	CS Forecast	Reported	VARIANCE
R&D Expense	\$4,800	\$4,140	(\$660)
Marketing Expense	500	379	(121)
G&A	<u>899</u>	<u>1,174</u>	<u>275</u>
Total expenses	<u>6,199</u>	<u>5,693</u>	<u>(506)</u>
<b>Operating Income/EBIT</b>	<b><u>(\$6,199)</u></b>	<b><u>(\$5,693)</u></b>	<b><u>\$506</u></b>
Interest Income	11	14	3
Interest Expense	(158)	(144)	14
Pretax Income/(Loss)	(6,347)	(5,823)	524
<b>Net income from continuing operations</b>	<b><u>(\$6,347)</u></b>	<b><u>(\$5,823)</u></b>	<b><u>\$524</u></b>
Benefl Conv Feature of Pfd Stock	0	0	0
Preferred stock accretion	(120)	(107)	13
Preferred stock dividends	<u>(675)</u>	<u>(613)</u>	<u>62</u>
Net income to common	(7,141)	(6,543)	598
Wtd Avg Shares (diluted)	21,251	24,293	3,043
<b>Earnings per Share</b>	<b><u>(\$0.34)</u></b>	<b><u>(\$0.27)</u></b>	<b><u>\$0.07</u></b>
(excluding non-recurring items)			
<u>Non-recurring items</u>			
Incr/(Decr) in Fair Value of Pfd Stk Conversion Feature	0	379	379
Income from discount. ops.	0	0	0
Early Extinguishment of Debt	<u>0</u>	<u>1,343</u>	<u>1,343</u>
Net income to common including non-recurring items (GAAP net income)	(7,141)	(4,821)	2,320
<b>GAAP EPS</b>	<b><u>(\$0.34)</u></b>	<b><u>(\$0.20)</u></b>	<b><u>\$0.14</u></b>

Source: Company data, Credit Suisse estimates

# Summary of Model Changes and Revised Model

## Exhibit 2: Credit Suisse Model Changes for Alimera

in thousands, unless otherwise stated

	1Q10A	2Q10A	3Q10E	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
<b>R&amp;D Expense</b>										
Old	3,065	4,800	4,600	4,500	16,965	21,200	22,815	24,847	27,081	29,539
Revised	<u>3,065</u>	<u>4,140</u>	<u>4,200</u>	<u>4,200</u>	<u>15,605</u>	<u>13,679</u>	<u>17,530</u>	<u>20,536</u>	<u>22,339</u>	<u>24,323</u>
Change	0	(660)	(400)	(300)	(1,360)	(7,521)	(5,285)	(4,311)	(4,742)	(5,216)
<b>Marketing Expense</b>										
Old	247	500	2,000	5,000	7,747	24,000	23,800	22,640	18,522	19,448
Revised	<u>247</u>	<u>379</u>	<u>2,000</u>	<u>5,000</u>	<u>7,626</u>	<u>27,000</u>	<u>26,800</u>	<u>26,780</u>	<u>23,958</u>	<u>26,354</u>
Change	0	(121)	0	0	(121)	3,000	3,000	4,140	5,436	6,906
<b>G&amp;A Expense</b>										
Old	904	899	974	970	3,748	4,497	5,397	6,368	7,387	8,569
Revised	<u>904</u>	<u>1,174</u>	<u>974</u>	<u>695</u>	<u>3,748</u>	<u>4,497</u>	<u>5,397</u>	<u>6,368</u>	<u>7,387</u>	<u>8,569</u>
Change	0	275	0	(275)	0	0	0	0	0	0
<b>EBIT</b>										
Old	(4,216)	(6,199)	(8,549)	(12,495)	(31,460)	14,710	85,016	133,530	259,174	338,762
Revised	<u>(4,216)</u>	<u>(5,693)</u>	<u>(8,149)</u>	<u>(11,920)</u>	<u>(29,979)</u>	<u>19,830</u>	<u>87,901</u>	<u>134,529</u>	<u>259,567</u>	<u>338,453</u>
Change	0	506	400	575	1,481	5,121	2,885	999	393	(309)
<b>Net income from cont. ops.</b>										
Old	(\$4,688)	(\$6,347)	(\$8,501)	(\$12,452)	(\$31,988)	\$8,726	\$52,302	\$82,258	\$159,666	\$208,929
Revised	<u>(4,688)</u>	<u>(5,823)</u>	<u>(8,134)</u>	<u>(11,905)</u>	<u>(30,551)</u>	<u>12,198</u>	<u>54,096</u>	<u>82,900</u>	<u>159,931</u>	<u>208,761</u>
Change	\$0	\$524	\$367	\$546	\$1,437	\$3,472	\$1,794	\$642	\$265	(\$167)
<b>EPS</b>										
Old	(\$4.37)	(\$0.34)	(\$0.27)	(\$0.40)	(\$1.58)	\$0.26	\$1.51	\$2.32	\$4.41	\$5.63
Revised	<u>(\$4.37)</u>	<u>(\$0.27)</u>	<u>(\$0.26)</u>	<u>(\$0.38)</u>	<u>(\$1.51)</u>	<u>\$0.36</u>	<u>\$1.56</u>	<u>\$2.34</u>	<u>\$4.42</u>	<u>\$5.62</u>
Change	\$0.00	\$0.07	\$0.01	\$0.02	\$0.07	\$0.10	\$0.05	\$0.02	\$0.01	(\$0.00)

