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Reason for Report:

Change in Earnings Forecast

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	\$11.00
FY11E Rev (mil)	--	\$15.5
FY12E Rev (mil)	\$50.6	\$32.9
FY11E EPS	--	\$(2.51)
FY12E EPS	\$(1.28)	\$(1.30)
Price		\$7.99
52 Week High		\$15.34
52 Week Low		\$6.16
12-Month Price Target		\$11.00
9x our 2014 EPS est. of \$1.41, disc. at 15%		
Shares Out (mil)		25.3
Market Cap. (mil)		\$202.1
Avg Daily Vol (000)		275
Book Value/Share		\$0.81
Net Cash Per Share		\$2.24
Debt to Total Capital		37%
Yield:		0.00%
Est LT EPS Growth		NA
P/E to Est LT EPS Growth		NM
Fiscal Year End:		Dec

Rev (mil)	2010A	2011E	2012E
Mar	--	\$3.9A	\$3.7E
Jun	--	\$3.6A	\$6.3E
Sep	--	\$4.0A	\$9.3E
Dec	\$2.2A	\$4.0E	\$13.6E
FY	\$14.6A	\$15.5E	\$32.9E
CY	\$14.6A	\$15.5E	\$32.9E
FY RM	13.8x	13.0x	6.1x
CY RM	13.8x	13.0x	6.1x

EPS	2010A	2011E	2012E
Mar	--	\$(0.98)A	\$(0.31)E
Jun	--	\$(0.51)A	\$(0.59)E
Sep	--	\$(0.55)A	\$(0.20)E
Dec	\$(12.27)A	\$(0.47)E	\$(0.20)E
FY	\$(47.29)A	\$(2.51)E	\$(1.30)E
CY	\$(47.29)A	\$(2.51)E	\$(1.30)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 – \$7.99) Overweight

Slight Pushback in Exparel Launch Timeline, but Not Seeing Any Red Flags

CONCLUSION:

Yesterday, Pacira provided an update regarding the launch timeline for Exparel, its long-acting injectable formulation of bupivacaine for post-operative pain. Management is now planning for an April 2012 launch, versus the previous 1Q12 timeframe. The modest delay is mainly related to the company needing additional time to build commercial inventory in order to ensure that customers have adequate supply beyond the initial roll-out. To be clear, the company has already been making product at its San Diego facility. We continue to believe that the idea of a long-acting regional anesthetic will be well-received by a broad physician audience, and further believe that peak sales well in excess of \$200M are realistic. We reiterate our Overweight rating and \$11 PT.

- **Exparel launch planned for April 2012; modest delay not a red flag.** PCRX has cited challenges related to building commercial inventory resulting in the pushout in the roll-out into 2Q12 (recall that manufacturing of the product is complex, one reason we believe Exparel is unlikely to see generic competition). The general commentary from management was that it needed more time to build adequate commercial inventory (adequate in this context means minimizing the risk of difficulty fulfilling repeat customer orders after initial shipments). We have tempered our 2012 and 2013 sales estimates to reflect the new launch timeline, though our view on the longer-term sales trajectory of Exparel remains unchanged.
- **New manufacturing suite will come on-line in mid-2013.** PCRX continues to expect that the new suite will be on-line by mid-2013. In addition to providing for greater production capacity, the new suite will allow for higher gross margins (we estimate 60% in 2013, growing to 73% in 2014).
- **PCRX building sales infrastructure ahead of the Exparel launch.** PCRX has stated that it will launch Exparel with a sales force of 63 reps. The company is planning to hold a national sales meeting this week and is having discussions with targeted hospitals regarding formulary acceptance. Recall that the company will target around 1,200 hospitals. With its sales organization, it will be able to cover north of 80% of abdominal soft tissue procedures performed in the U.S., as well as north of 80% of cosmetic/plastic surgeries performed by high-decile surgeons. We believe outpatient surgeries, particularly those that are cash-pay like aesthetic procedures, could be a source of meaningful early adoption since the patient is likely to have a more comfortable recovery at home and less likely to be reliant on an opioid prescription (e.g., Vicodon, Percocet).

