# Pacira Pharmaceuticals, Inc. (PCRX)

***2010 Financials a Non-Event. We See a Major Value Driver Mid-Year with the July 28 PDUFA Date for Exparel***

**March 31, 2011**

**Price**
**$7.23**

**Rating**
**OUTPERFORM**

**Fair Value Estimate**
**$19**

**Richard Lau**
(415) 274-6851
richard.lau@wedbush.com

**Liana Moussatos, Ph.D.**
(415) 263-6626
liana.moussatos@wedbush.com

- **The 2010 financials were uneventful but we project Pacira's cash runway extends into Q1:12.** For the full year 2010, the company reported $14.6 million in revenue and an EPS loss of $(47.29). However, given Pacira's stage of development, we believe the most important financial is cash and its runway. On a pro forma basis (including cash from the IPO), the company ended 2010 with approximately $64.6 million. Assuming Exparel is approved in Q3:11 and launched in Q4:11, Pacira guided to a cash burn of about $30 million through Q3:11 and $25 million in Q4:11 which includes a $10 million milestone payment to Skye Pharmaceuticals. Furthermore, the company guided to $14-16 million in revenue for 2011 which does not include any potential sales from Exparel. We have adjusted our model estimates to be in-line with cash burn and revenue guidance.
- **We believe the next major catalyst for Pacira is the PDUFA date of July 28, 2011 for Exparel treatment of postsurgical pain management.** We estimate a 75% chance that Exparel is approved on its PDUFA date and believe the stock could potentially at a minimum double from current levels on approval. Furthermore, we believe Exparel is likely to receive a broad label for use as a single dose local administration into the surgical wound to produce postsurgical analgesia given that other pain drugs, such as OFIRMEV, Caldolor, and Zipsor, were all recently approved with broad labels for pain.
- **We anticipate US launch of Exparel in Q4:11 with gross peak sales of $576 million worldwide for post-operative analgesia delivered using infiltration.** We believe Exparel's long-acting analgesic effect, which results in decreased opioid consumption, addresses a clinical need in the ~24 million infiltration procedures performed annually in the US. Exparel is also being tested in additional pain indications that could expand the US opportunity to about 39 million procedures.
- **We reiterate our OUTPERFORM rating and fair value of $19.** Our fair value is calculated based on the sum-of-parts for each drug/indication combination using a 30% annual discount from our peak annual revenues projections and 1-10x multiple, depending on stage of development to reflect risk.

| FYE Dec | 2010A | 2011E | | | 2012E | | |
|---|---|---|---|---|---|---|---|
| REV (M) | ACTUAL | CURR. | PREV. | CONS. | CURR. | PREV. | CONS. |
| Q1 Mar | -- | $3.7E | $4.4E | $4.2E | -- | | -- |
| Q2 Jun | -- | 3.8E | 4.5E | 3.7E | -- | | -- |
| Q3 Sep | -- | 4.0E | 4.6E | 4.1E | -- | | -- |
| Q4 Dec | -- | 6.8E | 7.4E | 7.1E | -- | | -- |
| **Year*** | **$14.6A** | **$18.3E** | **$21.0E** | **$19.3E** | **$43.4E** | **$44.4E** | **$56.6E** |
| Change | -- | -- | | | -- | | |
| | **2010A** | **2011E** | | | **2012E** | | |
| **EPS** | **ACTUAL** | **CURR.** | **PREV.** | **CONS.** | **CURR.** | **PREV.** | **CONS.** |
| Q1 Mar | -- | ($0.52)E | ($0.15)E | ($0.41)E | -- | | -- |
| Q2 Jun | -- | (0.51)E | (0.14)E | (0.34)E | -- | | -- |
| Q3 Sep | -- | (0.82)E | (0.57)E | (0.62)E | -- | | -- |
| Q4 Dec | -- | (1.22)E | (1.08)E | (1.36)E | -- | | -- |
| **Year*** | **($47.29)A** | **($3.08)E** | **($1.98)E** | **($2.74)E** | **($2.26)E** | **($1.92)E** | **($1.38)E** |
| P/E | NMx | NMx | | | NMx | | |
| Change | -- | -- | | | -- | | |

