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Reason for Report:

Earnings Announcement

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	\$14.00
FY11E Rev (mil)	\$18.1	\$15.5
FY12E Rev (mil)	--	\$50.6
FY11E EPS	(\$3.69)	(\$2.74)
FY12E EPS	(\$1.28)	(\$1.82)

Price:	\$8.82
52 Week High:	\$15.34
52 Week Low:	\$6.16
12-Month Price Target:	\$14.00

9x our 2014 EPS est. of \$2.11, disc. at 25%

Shares Out (mil):	17.2
Market Cap. (mil):	\$151.7
Avg Daily Vol (000):	89
Book Value/Share:	\$1.33
Net Cash Per Share:	\$1.43
Debt to Total Capital:	26%
Est LT EPS Growth:	NA
P/E to LT EPS Growth (FY11):	NA
Est Next Rep Date:	11/10/2011
Fiscal Year End:	Dec

Rev (mil)	2010A	2011E	2012E
Mar	NA	\$3.9A	\$6.6E
Jun	NA	\$3.6A	\$10.2E
Sep	NA	\$4.0E	\$15.2E
Dec	\$2.2A	\$4.0E	\$18.6E
FY	\$14.6A	\$15.5E	\$50.6E
CY	\$14.6A	\$15.5E	\$50.6E
FY RM	10.4x	9.8x	3.0x
CY RM	10.4x	9.8x	3.0x

EPS	2010A	2011E	2012E
Mar	NA	(\$0.98)A	(\$0.93)E
Jun	NA	(\$0.51)A	(\$0.37)E
Sep	NA	(\$0.57)E	(\$0.27)E
Dec	(\$12.27)A	(\$0.69)E	(\$0.25)E
FY	(\$47.29)A	(\$2.74)E	(\$1.82)E
CY	(\$47.29)A	(\$2.74)E	(\$1.82)E

FY P/E	NM	NM	NM
CY P/E	NM	NM	NM

For 2010, actuals are reported for 4Q10 and full year, however prior quarters were not broken out

Pacira Pharmaceuticals Overweight

(PCRX - \$8.82)

Confident in Exparel Approval This Fall; National Rollout Planned for 1Q12

CONCLUSION:

This morning, Pacira reported a 2Q11 net loss per share of (\$0.51), slightly wider than our estimate of (\$0.50). Total revenue was \$3.6M, comprised mainly of manufacturing revenue and royalties related to DepoCyte and DepoDur. We remain confident that top driver Exparel (a long-acting formulation of bupivacaine for post-surgical pain) will gain FDA approval around the revised action date of 10/28/11; recall that the FDA requested additional information that PCRX referred to as non-critical. With the potential for Exparel U.S. peak sales of at least \$200M in our view, we believe the risk/reward for PCRX shares, at a market cap of only around \$150M, remains attractive. We reiterate our Overweight rating and \$14 PT.

- **Minor revision to 2011 guidance.** Pacira reiterated expectations for full-year 2011 revenue of \$14-\$16M, which includes supply revenue from DepoCyte and DepoDur, but does not include any contribution from Exparel. PCRX also reiterated its cumulative cash burn guidance of \$30M through 3Q11, however the company also noted that it now expects 4Q11 cash burn to be \$15M, down from its prior guidance of \$25M. PCRX now expects to make a \$10M milestone payment to Skye Pharma related to the first commercial sale of Exparel in 1Q12 versus the prior expectation of 4Q11.
- **More color on Exparel launch plans.** PCRX intends to have a team of 6 sales managers hired by October. Following FDA action, management will begin building a sales force of 60 reps who will initially target approximately 1,200 hospitals. The initial target audience will be plastic surgeons performing breast augmentation and liposuction procedures. The idea here is that these are cash pay customers and PCRX would not need formulary approvals in this setting. Another initial target audience is surgeons using elastomeric bags (a total of up to 1 million procedures), most of which are used to deliver bupivacaine over an extended period. PCRX also plans to have publications available by the time of the launch on health economic outcomes associated with Exparel use compared to conventional opioid use (i.e., demonstrating a reduced opioid burden and fewer post-operative complications associated with opioids).
- **Continue to believe peak sales in excess of \$200M realistic.** Our model reflects Exparel sales of \$216M by 2015 (and our model does not reflect label expansions for nerve block and epidural administration). Further, given the complexities associated with manufacturing liposome-based Exparel, we do not envision a credible generic threat to the product.

