

November 5, 2010

Market Outperform / Aggressive Risk

Waiting for NDA approval...

#### MARKET DATA Intraday - 11/5/2010

Price	\$10.91
Exchange	NASDAQ
Target Price	\$13.00
52 Wk Hi - Low	\$11.49 - \$6.30
Market Cap(MM)	\$339.7
EV(MM)	\$285.1
Shares Out (MM)	31.1
Public Mkt Float (MM)	7.1
Avg. Daily Vol	39,207.0
Short Interest	643,436.00

#### BALANCE SHEET METRICS

Cash (MM)	\$4.9
Debt/Capital	NA
Cash/Share	NA
Book Value(MM)	NA
Book Value/Share	\$1.62

#### EARNINGS DATA (\$)

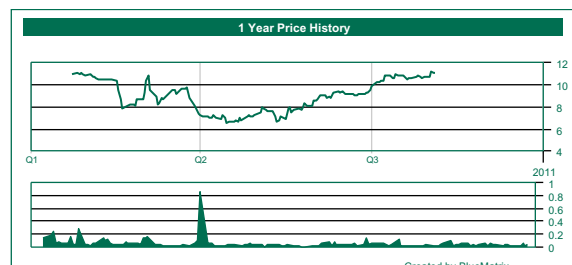
FY - Dec	2011E	2012E	2013E
Q1 (Mar)	--	(0.06)	0.04
Q2 (Jun)	(0.11)	(0.04)	0.13
Q3 (Sep)	(0.10)	(0.01)	0.19
Q4 (Dec)	(0.14)	(0.02)	0.28
Full Year EPS	(0.56)	(0.09)	0.64
Revenue (MM)	16.4	47.8	81.0

#### VALUATION METRICS

Price/Earnings	NM	NM	17.0x
EV/Revenue	17.4x	6.0x	3.5x

#### INDICES

DJIA	11,416.7
SP-500	1,221.1
NASDAQ	2,182.3
NBI	924.1



#### Key Takeaways from Q3 Call

- Since the company will not be generating revenues for at least 2 more quarters, we focus only on the qualitative aspects of the story for now.
- Top line 36-month FAME study data to be presented in Q1-11.
- \$32.5 million credit line secured in October 2011.
- Contract organization called OnCall hired for bringing on sales reps post FDA approval. Twenty nine reps to be hired eventually.
- Safety update was provided to the FDA in October. Company expects to hear back before the end of the year.
- Current capacity of 100,000 is sufficient to help the company through significant commercialization ramp-up of Illuvien.

#### Valuation

We maintain our Market OutPerform rating and \$13 PT. Our PT is based on our DCF analysis given peak Illuvien sales of \$250 million in 2015, a long-term growth rate of 4% and a discount rate of 14%.

#### Risks

Regulatory Risk. Market Risk. Competitive Risk.