INVESTMENT RECOMMENDATION:

We believe the risk/reward profile for PCRX is favorable given Exparel's value proposition. We base our \$11 PT on our 2014 EPS of \$1.41, times a P/E of 9x discounted at 15%.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Risks include competitive and reimbursement risks associated with Exparel.

COMPANY DESCRIPTION:

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

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Summary of PCRX Projections

\$ in millions, except per share	2011E		2012E		2013E		2014E		2015E	
	Current	Prior	Current	Prior	Current	Prior	Current	Prior	Current	Prior
Revenues										
Exparel sales (U.S.)	\$0	\$0	\$18	\$35	\$68	\$87	\$139	\$142	\$216	\$216
Other revenue	\$15	\$15	\$15	\$15	\$14	\$14	\$15	\$15	\$15	\$15
Total Revenues	\$15	\$15	\$33	\$51	\$82	\$100	\$153	\$157	\$231	\$231
Consensus ⁽¹⁾	\$16		\$45		\$104		\$180		\$281	
Expenses										
COGS ⁽²⁾	\$14	\$14	\$32	\$43	\$33	\$40	\$41	\$42	\$53	\$53
Research & development	\$17	\$17	\$5	\$8	\$5	\$6	\$6	\$6	\$7	\$7
Selling, general and administrative	\$20	\$20	\$32	\$35	\$41	\$42	\$48	\$50	\$53	\$53
Other income (expense), net	(\$5)	(\$5)	(\$4)	(\$4)	(\$2)	(\$2)	\$1	\$1	\$2	\$2
Operating Income	(\$35)	(\$35)	(\$37)	(\$36)	\$3	\$12	\$58	\$58	\$118	\$118
Net Income	(\$40)	(\$40)	(\$42)	(\$40)	\$2	\$10	\$60	\$59	\$114	\$114
Diluted share count	17.4	17.4	33.2	33.2	41.8	41.8	42.3	42.3	42.8	42.8
EPS	(\$2.51)	(\$2.51)	(\$1.30)	(\$1.28)	\$0.04	\$0.25	\$1.41	\$1.41	\$2.65	\$2.65
Consensus ⁽¹⁾	(\$2.44)		(\$1.48)		\$0.17		\$2.02		\$3.82	

