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Reason for Report:

Company Update

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

Price:	\$11.60
52 Week High:	\$15.34
52 Week Low:	\$6.16
12-Month Price Target:	\$14.00

9x our 2014 EPS est. of \$2.37, disc. at 25%

Shares Out (mil):	17.2
Market Cap. (mil):	\$199.5
Avg Daily Vol (000):	76
Book Value/Share:	\$1.81
Net Cash Per Share:	\$3.45
Debt to Total Capital:	68%
Est LT EPS Growth:	NA
P/E to LT EPS Growth (FY11):	NA
Est Next Rep Date:	08/11/2011
Fiscal Year End:	Dec

Rev (mil)	2010A	2011E	2012E
Mar	NA	\$3.9A	NA
Jun	NA	\$3.1E	NA
Sep	NA	\$3.3E	NA
Dec	\$2.2A	\$7.9E	NA
FY	\$14.6A	\$18.1E	\$50.6E
CY	\$14.6A	\$18.1E	\$50.6E

FY RM	13.7x	11.0x	3.9x
CY RM	13.7x	11.0x	3.9x

EPS	2010A	2011E	2012E
Mar	NA	(\$0.98)A	NA
Jun	NA	(\$0.50)E	NA
Sep	NA	(\$0.53)E	NA
Dec	(\$12.27)A	(\$1.69)E	NA
FY	(\$47.29)A	(\$3.69)E	(\$1.28)E
CY	(\$47.29)A	(\$3.69)E	(\$1.28)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 (PCRX - \$11.60) Overweight

Push-Out of FDA Action on Exparel Not Alarming

CONCLUSION:

Pacira announced that the FDA action date for its extended-release formulation of bupivacaine, Exparel, for the management of post-operative pain, was extended by three months to a new date of October 28, 2011. Management noted that the agency requested additional information, already provided by PCRX, that constituted a major amendment to the filing, resulting in an extended review time. Importantly, management noted that no efficacy or safety issues/concerns were raised as part of the information request. We remain confident that Exparel's clinical data (two placebo-controlled pivotal studies) and strong safety database is sufficient for approval. We envision at least \$200M in sales potential for the product used via wound infiltration. In that context, at a market cap of just below \$200M, PCRX shares are trading at an attractive risk/reward profile in our view. We reiterate our Overweight rating and \$14 price target.

- **PDUFA date for Exparel pushed out by three months.** PCRX noted that the FDA information request was related to a topic that management stated was not a "critical issue" (PCRX did not provide more specifics). PCRX supplied the FDA with the requested information. That said, since the request was within 90 days of the previous PDUFA date of July 28, the agency reserved the right to classify the information provided as a major amendment to the NDA filing, resulting in an extension of the review period by 90 days. Recall that major amendments can include data from a study that was previously unsubmitted, or new/updated analyses of data that were previously included in the filing.

- **Delay unlikely to have major implications regarding the timing and nature of the Exparel launch.** Our model had already reflected a 4Q11 rollout of Exparel. Assuming an approval in October, PCRX would hire a sales management team shortly thereafter and begin promoting Exparel to its initial target of 54 major hospitals. The company would then hire a full field force in 2012 to support a broader rollout. We note that the most important early metric in the launch is hospital formulary access (the idea here is that winning formulary access in the initial stages of the rollout lays the foundation for the start of meaningful sales 6-12 months after initial launch).

- **No change to our thinking on Exparel sales potential.** We are modeling Exparel U.S. sales of \$35M in 2012, growing to \$216M by 2015 (and does not reflect label expansions for nerve block and epidural administration). Further, given the complexities associated with manufacturing Exparel, which incorporates a liposome-based delivery technology, we believe the product is unlikely to be threatened by generic competitors.

INVESTMENT RECOMMENDATION:

We believe the risk/reward profile for PCRX shares is favorable given the value proposition associated with Exparel. We base our \$14.00 price target on our 2014 EPS estimate of \$2.37, times a P/E of 9x discounted at 25%.