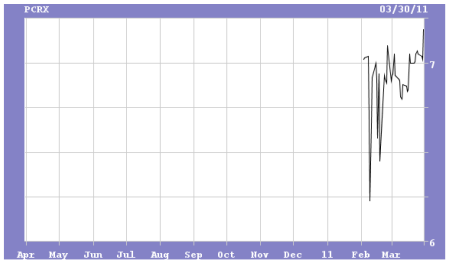
Consensus estimates are from Thomson First Call.
** Numbers may not add up due to rounding.*

**Company Information**

| | |
|---|---|
| Shares Outst (M) | 17.2 |
| Market Cap (M) | $125 |
| 52-Wk Range | $6.16 - $7.60 |
| Book Value/sh | $1.91 |
| Cash/sh | $3.36 |
| Enterprise Value (M) | $96 |
| LT Debt/Cap % | 47 |

**Company Description**

Pacira Pharmaceuticals, Inc. is an emerging specialty pharmaceutical company focused on the development, manufacture, and commercialization of DepoFoam-enhanced extended release drug candidates, such as Exparel, for use in hospital and ambulatory surgery centers.




Source: Thomson Reuters

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## MODEL UPDATE

**Pacira Pharmaceuticals, Inc. (PCRX:NASDAQ)**
***Historical and Projected Income Statement***
*(In thousands except per share data)*

| | 2010A | 2011E | | | | | 2012E |
|---|---|---|---|---|---|---|---|
| | FY:10A | Q1 | Q2 | Q3 | Q4 | FY:11E | FY:12E |
| **Gross Sales:** | | | | | | | |
| Exparel US - Infiltration | | | | | 2,709 | 2,709 | 23,636 |
| Exparel EU - Infiltration | | | | | - | - | - |
| Exparel ROW (Japan) - Infiltration | | | | | - | - | - |
| **Revenues:** | | | | | | | |
| Exparel US Sales - Infiltration | | 0 | 0 | 0 | 2,709 | 2,709 | 23,636 |
| Exparel EU Royalties - Infiltration | | 0 | 0 | 0 | 0 | 0 | 0 |
| Exparel ROW (Japan) Royalties - Infiltration | | 0 | 0 | 0 | 0 | 0 | 0 |
| Exparel Total - Revenues and Royalties | | 0 | 0 | 0 | 2,709 | 2,709 | 23,636 |
| DepoDur/DepoCyt(e) Supply and Royalty Revenue | 11,345 | 2,971 | 3,090 | 3,210 | 3,293 | 12,564 | 13,778 |
| Total Net Product Revenues | $ 11,345 | $2,971 | $3,090 | $3,210 | $6,002 | $ 15,273 | $ 37,414 |
| Collaborative Licensing and Development Revenue | 3,217 | 750 | 750 | 750 | 750 | 3,000 | 6,000 |
| **Total Revenues** | **14,562** | **3,721** | **3,840** | **3,960** | **6,752** | **18,273** | **43,414** |
| Total COGS (including royalties and milestones owed) | 12,276 | 2,500 | 2,600 | 2,700 | 12,800 | 20,600 | 13,282 |
| **Gross Margin** | **2,286** | **1,221** | **1,240** | **1,260** | **(6,048)** | **(2,327)** | **30,132** |
| **Operating Expenses:** | | | | | | | |
| R&D | 18,628 | 7,084 | 7,226 | 7,371 | 5,300 | 26,981 | 33,871 |
| SG&A | 6,030 | 3,327 | 3,360 | 8,894 | 10,720 | 26,301 | 38,017 |
| Acquired in-process R&D | - | - | - | - | - | - | - |
| **Total Operating Expenses** | **24,658** | **10,411** | **10,586** | **16,264** | **16,020** | **53,282** | **71,888** |
| **Operating Income (Loss)** | **(22,372)** | **(9,190)** | **(9,346)** | **(15,004)** | **(22,068)** | **(55,609)** | **(41,756)** |
| Other income (expense) | (34) | - | - | - | - | - | - |
| Interest Income | 146 | 367 | 543 | 430 | 229 | 1,569 | - |
| Interest (Expense) | (3,959) | (763) | (763) | (763) | (763) | (3,050) | (2,496) |
| Royalty Interest Obligation | (930) | 710 | 710 | 710 | 710 | 2,840 | 2,230 |
| **Income Before Income Taxes** | **(27,149)** | **(8,876)** | **(8,855)** | **(14,627)** | **(21,892)** | **(54,250)** | **(42,022)** |
| (Provision)/benefit for Income Taxes | - | - | - | - | - | - | - |
| Tax Rate | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Net Income (Loss)** | **$ (27,149)** | **$ (8,876)** | **$ (8,855)** | **$ (14,627)** | **$ (21,892)** | **$ (54,250)** | **$ (42,022)** |
| **GAAP EPS** | **(47.29)** | **(0.52)** | **(0.51)** | **(0.82)** | **(1.22)** | **(3.08)** | **(2.26)** |
| Weighted Average Shares Outstanding | 574 | 17,233 | 17,483 | 17,733 | 17,983 | 17,608 | 18,608 |
| **Cash** | **$15,525** | **$57,854** | **$50,797** | **$35,219** | **$10,550** | **$10,550** | **($54,687)** |
| **Cash Per Share** | **$27.04** | **$3.36** | **$2.91** | **$1.99** | **$0.59** | **$0.60** | **($2.94)** |
| **Cash Burn (Generation)** | | | | | | **$63,775** | **$65,237** |
| **Exparel as % Total Revenues** | | | | 0% | 40% | 15% | 54% |