Source: Company data, Credit Suisse estimates

**Exhibit 3: Alimera Summary of U.S. 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
<b><u>Treatable Population</u></b>									
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
<b>Treatable population, year end</b> <i>(assumed = trailing 3 yrs incidence)</i>			<b>500,989</b>	<b>513,513</b>	<b>526,351</b>	<b>539,510</b>	<b>552,998</b>	<b>566,823</b>	<b>580,993</b>
<b><u>Iluvien</u></b>									
Market share					2.0%	5.0%	8.0%	12.0%	15.0%
Total patients					10,527	26,975	44,240	68,019	87,149
Total units sold					14,276	28,977	38,574	64,048	80,327
Price per unit (net)					\$6,750	\$6,750	\$6,750	\$6,750	\$6,750
<b>Net US sales</b>					<b>\$96,366</b>	<b>\$195,596</b>	<b>\$260,374</b>	<b>\$432,321</b>	<b>\$542,210</b>
<b><u>Assumed retreatment rates</u></b>									
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 4: Alimera Income Statement Forecast**  
*n thousands, unless otherwise stated*

	FY 2007	FY 2008	FY 2009	1Q10A	2Q10A	3Q10E	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
Iluvien - US									\$96,366	\$195,596	\$260,374	\$432,321	\$542,210
Iluvien - ROW royalty (based on below sales)									\$100	\$2,074	\$7,824	\$10,415	\$17,293
<b>Total net sales</b>									<b>\$96,466</b>	<b>\$197,669</b>	<b>\$268,197</b>	<b>\$442,736</b>	<b>\$559,503</b>
Iluvien - ROW sales										\$10,368	\$39,119	\$52,075	\$86,464
% of prior year's US sales										11%	20%	20%	20%
COGS									3,569	7,244	9,643	16,012	20,082
Profit Sharing									9,502	27,707	40,358	72,323	92,836
<b>Gross margin</b>									<b>83,395</b>	<b>162,718</b>	<b>218,196</b>	<b>354,401</b>	<b>446,585</b>
R&D Expense	8,363	13,964	15,057	3,065	4,140	4,200	4,200	15,605	13,679	17,530	20,536	22,339	24,323
Marketing Expense	969	1,259	752	247	379	2,000	5,000	7,626	27,000	26,800	26,780	23,958	26,354
Sales Force Expense	0	0	0	0	0	975	2,025	3,000	12,600	13,230	13,892	14,586	15,315
Logistics	0	0	0	0	0	0	0	0	5,788	11,860	16,092	26,564	33,570
G&A	3,184	3,758	3,407	904	1,174	974	695	3,748	4,497	5,397	6,368	7,387	8,569
Total SG&A	4,153	5,017	4,159	1,151	1,553	3,949	7,720	14,374	49,885	57,287	63,131	72,495	83,808
Total expenses	12,516	18,981	19,216	4,216	5,693	8,149	11,920	29,979	63,564	74,817	83,667	94,835	108,132
<b>Operating Income/EBIT</b>	<b>(12,516)</b>	<b>(18,981)</b>	<b>(19,216)</b>	<b>(4,216)</b>	<b>(5,693)</b>	<b>(8,149)</b>	<b>(11,920)</b>	<b>(\$29,979)</b>	<b>\$19,830</b>	<b>\$87,901</b>	<b>\$134,529</b>	<b>\$259,567</b>	<b>\$338,453</b>
Interest Income	1,079	585	37	\$2	\$14	\$15	\$15	46	36	204	488	908	1,548