INVESTMENT RECOMMENDATION:

We believe the risk/reward profile for PCRX shares is favorable given the value proposition associated with Exparel. We base our \$14 PT on our 2014 EPS estimate of \$2.11 (down from \$2.37), times a P/E of 9x discounted at 25%. for 1.5 years (adjusted from 1.75 years).

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Risks include regulatory and commercial risks associated with Exparel.

COMPANY DESCRIPTION:

Pacira is focused on hospital-based products for pain management.

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2Q11 Summary: Actual Results vs. PJC/Consensus Estimates

<i>\$ in millions, except per share</i>	Actual	PJC Estimates	Consensus ⁽¹⁾
Revenue			
Exparel sales (U.S.)	\$0.0	\$0.0	
Other revenue	\$3.6	\$3.1	
Total Revenues	\$3.6	\$3.1	\$3.5
Expenses			
COGS	\$3.1	\$5.5	
R&D	\$4.4	\$1.6	
SG&A	\$4.7	\$3.6	
Operating Income	(\$8.5)	(\$7.6)	
Net Income	(\$8.8)	(\$8.6)	
EPS	(\$0.51)	(\$0.50)	(\$0.55)
Shares outstanding, diluted	17.2	17.2	

(1) Consensus estimates prior to 2Q11 call

Source: Company reports, First Call, and PJC estimates

Pacira - Upcoming Events

Product/Program	Event	Expected Date
Exparel - wound infiltration	FDA action on filing for the management of post-surgical pain	10/28/2011
Exparel	U.S. commercial launch	1Q12
Exparel - nerve block	Potential sNDA filing Phase II/III studies	2013
Exparel - epidural injection	Advancement into mid-stage clinical studies	2013
DepoMethotrexate	Possible advancement into trials in rheumatoid arthritis	2013
DepoNSAID	Possible advancement into trials for for pain	2013

Abbreviations: NSAID non-steroidal anti-inflammatory drug

Summary of PCRX Projections

<i>\$ in millions, except per share</i>	2011E		2012E		2013E		2014E		2015E	
	Current	Prior	Current	Prior	Current	Prior	Current	Prior	Current	Prior
Revenues										
Exparel sales (U.S.)	\$0	\$2	\$35	\$35	\$87	\$87	\$142	\$142	\$216	\$216
Other revenue	\$15	\$16	\$15	\$15	\$14	\$14	\$15	\$15	\$15	\$15
Total Revenues	\$15	\$18	\$51	\$51	\$100	\$101	\$157	\$157	\$231	\$231
Consensus ⁽¹⁾	\$17		\$53		\$111					
Expenses										
COGS ⁽²⁾	\$14	\$38	\$43	\$33	\$40	\$40	\$42	\$42	\$53	\$53
Research & development	\$17	\$11	\$8	\$3	\$6	\$6	\$6	\$6	\$7	\$7
Selling, general and administrative	\$20	\$21	\$35	\$35	\$42	\$42	\$50	\$49	\$53	\$53
Other income (expense), net	(\$5)	(\$6)	(\$4)	(\$4)	(\$2)	(\$2)	\$1	\$1	\$2	\$2
Operating Income	(\$35)	(\$51)	(\$36)	(\$21)	\$12	\$12	\$58	\$60	\$118	\$118
Net Income	(\$40)	(\$57)	(\$40)	(\$25)	\$10	\$10	\$59	\$61	\$114	\$114
Diluted share count	15.5	15.5	22.4	19.8	27.7	25.3	28.2	25.8	28.7	26.3
EPS	(\$2.74)	(\$3.69)	(\$1.82)	(\$1.28)	\$0.37	\$0.41	\$2.11	\$2.37	\$3.96	\$4.32
Consensus ⁽¹⁾	(\$3.38)		(\$1.81)		\$0.47					