*Source: Wedbush Pac Grow Life Sciences*

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## *POTENTIAL UPCOMING MILESTONES (OUR ESTIMATES)*

| | |
|---|---|
| **July 28, 2011** | **Exparel (infiltration) PDUFA date** |
| **Q4:11** | **US launch of Exparel (infiltration)** |
| 2011 | Potential partnership for ex-US rights of Exparel |
| 2011 | Potential additional technology partnerships |
| 2011 | Select clinical candidate from DepoNSAID program |
| H1:12 | Initiate pivotal trial of Exparel in nerve block |
| H2:12 | Pivotal trial data for Exparel in nerve block |
| H1:13 | File sNDA for Exparel (nerve block) |
| H1:13 | Initiate pivotal trial of Exparel in epidural |
| H2:13 | Pivotal trial data for Exparel in epidural |
| Late 2013 | Potential sNDA approval/launch of Exparel (nerve block) |
| 2014 | File sNDA for Exparel (epidural) |
| 2015 | Potential sNDA approval/launch of Exparel (epidural) |

**We believe the next major catalyst for Pacira is the PDUFA date of July 28, 2011. for Exparel treatment of postsurgical pain management.** We estimate a 75% chance that Exparel is approved on its PDUFA date and believe the stock could potentially double or more from current levels on approval. Our confidence for approval is based on several main factors. First, the efficacy evidence for the NDA is based on two positive Phase 3 trials of Exparel which the FDA acknowledged at a pre-NDA meeting in February 2010 to be appropriately designed to evaluate safety and efficacy. Second, the safety profile of Exparel seems adequate for approval and while the FDA typically requires a 500 patient safety database for pain drugs, Pacira submitted data for over 1300 patients. Third, the FDA is already familiar with bupivacaine, the active ingredient in Exparel, as well as Pacira's DepoFoam technology. Furthermore, the hemorrhoidectomy (soft-tissue surgery) and bunionectomy (orthopedic surgery) indications were selected to support a broad label for use as a single dose local administration into the surgical wound to produce postsurgical analgesia. We believe Exparel is likely to receive this broad label given that other pain drugs such as OFIRMEV, Caldolor, and Zipsor were all recently approved with broad labels for pain.

**Pacira also plans to have a presence at a number of upcoming medical meetings as it seeks to increase physician awareness of Exparel ahead of potential launch.** We believe the company's participation in these conferences is important for ultimately receiving formulary approval and driving initial sales pull-through. Of the following list of medical meetings, we believe the key ones for Pacira will be ASRA on May 5-8, 2011, in Las Vegas, NV, and ASCRS on May 14-18, 2011 in Vancouver, BC.

| | |
|---|---|
| April 13, 2011 | Experimental Biology/American Society for Pharmacology & Experimental Therapeutics (EB/ASPET; Wash. DC) |
| **May 5-8, 2011** | **36th Annual Meeting of American Society of Regional Anesthesia (ASRA; Las Vegas, NV)** |
| May 5-8, 2011 | 26th Annual Meeting of the Society for Ambulatory Anesthesia (SAMBA; San Antonio, TX) |
| **May 14-18, 2011** | **2011 Annual Meeting of American Society of Colon & Rectal Surgeons (ASCRS; Vancouver, BC)** |
| May 17, 2011 | American Association of Pharmaceutical Scientists: National Biotechnology Conference (San Francisco, CA) |
| May 21-24, 2011 | 2011 Annual Meeting of International Anesthesia Research Society (IARS; Vancouver, BC) |