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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Pacira - Quarterly and Annual Income Statement

Fiscal Year Ends December 31 (\$ In millions, except for EPS)	2010A					2011E									
	2009A	1QE	2QE	3QE	4QA	2010A	1QA	2QE	3QE	4QE	2011E	2012E	2013E	2014E	2015E
Revenues															
Exparel U.S. sales										\$2.5	\$2.5	\$35.4	\$86.6	\$142.5	\$215.5
Exparel ex-U.S. revenue (DepoCyte/DepoDur) ⁽¹⁾	10.4	3.3	3.3	3.3	1.5	11.3	2.9	3.1	3.3	3.4	12.7	13.2	13.9	14.6	15.3
Milestone revenue/other ⁽²⁾	4.6	0.9	0.9	0.9	0.7	3.2	0.9	0.0	0.0	2.0	2.9	2.0	0.0	0.0	0.0
Total revenue	\$15.0	\$4.1	\$4.1	\$4.1	\$2.2	\$14.6	\$3.9	\$3.1	\$3.3	\$7.9	\$18.1	\$50.6	\$100.5	\$157.1	\$230.9
Cost of sales ⁽³⁾	12.3	3.4	3.4	3.4	2.1	12.3	3.7	5.5	4.8	23.6	37.6	32.9	40.2	42.4	53.1
Gross Profit	\$2.7	\$0.7	\$0.7	\$0.7	\$0.1	\$2.3	\$0.2	(\$2.4)	(\$1.5)	(\$1.7)	(\$19.5)	\$17.7	\$60.3	\$114.6	\$177.8
Research & development	26.2	5.0	5.0	5.0	3.7	18.6	3.5	1.6	1.7	3.9	10.6	3.0	6.0	6.3	6.9
Selling, general, and administrative	5.0	1.3	1.3	1.3	2.1	6.0	3.8	3.6	5.0	8.7	21.0	35.4	42.2	48.7	53.1
Total expenses	\$43.6	\$9.7	\$9.7	\$9.7	\$7.9	\$36.9	\$11.0	\$10.7	\$11.4	\$36.2	\$69.3	\$71.4	\$88.5	\$97.4	\$113.1
Operating Income	(\$28.5)	(\$5.6)	(\$5.6)	(\$5.6)	(\$5.7)	(\$22.4)	(\$7.1)	(\$7.6)	(\$8.1)	(\$28.4)	(\$51.1)	(\$20.8)	\$12.1	\$59.7	\$117.7
Interest income	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.2	0.2	0.2	0.5	1.0	1.3	1.6	1.8
Interest expense	(3.6)	(0.9)	(0.9)	(0.9)	(1.4)	(4.0)	(2.5)	(1.2)	(1.2)	(1.2)	(6.1)	(5.5)	(3.0)	(0.2)	0.0
Other income (expense) ⁽⁴⁾	0.4	(0.3)	(0.3)	(0.3)	(0.0)	(1.0)	(0.2)	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0	0.0
Other income (expense), net	(3.2)	(1.1)	(1.1)	(1.1)	(1.4)	(4.8)	(2.7)	(1.1)	(1.1)	(1.1)	(5.8)	(4.5)	(1.7)	1.4	1.8
Income (loss) before taxes	(\$31.7)	(\$6.7)	(\$6.7)	(\$6.7)	(\$7.0)	(\$27.1)	(\$9.8)	(\$8.6)	(\$9.1)	(\$29.4)	(\$56.9)	(\$25.2)	\$10.4	\$61.1	\$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)	(\$6.7)	(\$6.7)	(\$6.7)	(\$7.0)	(\$27.1)	(\$9.8)	(\$8.6)	(\$9.1)	(\$29.4)	(\$56.9)	(\$25.2)	\$10.4	\$61.1	\$113.6
EPS, basic	(\$3.60)	(\$0.63)	(\$0.63)	(\$0.63)	(\$12.27)	(\$47.29)	(\$0.98)	(\$0.50)	(\$0.53)	(\$1.69)	(\$3.69)	(\$1.28)	\$0.51	\$2.94	\$5.34
EPS, diluted	(\$3.60)	(\$0.63)	(\$0.63)	(\$0.63)	(\$12.27)	(\$47.29)	(\$0.98)	(\$0.50)	(\$0.53)	(\$1.69)	(\$3.69)	(\$1.28)	\$0.41	\$2.37	\$4.32
Shares outstanding, basic ⁽⁵⁾	8.5	10.7	10.7	10.7	0.6	0.6	10.0	17.2	17.3	17.4	15.5	19.8	20.3	20.8	21.3
Shares outstanding, diluted ⁽⁵⁾	8.5	10.7	10.7	10.7	0.6	0.6	10.0	17.2	17.3	17.4	15.5	19.8	25.3	25.8	26.3
Expenses as % of sales:															
COGS	82.0%	82.2%	82.2%	82.2%	96.2%	84.3%	94.9%	179.0%	144.0%	300.0%	207.2%	65.0%	40.0%	27.0%	23.0%
R&D		120.9%	120.9%	120.9%	167.7%	127.9%	90.9%	50.0%	50.0%	50.0%	58.7%	6.0%	6.0%	4.0%	3.0%
SG&A		31.9%	31.9%	31.9%	95.3%	41.4%	98.5%	115.0%	150.0%	110.0%	115.7%	70.0%	42.0%	31.0%	23.0%
Margins:															
Gross margin		17.8%	17.8%	17.8%	3.8%							35.0%	60.0%	73.0%	77.0%
Operating margin													12.0%	38.0%	51.0%
Net income													10.3%	38.9%	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%	-24.8%	-20.0%	259.3%	24.5%	179.2%	98.5%	56.3%	47.0%
R&D							-29.5%	-68.9%	-66.9%	7.1%	-42.8%	-71.5%	98.5%	4.2%	10.3%
Selling, general, and administrative							189.6%	171.4%	276.8%	314.5%	247.9%	69.0%	19.1%	15.3%	9.1%
Operating profit														395.2%	97.3%
Net income														490.0%	85.9%