Interest Expense	(2)	(1,514)	(1,897)	(474)	(144)	0	0	(618)	0	0	0	0	0
Pretax Income/(Loss)	(\$11,439)	(\$19,910)	(\$21,076)	(\$4,688)	(\$5,823)	(\$8,134)	(\$11,905)	(\$30,551)	\$19,866	\$88,105	\$135,016	\$260,475	\$340,002
Tax Expense/(benefit), fully taxed				0	0	0	0	0	7,668	34,009	52,116	100,543	131,241
<b>Net income from continuing operations</b>	<b>(\$11,439)</b>	<b>(\$19,910)</b>	<b>(\$21,076)</b>	<b>(\$4,688)</b>	<b>(\$5,823)</b>	<b>(\$8,134)</b>	<b>(\$11,905)</b>	<b>(\$30,551)</b>	<b>\$12,198</b>	<b>\$54,096</b>	<b>\$82,900</b>	<b>\$159,931</b>	<b>\$208,761</b>
Benefit 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
<b>Net income to common</b>	<b>(\$16,372)</b>	<b>(\$27,201)</b>	<b>(\$29,279)</b>	<b>(\$7,072)</b>	<b>(\$6,543)</b>	<b>(\$8,134)</b>	<b>(\$11,905)</b>	<b>(\$33,655)</b>	<b>\$12,198</b>	<b>\$54,096</b>	<b>\$82,900</b>	<b>\$159,931</b>	<b>\$208,761</b>
Wtd Avg Shares (diluted)	1,500	1,510	1,517	1,619	24,293	31,061	31,068	22,221	34,002	34,575	35,412	36,199	37,126
<b>Earnings per Share (diluted)</b>	<b>(\$10.92)</b>	<b>(\$18.01)</b>	<b>(\$19.30)</b>	<b>(\$4.37)</b>	<b>(\$0.27)</b>	<b>(\$0.26)</b>	<b>(\$0.38)</b>	<b>(\$1.51)</b>	<b>\$0.36</b>	<b>\$1.56</b>	<b>\$2.34</b>	<b>\$4.42</b>	<b>\$5.62</b>

**Margins & Growth****Margin Analysis**

Margin Analysis													
ROW royalty, % of sales										20.0%	20.0%	20.0%	20.0%
Gross margin, excl profit share										96.3%	96.4%	96.4%	96.4%
Gross margin										86.5%	82.3%	81.4%	80.0%
Rsch & Devel. % sales										14.2%	8.9%	7.7%	5.0%
Marketing % sales										28.0%	13.6%	10.0%	5.4%
Sales force % sales										13.1%	6.7%	5.2%	3.3%
Logistics % sales										6.0%	6.0%	6.0%	6.0%
G&A % sales										4.7%	2.7%	2.4%	1.7%
Total SG&A % sales										51.7%	29.0%	23.5%	16.4%
EBIT margin										20.6%	44.5%	50.2%	58.6%
Effective tax rate										38.6%	38.6%	38.6%	38.6%
Net margin										12.6%	27.4%	30.9%	36.1%

**Growth Analysis**

<b>Net sales</b>										<b>104.9%</b>	<b>35.7%</b>	<b>65.1%</b>	<b>26.4%</b>
Gross margin										95.1%	34.1%	62.4%	26.0%
Research & Development									(12.3%)	28.1%	10.0%	10.0%	10.0%
Marketing		29.9%	(40.3%)						254.1%	(0.7%)	(0.1%)	(10.5%)	10.0%
Sales force									320.0%	5.0%	5.0%	5.0%	5.0%
Logistics										104.9%	35.7%	65.1%	26.4%
G&A		18.0%	(9.3%)					10.0%	20.0%	20.0%	18.0%	16.0%	16.0%
Total SG&A		20.8%	(17.1%)						247.1%	14.8%	10.2%	14.8%	15.6%
<b>EBIT</b>									<b>(166.1%)</b>	<b>343.3%</b>	<b>53.0%</b>	<b>92.9%</b>	<b>30.4%</b>
Net income									(136.2%)	343.5%	53.2%	92.9%	30.5%
<b>Earnings per Share</b>										<b>336.1%</b>	<b>49.6%</b>	<b>88.7%</b>	<b>27.3%</b>