(1) Consensus prior to 2Q11 earnings call

(2) COGS reflect \$10M milestone payment to SkyePharma in 1Q12 related to the Exparel U.S. launch

Source: Company reports and PJC estimates

Pacira - Quarterly and Annual Income Statement

Fiscal Year Ends December 31
(\$ In millions, except for EPS)

	2011E							2012E							
Fiscal Year Ends December 31 (\$ In millions, except for EPS)	2009A	2010A	1QA	2QA	3QE	4QE	2011E	1QE	2QE	3QE	4QE	2012E	2013E	2014E	2015E
Revenues															
Exparel U.S. sales								\$2.9	\$6.4	\$11.4	\$14.7	\$35.4	\$86.6	\$142.5	\$215.5
Exparel ex-U.S. revenue												0.0	0.0	0.0	0.0
(DepoCyte/DepoDur) ⁽¹⁾	10.4	11.3	2.9	2.8	3.1	3.1	11.9	3.2	3.3	3.3	3.4	13.2	13.9	14.6	15.3
Milestone revenue/other ⁽²⁾	4.6	3.2	0.9	0.9	0.9	0.9	3.6	0.5	0.5	0.5	0.5	2.0	0.0	0.0	0.0
Total revenue	\$15.0	\$14.6	\$3.9	\$3.6	\$4.0	\$4.0	\$15.5	\$6.6	\$10.2	\$15.2	\$18.6	\$50.6	\$100.5	\$157.0	\$230.8
Cost of sales ⁽³⁾	12.3	12.3	3.7	3.1	3.4	3.5	13.7	14.2	6.6	9.9	12.1	42.8	40.2	42.4	53.1
Gross Profit	\$2.7	\$2.3	\$0.2	\$0.5	\$0.6	\$0.5	\$1.8	(\$7.6)	\$3.6	\$5.3	\$6.5	\$7.8	\$60.3	\$114.6	\$177.7
Research & development	26.2	18.6	3.5	4.4	4.4	4.6	16.9	3.0	2.0	1.5	1.9	8.4	6.0	6.3	6.9
Selling, general, and administrative	5.0	6.0	3.8	4.7	5.0	6.8	20.3	8.6	8.8	8.8	9.1	35.4	42.2	50.2	53.1
Total expenses	\$43.6	\$36.9	\$11.0	\$12.2	\$12.9	\$14.9	\$50.9	\$25.8	\$17.5	\$20.2	\$23.1	\$86.6	\$88.4	\$98.9	\$113.1
Operating Income	(\$28.5)	(\$22.4)	(\$7.1)	(\$8.5)	(\$8.9)	(\$10.9)	(\$35.4)	(\$19.2)	(\$7.3)	(\$5.0)	(\$4.5)	(\$36.0)	\$12.0	\$58.1	\$117.7
Interest income	0.1	0.1	0.0	0.0	0.2	0.2	0.4	0.3	0.3	0.3	0.3	1.0	1.3	1.6	1.8
Interest expense	(3.6)	(4.0)	(2.5)	(0.7)	(1.2)	(1.2)	(5.6)	(1.4)	(1.4)	(1.4)	(1.4)	(5.5)	(3.0)	(0.2)	0.0
Other income (expense) ⁽⁴⁾	0.4	(1.0)	(0.2)	0.4	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income (expense), net	(3.2)	(4.8)	(2.7)	(0.2)	(1.1)	(1.1)	(5.0)	(1.1)	(1.1)	(1.1)	(1.1)	(4.5)	(1.7)	1.4	1.8