**ALIMERA****Suraj Kalia, CFA****Quarterly Income Statement**

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Fiscal year ends Dec 31

212-430-1747

Numbers in \$000, except per share

	PROJECTED																				
	Q2-11E	Q3-11E	Q4-11E	FY11E	Q1-12E	Q2-12E	Q3-12E	Q4-12E	FY12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	FY13E	Q1-14E	Q2-14E	Q3-14E	Q4-14E	FY14E	FY15E	FY16E
<b>Total Revenue</b>	\$4,455	\$4,658	\$7,290	<b>\$16,403</b>	\$11,250	\$11,700	\$12,177	\$12,628	<b>\$47,754</b>	\$13,419	\$19,719	\$20,309	\$27,560	<b>\$81,007</b>	\$31,215	\$32,070	\$33,319	\$34,185	<b>\$130,789</b>	<b>\$173,044</b>	<b>\$250,370</b>
<b>COGS</b>	\$668	\$699	\$1,094	<b>\$2,460</b>	\$1,800	\$1,872	\$1,948	\$2,020	<b>\$7,641</b>	\$2,281	\$3,352	\$3,453	\$4,685	<b>\$13,771</b>	\$5,307	\$5,452	\$5,664	\$5,811	<b>\$22,234</b>	<b>\$29,417</b>	<b>\$42,563</b>
<b>Gross Profit</b>	\$3,787	\$3,959	\$6,197	<b>\$13,942</b>	\$9,450	\$9,828	\$10,228	\$10,607	<b>\$40,113</b>	\$11,138	\$16,367	\$16,857	\$22,875	<b>\$67,236</b>	\$25,908	\$26,618	\$27,655	\$28,374	<b>\$108,555</b>	<b>\$143,626</b>	<b>\$207,807</b>
Operating Expenses:																					
R&D	\$2,450	\$2,562	\$4,010	<b>\$11,171</b>	\$3,938	\$4,095	\$3,653	\$3,157	<b>\$14,842</b>	\$2,684	\$2,958	\$2,031	\$2,756	<b>\$10,429</b>	\$3,122	\$3,207	\$3,332	\$3,419	<b>\$13,079</b>	<b>\$17,304</b>	<b>\$25,037</b>
S&M	\$3,341	\$3,260	\$5,103	<b>\$14,705</b>	\$5,063	\$4,680	\$4,262	\$4,167	<b>\$18,171</b>	\$4,428	\$5,521	\$4,671	\$6,063	<b>\$20,684</b>	\$5,619	\$5,773	\$5,997	\$6,153	<b>\$23,542</b>	<b>\$31,148</b>	<b>\$42,563</b>
G&A	\$1,300	\$1,315	\$1,350	<b>\$5,215</b>	\$1,375	\$1,400	\$1,425	\$1,445	<b>\$5,645</b>	\$1,475	\$1,500	\$1,515	\$1,525	<b>\$6,015</b>	\$1,551	\$1,560	\$1,575	\$1,595	<b>\$6,281</b>	<b>\$6,350</b>	<b>\$6,500</b>
Royalties to PSDV	\$0	\$0	\$0	<b>\$0</b>	\$878	\$1,030	\$1,193	\$1,288	<b>\$4,388</b>	\$1,342	\$2,169	\$2,437	\$3,362	<b>\$9,310</b>	\$4,058	\$4,169	\$4,331	\$4,444	<b>\$17,003</b>	<b>\$22,496</b>	<b>\$33,049</b>
<b>Total OpEX</b>	\$7,092	\$7,137	\$10,463	<b>\$31,091</b>	\$11,253	\$11,205	\$10,533	\$10,057	<b>\$43,047</b>	\$9,929	\$12,148	\$10,654	\$13,707	<b>\$46,438</b>	\$14,349	\$14,709	\$15,236	\$15,611	<b>\$59,904</b>	<b>\$77,298</b>	<b>\$107,149</b>
<b>Operating Income</b>	(\$3,305)	(\$3,178)	(\$4,266)	<b>(\$17,149)</b>	(\$1,803)	(\$1,377)	(\$305)	\$550	<b>(\$2,934)</b>	\$1,209	\$4,218	\$6,203	\$9,168	<b>\$20,798</b>	\$11,559	\$11,909	\$12,419	\$12,763	<b>\$48,650</b>	<b>\$66,328</b>	<b>\$100,658</b>
Other Inc (Exp):																					
Investment Income	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Total Other Inc	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Pretax Income	(\$3,305)	(\$3,178)	(\$4,266)	<b>(\$17,149)</b>	(\$1,803)	(\$1,377)	(\$305)	\$550	<b>(\$2,934)</b>	\$1,209	\$4,218	\$6,203	\$9,168	<b>\$20,798</b>	\$11,559	\$11,909	\$12,419	\$12,763	<b>\$48,650</b>	<b>\$66,328</b>	<b>\$100,658</b>
Provision for Taxes	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$3,468	\$3,573	\$3,726	\$3,829	<b>\$14,595</b>	<b>\$26,531</b>	<b>\$40,263</b>
Milestone Pmt - PSDV	\$0	\$0	\$0	<b>(\$25,000)</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0	\$0	\$0	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Net Income</b>	(\$3,305)	(\$3,178)	(\$4,266)	<b>(\$17,149)</b>	(\$1,803)	(\$1,377)	(\$305)	\$550	<b>(\$2,934)</b>	\$1,209	\$4,218	\$6,203	\$9,168	<b>\$20,798</b>	\$8,092	\$8,337	\$8,693	\$8,934	<b>\$34,055</b>	<b>\$39,797</b>	<b>\$60,395</b>
<b>Basic / Diluted Sh</b>	30,800	30,950	31,000	<b>30,875</b>	31,200	31,450	31,500	31,700	<b>31,463</b>	32,150	32,250	32,750	32,800	<b>32,488</b>	<b>33,000</b>	<b>33,025</b>	<b>33,121</b>	<b>33,450</b>	<b>33,149</b>	<b>33,500</b>	<b>34,000</b>
<b>Fully Diluted EPS</b>	(\$0.11)	(\$0.10)	(\$0.14)	<b>(\$0.56)</b>	(\$0.06)	(\$0.04)	(\$0.01)	\$0.02	<b>(\$0.09)</b>	\$0.04	\$0.13	\$0.19	\$0.28	<b>\$0.64</b>	\$0.25	\$0.25	\$0.26	\$0.27	<b>\$1.03</b>	<b>\$1.19</b>	<b>\$1.78</b>
<b>Margins</b>	Q2-11E	Q3-11E	Q4-11E	FY11E	Q1-12E	Q2-12E	Q3-12E	Q4-12E	FY12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	FY13E	Q1-14E	Q2-14E	Q3-14E	Q4-14E	FY14E	FY15E	FY16E
<b>Gross Margin</b>	85.00%	85.00%	85.00%	85.00%	84.00%	84.00%	84.00%	84.00%	84.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%	83.00%
<b>Operating Margin</b>	NM	NM	NM	NM	NM	NM	NM	4.36%	NM	9.01%	21.39%	30.54%	33.27%	25.67%	37.03%	37.14%	37.27%	37.33%	37.20%	38.33%	40.20%
<b>Pretax Margins</b>	NM	NM	NM	NM	NM	NM	NM	0.00%	NM	0.00%	0.00%	0.00%	0.00%	0.00%	11.11%	11.14%	11.18%	11.20%	11.16%	15.33%	16.08%
<b>Net Margin</b>	NM	NM	NM	NM	NM	NM	NM	4.36%	NM	9.01%	21.39%	30.54%	33.27%	25.67%	25.92%	25.99%	26.09%	26.13%	26.04%	23.00%	24.12%
<b>Assumptions</b>	Q2-11E	Q3-11E	Q4-11E	FY11E	Q1-12E	Q2-12E	Q3-12E	Q4-12E	FY12E	Q1-13E	Q2-13E	Q3-13E	Q4-13E	FY13E	Q1-14E	Q2-14E	Q3-14E	Q4-14E	FY14E	FY15E	FY16E
<b>Revenue Growth</b>	-	-	-	-	-	162.63%	161.44%	73.22%	191.14%	19.28%	68.54%	66.79%	118.25%	69.63%	132.62%	62.64%	64.06%	24.04%	61.45%	32.31%	44.69%
<b>R&amp;D as % of Rev</b>	55.00%	55.00%	55.00%	68.11%	35.00%	35.00%	30.00%	25.00%	31.08%	20.00%	15.00%	10.00%	10.00%	12.87%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
<b>S&amp;M as % of Rev</b>	75.00%	70.00%	70.00%	89.65%	45.00%	40.00%	35.00%	33.00%	38.05%	33.00%	28.00%	23.00%	22.00%	25.53%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	17.00%
<b>Tax Rate</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	30.00%	30.00%	30.00%	30.00%	30.00%	40.00%	40.00%