Source: Company data, Credit Suisse estimates

**Exhibit 5: Alimera Balance Sheet Forecast***n thousands, unless otherwise stated*

	FY 2008	FY 2009	1Q10A	2Q10A	3Q10E	4Q10E	FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
<b>ASSETS</b>												
<b>Current Assets</b>												
Cash & cash equivalents	\$17,875	\$4,858	\$14,178	\$45,635	\$44,804	\$25,176	\$25,176	\$22,352	\$97,565	\$181,624	\$309,685	\$502,494
Investments				14,544	14,544	0	0	0	0	0	0	0
Accounts receivable								30,699	56,978	67,049	110,684	139,876
Inventory					0	663	663	1,564	2,411	4,003	5,020	4,292
Prepaid Expenses	1,593	634	751	1,112	680	697	697	767	844	928	1,021	1,123
Prelaunch Costs Receivable - pSivida								1,183	0	0	0	0
Other current assets		815	1,093									
Total current assets	\$19,468	\$6,307	\$16,022	\$61,291	\$60,028	\$26,537	\$26,537	\$56,565	\$157,798	\$253,605	\$426,411	\$647,785
<b>Long-term Assets</b>												
Property and Equipment, net	796	254	229	237	260	281	281	354	410	457	493	520
Deferred tax assets				0	0	0	0	45,370	11,362	0	0	0
Other assets						25,000	25,000	22,500	20,000	17,500	15,000	12,500
<b>TOTAL ASSETS</b>	<b>\$20,264</b>	<b>\$6,561</b>	<b>\$16,251</b>	<b>\$61,528</b>	<b>\$60,288</b>	<b>\$51,818</b>	<b>\$51,818</b>	<b>\$124,789</b>	<b>\$189,569</b>	<b>\$271,562</b>	<b>\$441,903</b>	<b>\$660,805</b>
<b>LIABILITIES AND EQUITY</b>												
<b>Current Liabilities</b>												
Accounts Payable & Accrued Interest	\$1,575	\$1,758	\$2,841	\$1,457	\$7,174	\$9,895	\$9,895	\$12,951	\$15,590	\$17,444	\$20,062	\$23,204
Accrued Expenses	2,308	3,314	2,258	2,498	3,000	3,645	3,645	5,833	9,332	4,371	4,836	5,808
Outsourced Services Payable	1,024	1,157	1,440	1,240	1,240	1,240	1,240	1,240	1,240	1,240	1,240	1,240
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	\$11,424	\$14,781	\$14,781	\$20,024	\$26,162	\$23,055	\$26,138	\$30,252
<b>Long-term Liabilities</b>												
Note Payable, less Current Portion	15,000	10,500	9,000	0	0	0	0	0	0	0	0	0
Capital Lease Obligations	6											
Profit Share Payable to pSivida								3,185	7,645	10,090	18,081	23,209
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	700	779	779	857	942	697	33	932
Total Long-term Liabilities	28,217	47,909	46,431	25	700	779	779	4,042	8,587	10,787	18,114	24,141
<b>Preferred Stock</b>												
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									
<b>Shareholders' Equity</b>												
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	232,412	232,412	232,412	232,412	232,412	232,412	232,412	232,412
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)	(184,653)	(196,559)	(196,559)	(132,094)	(77,997)	4,903	164,834	373,595
Total shareholders' equity	(115,887)	(165,472)	(166,495)	56,298	48,164	36,258	36,258	100,723	154,820	237,720	397,651	606,412
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$20,264</b>	<b>\$6,561</b>	<b>\$16,251</b>	<b>\$61,528</b>	<b>\$60,288</b>	<b>\$51,818</b>	<b>\$51,818</b>	<b>\$124,789</b>	<b>\$189,569</b>	<b>\$271,562</b>	<b>\$441,903</b>	<b>\$660,805</b>