Income (loss) before taxes	(\$31.7)	(\$27.1)	(\$9.8)	(\$8.8)	(\$9.9)	(\$12.0)	(\$40.4)	(\$20.3)	(\$8.4)	(\$6.1)	(\$5.6)	(\$40.4)	\$10.3	\$59.5	\$119.5
Income tax provision	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(6.0)
Net income (loss)	(\$31.7)	(\$27.1)	(\$9.8)	(\$8.8)	(\$9.9)	(\$12.0)	(\$40.4)	(\$20.3)	(\$8.4)	(\$6.1)	(\$5.6)	(\$40.4)	\$10.3	\$59.5	\$113.5
EPS, basic	(\$3.60)	(\$47.29)	(\$0.98)	(\$0.51)	(\$0.57)	(\$0.69)	(\$2.74)	(\$0.93)	(\$0.37)	(\$0.27)	(\$0.25)	(\$1.82)	\$0.46	\$2.59	\$4.88
EPS, diluted	(\$3.60)	(\$47.29)	(\$0.98)	(\$0.51)	(\$0.57)	(\$0.69)	(\$2.74)	(\$0.93)	(\$0.37)	(\$0.27)	(\$0.25)	(\$1.82)	\$0.37	\$2.11	\$3.96
Shares outstanding, basic ⁽⁵⁾	8.5	0.6	10.0	17.2	17.3	17.4	15.5	21.9	22.4	22.5	22.6	22.4	22.7	23.0	23.3
Shares outstanding, diluted ⁽⁵⁾	8.5	0.6	10.0	17.2	17.3	17.4	15.5	21.9	22.4	22.5	22.6	22.4	27.7	28.2	28.7
Expenses as % of sales:															
COGS	82.0%	84.3%	94.9%	85.7%	86.0%	88.0%	88.7%	215.0%	65.0%	65.0%	65.0%	84.6%	40.0%	27.0%	23.0%
R&D		127.9%	90.9%	120.5%	110.0%	115.0%	109.0%	45.0%	20.0%	10.0%	10.0%	16.6%	6.0%	4.0%	3.0%
SG&A		41.4%	98.5%	128.5%	125.0%	170.0%	130.8%	131.0%	86.0%	58.0%	49.0%	69.9%	42.0%	32.0%	23.0%
Margins:															
Gross margin								NM	35.0%	35.0%	35.0%	15.4%	60.0%	73.0%	77.0%
Operating margin													12.0%	37.0%	51.0%
Net income													10.3%	37.9%	49.2%
Income Tax													0.0%	0.0%	5.0%
Y-O-Y Growth rates:															
Exparel U.S. sales													144.6%	64.5%	51.3%
Total revenue			-6.3%	-11.8%	-3.0%	82.6%	6.4%	70.9%	180.5%	280.0%	365.2%	226.5%	98.5%	56.3%	47.0%
R&D			-29.5%	-12.1%	-11.7%	25.2%	-9.3%	-15.5%	-53.4%	-65.5%	-59.5%	-50.3%	-28.2%	4.2%	10.3%
Selling, general, and administrative			189.6%	255.6%	280.6%	225.5%	236.3%	127.2%	87.8%	76.3%	34.1%	74.4%	19.4%	19.1%	5.7%
Operating profit														382.2%	102.7%
Net income														475.0%	90.9%