(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 4Q11 to Skye Pharma related to the approval and launch 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. May 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	2010E	2011E	2012E	2013E	2014E
Beginning Cash & Equivalents	\$7.2	\$12.4	\$7.1	\$28.9	\$6.2	\$14.6	\$21.5
Operating Activities							
Net Income (Loss)	(\$41.9)	(\$31.7)	(\$27.1)	(\$56.9)	(\$25.2)	\$10.4	\$61.1
Depreciation & Amortization	\$3.8	\$4.4	\$4.2	\$5.2	\$5.7	\$6.3	\$6.9
Other	(\$4.8)	\$1.9	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
Stock-based Compensation	\$0.2	\$0.5	\$0.4	\$0.6	\$0.8	\$1.1	\$1.2
Net Change in Assets and Liabilities	\$13.4	\$4.0	\$1.9	(\$2.1)	(\$6.4)	(\$2.6)	(\$4.1)
Cash From Operations	(\$29.2)	(\$20.8)	(\$20.2)	(\$52.7)	(\$24.6)	\$15.6	\$65.6
Investing Activities							
Capital Expenditures	(\$5.8)	(\$5.5)	(\$12.0)	(\$8.0)	(\$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)	(\$12.0)	(\$8.0)	(\$5.0)	(\$3.0)	(\$3.0)
Financing Activities							
Debt Issuance ⁽¹⁾	\$0.0	\$21.3	\$67.0	\$0.0	\$5.0	\$0.0	\$0.0
Debt Repayments ⁽¹⁾	\$0.0	\$0.0	(\$15.0)	\$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	\$2.0	\$38.0	\$48.0	\$3.0	\$3.0
Other, Net	(\$0.0)	(\$0.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash From Financing Activities	\$40.1	\$21.0	\$54.0	\$38.0	\$38.0	(\$5.7)	(\$4.0)
Net Change In Cash	\$5.1	(\$5.3)	\$21.8	(\$22.7)	\$8.4	\$6.9	\$58.6
Year End Cash & Equivalents	\$12.4	\$7.1	\$28.9	\$6.2	\$14.6	\$21.5	\$80.1

(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.