Source: Company data, Credit Suisse estimates

**Exhibit 6: Alimera Cash Flow Statement Forecast***n thousands, unless otherwise stated*

	FY 2008	FY 2009	2010				FY 2010E	FY 2011E	FY 2012E	FY 2013E	FY 2014E	FY 2015E
			1Q10	2Q10E	3Q10	4Q10						
<b>STATEMENT OF CASH FLOWS</b>												
Net income/(loss)	(\$61,464)	(\$44,218)	\$2,577	(\$4,101)	(\$8,134)	(\$11,905)	(\$21,564)	\$64,465	\$54,096	\$82,900	\$159,931	\$208,761
Income from Discontinued Operations			(4,000)				(4,000)					
Depreciation & Amortization	241	1,098	\$48	\$14	\$15	\$16	93	77	94	102	114	123
Change in Fair Value of Pfd Stk Conv Feature	10,454	23,142	(3,265)	(379)			(3,644)					
Stock Compensation Expense	750	551	108				108					
Noncash R&D Expense	17,809	300										
Noncash gain on extinguishment of debt				(1,343)			(1,343)					
<b>Change in Current Assets:</b>												
Decr/(Incr) in Accounts Receivable			0	0	0	0	0	(30,699)	(26,279)	(10,072)	(43,635)	(29,192)
Decr/(Incr) in Inventory			0	0	0	(663)	(663)	(900)	(847)	(1,592)	(1,017)	729
Decr/(Incr) in Prepaid Expenses	(1,213)	591	(118)	(361)	432	(17)	(64)	(70)	(77)	(84)	(93)	(102)
Decr/(Incr) in Prelaunch Costs Recvbl			0	0	0	0	0	(1,183)	1,183	0	0	0
Decr/(Incr) in Other Curr. Assets				1,093	0	0	1,093	0	0	0	0	0
<b>Change in Current Liabilities:</b>												
Incr/(decr) in Accounts Payable	615	183	962	(1,384)	5,717	2,721	8,016	3,056	2,639	1,854	2,618	3,142
Incr/(decr) in Accr. Exps. & Other Curr. Liab.	85	705	(767)	45	502	635	415	2,187	3,500	(4,961)	465	972
<b>Change in Other Assets &amp; Liabilities:</b>												
Decr/(Incr) in defd tax assets			0	0	0	0	0	(45,370)	34,009	11,362	0	0
Decr/(Incr) in other long-term assets	24		0	0	0	(25,000)	(25,000)	2,500	2,500	2,500	2,500	2,500
Incr/(Decr) in other long-term liab.	540	153	(184)	(499)	675	79	71	78	86	(245)	(664)	898
Incr/(decr) in profit split payable			0	0	0	0	0	3,185	4,460	2,444	7,991	5,128
Cash from Discontinued Operations	43	(43)										
<b>Cash from Operating Activities</b>	<b>(\$32,116)</b>	<b>(\$17,538)</b>	<b>(\$4,639)</b>	<b>(\$6,915)</b>	<b>(\$793)</b>	<b>(\$34,135)</b>	<b>(\$46,482)</b>	<b>(\$2,674)</b>	<b>\$75,363</b>	<b>\$84,209</b>	<b>\$128,211</b>	<b>\$192,960</b>
Sale/(Purchase) of Investments				(\$14,544)	\$0	\$14,544	\$0	\$0	\$0	\$0	\$0	\$0
Purchase of PP&E	(640)	(65)	(\$23)	(25)	(38)	(38)	(123)	(150)	(150)	(150)	(150)	(150)
Net cash used in investing activs of cont ops			(23)	(14,569)	(38)	14,507	(123)	(150)	(150)	(150)	(150)	(150)
Net cash provided by investing activs of discount ops			4,000				4,000					
<b>Cash from Investing Activities</b>	<b>(640)</b>	<b>(65)</b>	<b>\$3,977</b>	<b>(\$14,569)</b>	<b>(\$38)</b>	<b>\$14,507</b>	<b>\$3,877</b>	<b>(\$150)</b>	<b>(\$150)</b>	<b>(\$150)</b>	<b>(\$150)</b>	<b>(\$150)</b>
Increase/(Decr.) in Note Payable			0	(15,000)	0	0	(15,000)	0	0	0	0	0
Proceeds from Series C Stock Offering	29,938											
Proceeds from Series C-1 Stock Offering		4,897										
Proceeds from Exercise of Stock Options		7										
Repurchase of Common Stock	(150)											
Proceeds from Common Stock Offering				67,941			67,941					
Proceeds from Exercise of C-1 Warrants	6	31	9,998				9,998					
Proceeds from Exercise of Common Warrants			148				148					
Deferred Offering Costs		(339)	(163)				(163)					
Payments on Capital Lease Obligations	(10)	(10)	(1)				(1)					
<b>Cash from Financing Activities</b>	<b>\$29,784</b>	<b>\$4,586</b>	<b>\$9,982</b>	<b>\$52,941</b>	<b>\$0</b>	<b>\$0</b>	<b>\$62,923</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Net Increase/(Decrease) in Cash</b>	<b>(\$2,972)</b>	<b>(\$13,017)</b>	<b>\$9,320</b>	<b>\$31,457</b>	<b>(\$831)</b>	<b>(\$19,628)</b>	<b>\$20,318</b>	<b>(\$2,824)</b>	<b>\$75,213</b>	<b>\$84,059</b>	<b>\$128,061</b>	<b>\$192,810</b>
Cash at beginning of year	20,847	17,875	\$4,858	\$14,178	\$45,635	\$44,804	\$4,858	25,176	22,352	97,565	181,624	309,685
<b>Cash at end of year</b>	<b>\$17,875</b>	<b>\$4,858</b>	<b>\$14,178</b>	<b>\$45,635</b>	<b>\$44,804</b>	<b>\$25,176</b>	<b>\$25,176</b>	<b>\$22,352</b>	<b>\$97,565</b>	<b>\$181,624</b>	<b>\$309,685</b>	<b>\$502,494</b>