(1) Consensus as of 1/9/2012

(2) COGS reflect \$10M milestone payment to SkyePharma in 2Q12 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	3QA	4QE	2011E	1QE	2QE	3QE	4QE	2012E	2013E	2014E	2015E
Revenues															
Exparel U.S. sales									\$2.5	\$5.5	\$9.7	\$17.7	\$67.8	\$138.8	\$215.5
Exparel ex-U.S. revenue												0.0	0.0	0.0	0.0
Other product revenue (DepoCyte) ⁽¹⁾	10.4	11.3	2.9	2.8	2.6	3.1	11.4	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	1.4	0.9	4.1	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	\$3.7	\$6.3	\$9.3	\$13.6	\$32.9	\$81.7	\$153.4	\$230.8
Cost of sales ⁽³⁾	12.3	12.3	3.7	3.1	3.4	3.5	13.7	3.3	14.2	6.0	8.8	32.3	32.7	41.4	53.1
Gross Profit	\$2.7	\$2.3	\$0.2	\$0.5	\$0.6	\$0.5	\$1.8	\$0.4	(\$7.9)	\$3.3	\$4.8	\$0.6	\$49.0	\$112.0	\$177.7
Research & development	26.2	18.6	3.5	4.4	4.3	4.6	16.8	1.7	1.3	0.9	1.4	5.2	4.9	6.1	6.9
Selling, general, and administrative	5.0	6.0	3.8	4.7	5.0	6.8	20.3	7.0	7.6	8.4	9.5	32.5	40.8	47.6	53.1
Total expenses	\$43.6	\$36.9	\$11.0	\$12.2	\$12.7	\$14.9	\$50.8	\$12.0	\$23.0	\$15.4	\$19.7	\$70.1	\$78.4	\$95.1	\$113.1
Operating Income	(\$28.5)	(\$22.4)	(\$7.1)	(\$8.5)	(\$8.7)	(\$10.9)	(\$35.3)	(\$8.3)	(\$16.7)	(\$6.1)	(\$6.1)	(\$37.1)	\$3.3	\$58.3	\$117.7
Interest income	0.1	0.1	0.0	0.0	0.0	0.2	0.3	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)	(0.9)	(1.2)	(5.3)	(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	0.1	0.0	0.3	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)	(0.8)	(1.1)	(4.7)	(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)	(\$9.5)	(\$12.0)	(\$40.1)	(\$9.4)	(\$17.8)	(\$7.2)	(\$7.3)	(\$41.6)	\$1.6	\$59.7	\$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)	(\$9.5)	(\$12.0)	(\$40.1)	(\$9.4)	(\$17.8)	(\$7.2)	(\$7.3)	(\$41.6)	\$1.6	\$59.7	\$113.5
EPS, basic	(\$3.60)	(\$47.29)	(\$0.98)	(\$0.51)	(\$0.55)	(\$0.47)	(\$2.51)	(\$0.31)	(\$0.59)	(\$0.20)	(\$0.20)	(\$1.30)	\$0.04	\$1.61	\$3.04
EPS, diluted	(\$3.60)	(\$47.29)	(\$0.98)	(\$0.51)	(\$0.55)	(\$0.47)	(\$2.51)	(\$0.31)	(\$0.59)	(\$0.20)	(\$0.20)	(\$1.30)	\$0.04	\$1.41	\$2.65
Shares outstanding, basic ⁽⁵⁾	8.5	0.6	10.0	17.2	17.2	25.3	17.4	29.8	30.3	36.4	36.5	33.2	36.8	37.1	37.4
Shares outstanding, diluted ⁽⁵⁾	8.5	0.6	10.0	17.2	17.2	25.3	17.4	29.8	30.3	36.4	36.5	33.2	41.8	42.3	42.8
Expenses as % of sales:															
COGS	82.0%	84.3%	94.9%	85.7%	84.9%	88.0%	88.4%	88.0%	225.0%	65.0%	65.0%	98.2%	40.0%	27.0%	23.0%
R&D		127.9%	90.9%	120.5%	109.8%	115.0%	108.9%	45.0%	20.0%	10.0%	10.0%	15.9%	6.0%	4.0%	3.0%
SG&A		41.4%	98.5%	128.5%	126.1%	170.0%	131.1%	190.0%	120.0%	90.0%	70.0%	98.7%	50.0%	31.0%	23.0%
Margins:															
Gross margin								12.0%	NM	35.0%	35.0%	1.8%	60.0%	73.0%	77.0%
Operating margin													4.0%	38.0%	51.0%
Net income													1.9%	38.9%	49.2%
Income Tax													0.0%	0.0%	5.0%
Y-O-Y Growth rates:															
Exparel U.S. sales													283.0%	104.8%	55.3%
Total revenue			-6.3%	-11.8%	-4.1%	82.6%	6.1%	-4.2%	73.3%	135.1%	240.1%	112.9%	148.2%	87.8%	50.5%
R&D			-29.5%	-12.1%	-12.9%	25.2%	-9.6%	-52.6%	-71.2%	-78.6%	-70.4%	-69.0%	-6.0%	25.2%	12.9%
Selling, general, and administrative			189.6%	255.6%	279.7%	225.5%	236.1%	84.8%	61.8%	67.8%	40.0%	60.3%	25.7%	16.5%	11.7%
Operating profit														1689.5%	102.0%
Net income														3733.7%	90.3%

(1) Reflects manufacturing and supply revenue and royalties from third parties on DepoCyte and DepoDur; DepoDur had minimal contribution from 2011 and earlier

(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 2Q12 to Skye Pharma related to the first commercial sale of Exparel