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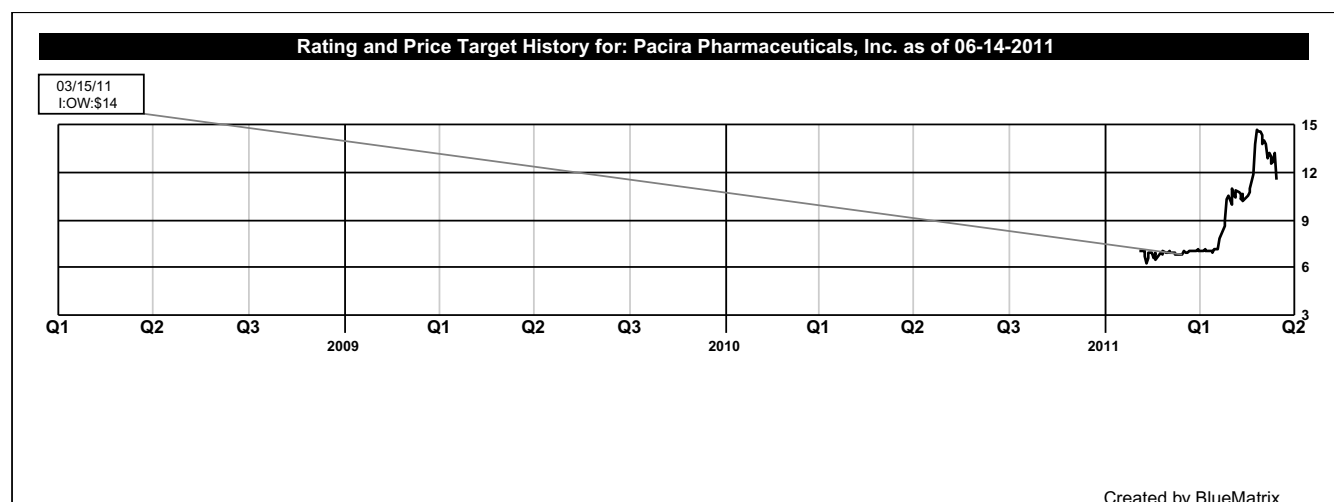
Pacira - Annual Balance Sheet

(\$ in millions)

	2008A	2009A	2010A	2011E	2012E	2013E	2014E
Current Assets							
Cash & Equivalents	\$12.4	\$7.1	\$26.1	\$6.2	\$14.6	\$21.5	\$80.1
Short-term invsetments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Accounts Receivable, net	\$2.6	\$1.5	\$2.2	\$3.0	\$9.7	\$12.4	\$17.2
Inventories	\$2.0	\$1.7	\$1.0	\$3.1	\$3.6	\$4.4	\$4.6
Other Current Assets	\$2.4	\$2.3	\$1.7	\$1.8	\$1.9	\$2.0	\$2.1
Total Current Assets	\$19.4	\$12.5	\$31.1	\$14.1	\$29.8	\$40.3	\$104.0
Property, Plant & Equipment, Net	\$18.0	\$19.6	\$23.3	\$26.1	\$25.4	\$22.1	\$18.1
Intangible Assets, Net	\$13.1	\$11.2	\$11.6	\$11.6	\$11.6	\$11.6	\$11.6
Other Assets	\$0.1	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Total Assets	\$50.5	\$44.0	\$66.6	\$52.4	\$67.4	\$74.6	\$134.4
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	\$21.9	\$11.9	\$3.2	(\$3.8)
Other Liabilities	\$26.0	\$30.3	\$27.0	\$27.8	\$28.6	\$29.5	\$30.3
Equity (deficit)	\$7.5	(\$22.9)	(\$48.4)	(\$14.4)	\$8.9	\$23.1	\$88.1
Total Liabilities & Equity	\$50.5	\$44.0	\$66.6	\$52.4	\$67.4	\$74.6	\$134.4

Proprietary to Piper Jaffray & Co. May 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.

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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]	322	51.50	71	22.05
HOLD [N]	259	41.40	28	10.81
SELL [UW]	44	7.00	1	2.27

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.

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Analyst Certification — David Amsellem, Sr. Research Analyst
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