(1) Reflects manufacturing and supply revenue and royalties from third parties on DepoCyte and DepoDur

(2) Includes collaborative licensing and development revenue; 2011 and beyond reflects milestone payments from NovoNordisk related to DepoFoam partnership

(3) Includes \$10M milestone payment in 1Q12 to Skye Pharma related to the first commercial sale of Exparel

(4) Includes royalty interest obligation and loss on early extinguishment of debt

(5) Assumes additional common share offering in 2012

Proprietary to Piper Jaffray & Co. August 11, 2011

PCR: David Amsellem 212.284.9455

Current disclosure information for this company can be found at

<http://www.piperjaffray.com/researchdisclosures>

Pacira - Annual Cash Flow Statement

(\$ in millions)

	2008A	2009A	2010A	2011E	2012E	2013E	2014E
Beginning Cash & Equivalents	\$7.2	\$12.4	\$7.1	\$26.1	\$23.2	\$11.4	\$18.7
Operating Activities							
Net Income (Loss)	(\$41.9)	(\$31.7)	(\$27.1)	(\$40.4)	(\$40.4)	\$10.3	\$59.5
Depreciation & Amortization	\$3.8	\$4.4	\$4.1	\$4.0	\$4.4	\$4.8	\$5.3
Other	(\$4.8)	\$1.9	(\$0.5)	\$0.5	\$0.5	\$0.5	\$0.5
Stock-based Compensation	\$0.2	\$0.5	\$0.0	\$0.6	\$0.8	\$1.1	\$1.2
Net Change in Assets and Liabilities	\$13.4	\$4.0	(\$1.3)	(\$0.6)	(\$10.0)	(\$0.8)	(\$4.1)
Cash From Operations	(\$29.2)	(\$20.8)	(\$24.9)	(\$36.0)	(\$44.7)	\$15.9	\$62.4
Investing Activities							
Capital Expenditures	(\$5.8)	(\$5.5)	(\$6.8)	(\$5.0)	(\$5.0)	(\$3.0)	(\$3.0)
Short-Term Investments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Acquisition of Tangible Assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Acquisition of Intangibles	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Investment ⁽¹⁾	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash From Investing Activities	(\$5.9)	(\$5.5)	(\$6.8)	(\$5.0)	(\$5.0)	(\$3.0)	(\$3.0)
Financing Activities							
Debt Issuance ⁽¹⁾	\$0.0	\$21.3	\$63.8	\$0.0	\$5.0	\$0.0	\$0.0
Debt Repayments ⁽¹⁾	\$0.0	\$0.0	(\$11.3)	\$0.0	(\$15.0)	(\$8.7)	(\$7.0)
Dividends	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Share Repurchases	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0
Stock and Option Issuances ⁽²⁾	\$40.2	\$0.0	\$0.0	\$38.0	\$48.0	\$3.0	\$3.0
Other, Net	(\$0.0)	(\$0.2)	(\$1.8)	\$0.0	\$0.0	\$0.0	\$0.0
Cash From Financing Activities	\$40.1	\$21.0	\$50.7	\$38.0	\$38.0	(\$5.7)	(\$4.0)
Net Change In Cash	\$5.1	(\$5.3)	\$19.1	(\$3.0)	(\$11.7)	\$7.2	\$55.4
Year End Cash & Equivalents	\$12.4	\$7.1	\$26.1	\$23.2	\$11.4	\$18.7	\$74.1

(1) Reflects the impact of \$26.25M of long-term debt borrowed under the Hercules Credit Facility, plus issuance of \$7.5M convertible note. Also includes repayment of \$11.25M under the GECC Credit Facility in 2010

(2) Reflects net proceeds of \$41M from February 2011 IPO. Also assumes additional share offering in 2012.

Proprietary to Piper Jaffray & Co. August 11, 2011

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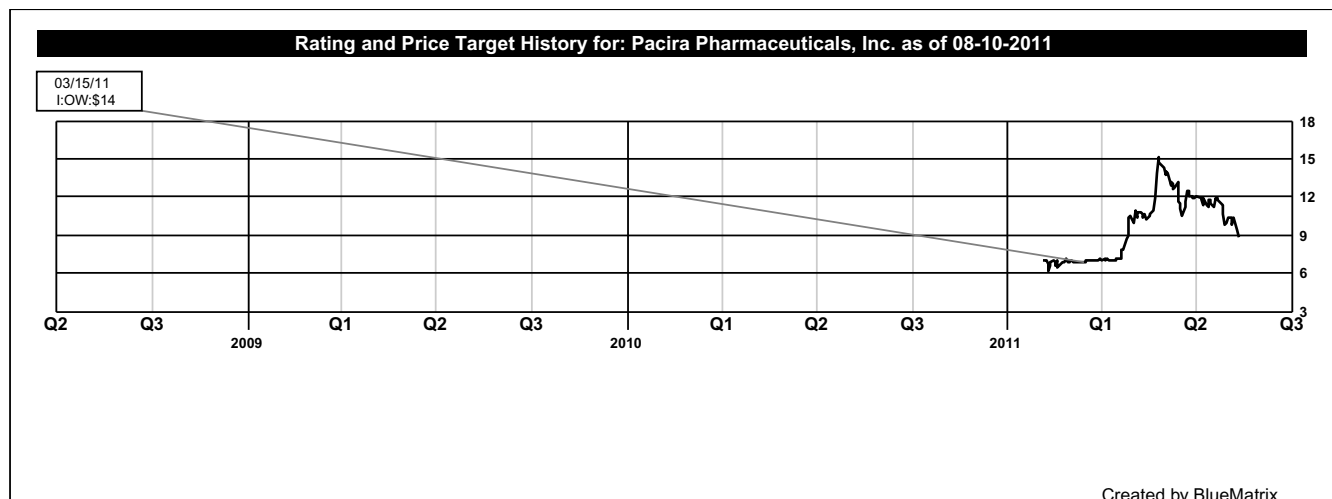
Pacira - Annual Balance Sheet