Source: Company data, Credit Suisse estimates

**Companies Mentioned** (Price as of 12 Aug 10)

Alimera Sciences (ALIM, \$6.80, OUTPERFORM [V], TP \$16.00)

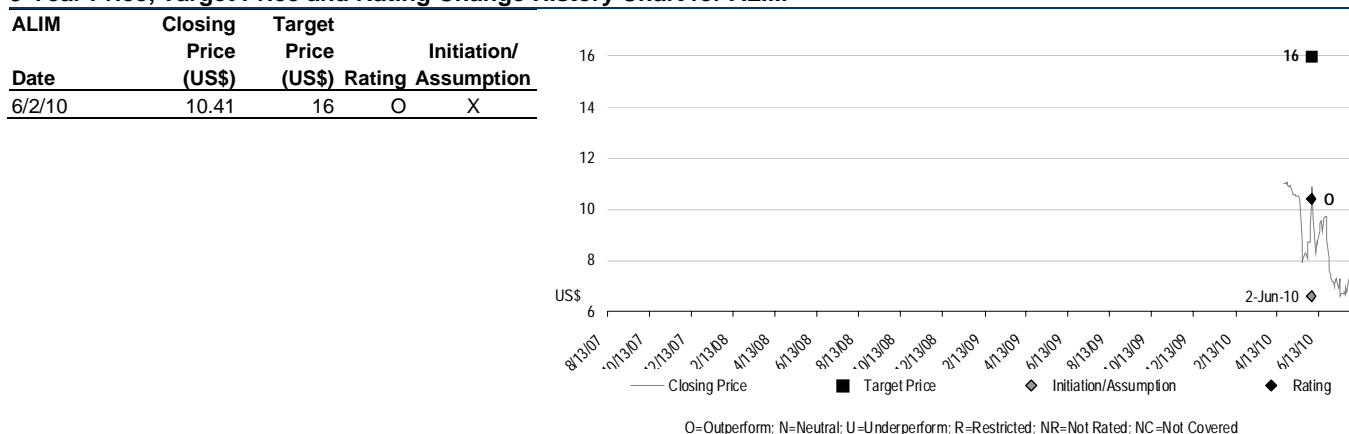
## Disclosure Appendix

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



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**Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.



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**Price Target:** (12 months) for (ALIM)

**Method:** Our \$16 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 single product, Iluvien, with a finite commercial life. We have applied a 75% 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 \$16 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 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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