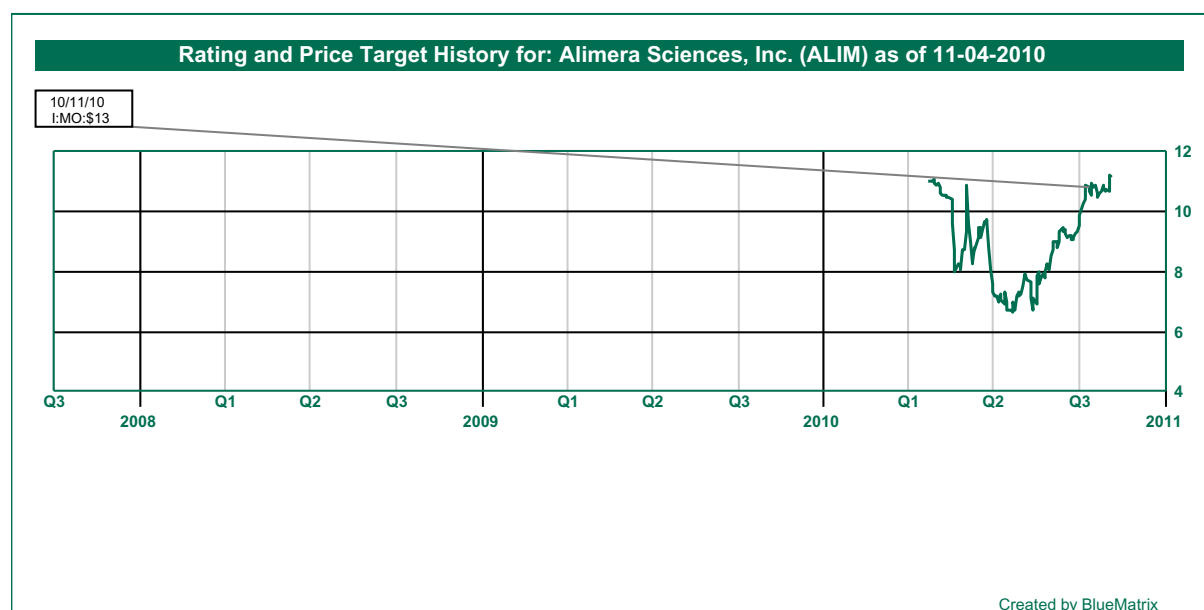
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## RETURN ASSESSMENT

- **Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- **Market Perform (Hold):** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- **Market Underperform (Sell):** The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.

## RISK ASSESSMENT

- **Speculative -** The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- **Aggressive -** The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- **Moderate -** The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.



## RATING SUMMARY

Distribution of Ratings Table				
Rating	Count	Percent	IB Serv./Past 12 Mos	
			Count	Percent
Market Outperform(MO)	171	75.30%	47	27.49%
Market Perform(MP)	46	20.30%	4	8.70%
Market Underperform(MU)	5	2.20%	0	0.00%
Under Review(UR)	5	2.20%	0	0.00%
Total	227	100%	51	100%

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