(\$ in millions)

	2008A	2009A	2010A	2011E	2012E	2013E	2014E
Current Assets							
Cash & Equivalents	\$12.4	\$7.1	\$26.1	\$23.2	\$11.4	\$18.7	\$74.1
Short-term invsetments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Accounts Receivable, net	\$2.6	\$1.5	\$1.2	\$2.5	\$10.4	\$12.4	\$17.2
Inventories	\$2.0	\$1.7	\$1.6	\$1.7	\$4.7	\$4.4	\$4.6
Other Current Assets	\$2.4	\$2.3	\$2.1	\$2.2	\$2.3	\$2.5	\$2.6
Total Current Assets	\$19.4	\$12.5	\$31.1	\$29.6	\$28.9	\$37.9	\$98.5
Property, Plant & Equipment, Net	\$18.0	\$19.6	\$24.0	\$25.0	\$25.6	\$23.7	\$21.4
Intangible Assets, Net	\$13.1	\$11.2	\$8.9	\$8.9	\$8.9	\$8.9	\$8.9
Other Assets	\$0.1	\$0.7	\$2.6	\$2.6	\$2.6	\$2.6	\$2.6
Total Assets	\$50.5	\$44.0	\$66.6	\$66.2	\$66.0	\$73.2	\$131.4
Liabilities & Equity							
Current Liabilities	\$17.0	\$14.4	\$16.3	\$17.1	\$18.0	\$18.9	\$19.8
Total Debt	\$0.0	\$22.2	\$71.7	\$71.7	\$61.7	\$53.0	\$46.0
Other Liabilities	\$26.0	\$30.3	\$27.0	\$27.8	\$28.6	\$29.5	\$30.3
Equity (deficit)	\$7.5	(\$22.9)	(\$48.4)	(\$50.4)	(\$42.3)	(\$28.1)	\$35.3
Total Liabilities & Equity	\$50.5	\$44.0	\$66.6	\$66.2	\$66.0	\$73.2	\$131.4

Proprietary to Piper Jaffray & Co. August 11, 2011

Important Research Disclosures



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

Legend:

I: Initiating Coverage

R: Resuming Coverage

T: Transferring Coverage

D: Discontinuing Coverage

S: Suspending Coverage

OW: Overweight

N: Neutral

UW: Underweight

B: Buy (Piper Jaffray discontinued use of the B, N, and S ratings on June 30, 2009)

N: Neutral

S: Sell

AL On/AL Off: Placed on/removed from the Alpha List maintained by Piper Jaffray (AL use discontinued March 2010)

NA: Not Available

UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	343	54.70	71	20.70
HOLD [N]	241	38.40	21	8.71
SELL [UW]	43	6.90	2	4.65

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Important Research Disclosures

Analyst Certification — David Amsellem, Sr. Research Analyst

— Michael Dinerman, M.D., Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

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Piper Jaffray has received compensation for investment banking services from or has had a client relationship with Pacira Pharmaceuticals, Inc. within the past 12 months.

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