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

(5) Follow-on offering of 8.05M shares in November 2011

Proprietary to Piper Jaffray & Co. January 9, 2012

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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	\$72.6	\$59.4	\$56.2
Operating Activities							
Net Income (Loss)	(\$41.9)	(\$31.7)	(\$27.1)	(\$40.1)	(\$41.6)	\$1.6	\$59.7
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)	(\$5.2)	(\$2.4)	(\$6.8)
Cash From Operations	(\$29.2)	(\$20.8)	(\$24.9)	(\$35.6)	(\$41.1)	\$5.5	\$59.9
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	\$87.0	\$43.0	\$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	\$87.0	\$33.0	(\$5.7)	(\$4.0)
Net Change In Cash	\$5.1	(\$5.3)	\$19.1	\$46.4	(\$13.1)	(\$3.2)	\$52.9
Year End Cash & Equivalents	\$12.4	\$7.1	\$26.1	\$72.6	\$59.4	\$56.2	\$109.2

(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 \$37M from February 2011 IPO and net proceeds of \$49M from November 2011 offering
Also assumes an additional share offering in 2012 (estimated \$40M in proceeds)

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Pacira - Annual Balance Sheet

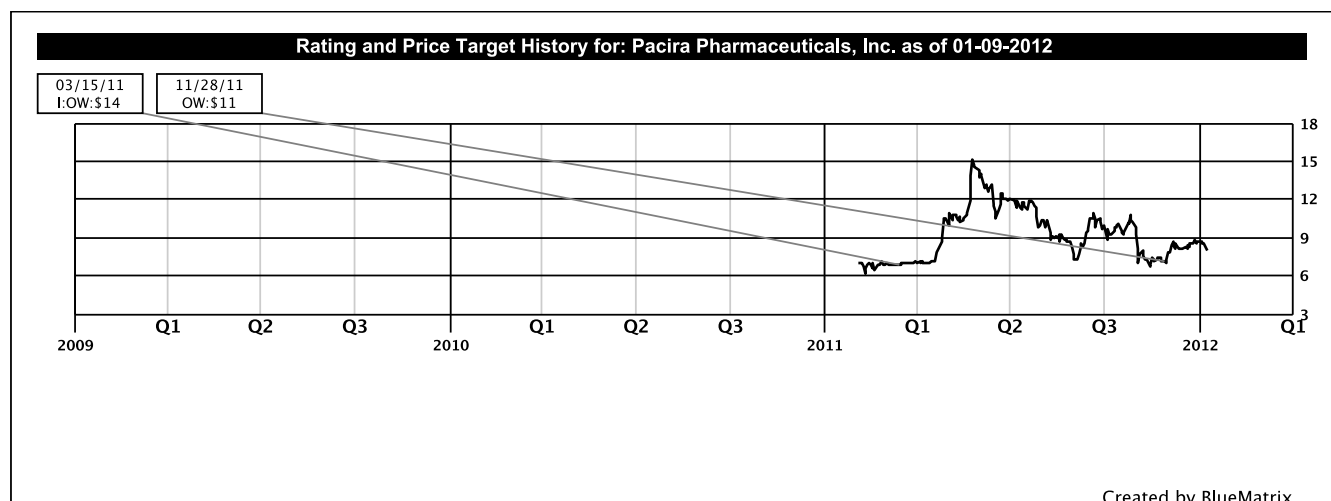
(\$ in millions)

	2008A	2009A	2010A	2011E	2012E	2013E	2014E
Current Assets							
Cash & Equivalents	\$12.4	\$7.1	\$26.1	\$72.6	\$59.4	\$56.2	\$109.2
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	\$6.8	\$10.1	\$16.8
Inventories	\$2.0	\$1.7	\$1.6	\$1.7	\$3.5	\$3.6	\$4.5
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	\$79.0	\$72.1	\$72.3	\$133.1
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	\$115.5	\$109.2	\$107.6	\$166.0
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)	(\$1.0)	\$0.9	\$6.3	\$69.9
Total Liabilities & Equity	\$50.5	\$44.0	\$66.6	\$115.5	\$109.2	\$107.6	\$166.0

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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]	347	53.60	61	17.58
HOLD [N]	265	41.00	22	8.30
SELL [UW]	35	5.40	0	0.00

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
— Rebecca M. Forest, Research Analyst
— Traver A. Davis, 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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