## PIPELINE VALUATION

| PCRX Product Pipeline Valuation | | Eligible # | Pricing | Gross Peak Revs | Net Peak Revs* | Peak | | Estimated/Actual | Discount | Estimate | Fair Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Product | Indication | Patients | $/Patient | ($000) | ($000) | Penetration | Multiple | Launch | Rate | Fair Value | per Share |
| DepoDur | Postoperative Pain | 145,030,200 | $118 | $679 | $679 | 0% | 3 | 1/1/2004 | 30% | $2,173 | $0.13 |
| DepoCyte | Lymphomatous Meningitis | 7,020,000 | $407 | $17,012 | $17,012 | 8% | 3 | 7/1/1999 | 30% | $9,918 | $0.58 |
| DepoMethotrexate | Autoimmune (RA) | 7,100,000 | $963 | $486,643 | $305,001 | 8% | 1 | 1/3/2016 | 30% | $23,535 | $1.37 |
| DepoMethotrexate | Oncology | 189,000 | $407 | $19,858 | $12,439 | 24% | 1 | 1/3/2016 | 30% | $960 | $0.06 |
| DepoNSAID | Pain | 145,030,200 | $26 | $123,232 | $78,391 | 5% | 1 | 1/3/2016 | 30% | $4,653 | $0.27 |
| EXPAREL | Total Infiltration | 60,275,000 | $175 | $576,476 | $383,158 | 6% | 8 | 10/3/2011 | 30% | $308,197 | $17.88 |
| EXPAREL | Nerve Block | 22,062,500 | $80 | $104,965 | $67,901 | 11% | 5 | 1/3/2014 | 30% | $34,057 | $1.98 |
| EXPAREL | Epidural | 18,125,000 | $161 | $164,848 | $108,332 | 11% | 4 | 1/3/2015 | 30% | $33,437 | $1.94 |

*Net Peak Revs includes 5.5% net royalty owed

We use multiples to account for clinical and regulatory risk at various stages of development.

1: in preclinical testing
2: passed preclinical
3: IND filing/stable mature product
4: Phase 1 data
5: Phase 2 data
6: in Phase 3
7: Phase 3 data
8: regulatory review
9: approved
10: launched

| | Stock | MktCap | Upside |
|---|---|---|---|
| Fair Value | $18.59 | $320,288 | 157% |
| Total Pipeline Value | $24.19 | $443,166 | |
| Current Cash | $3.36 | $57,854 | |
| Current Price | $7.23 | $124,594 | |

*Source: Wedbush Pac Grow Life Sciences*

**Based on a 30% annual discount and a 1x-10x premium range on our net peak annual revenues estimate for each product and indication in the clinic, we calculate PCRX's current fair value at about $19 per share or $320 million market capitalization.** Our fair value attributes about $17.88 to Exparel use through infiltration and less than $1 to DepoDur® and DepoCyt(e)®. To be conservative, we have not included any expansion indications for Exparel, such as nerve block or epidural, in our fair value and due to uncertainty around potential launch timing; but we estimate these indications would collectively add about $4 per share to our fair value. We also estimate that the company has about $3.36 in cash per share which we have not included in our fair value given Pacira is not yet profitable.

## CORPORATE OVERVIEW

**Pacira, located in Parsippany, New Jersey, is a fully-integrated emerging specialty pharmaceutical company focused on developing and commercializing therapeutics for patients in the acute care hospital and ambulatory surgical settings.** Emerging from SkyePharma in 2007, Pacira currently receives manufacturing and royalty revenues from DepoDur® and DepoCyt(e)® and has ongoing development collaborations for pharmaceutical applications of its DepoFoam technology. However, the majority of our projected revenue is from sales of its lead product candidate, Exparel (long-acting bupivacaine encapsulated in DepoFoam), as a treatment for pain in the hospital setting. Pacira also has an early pipeline of drug candidates utilizing the DepoFoam liposome-based platform for development of sustained-release injectable products. DepoFoam technology can enhance the dosing of approved drugs by encapsulating the active ingredient in multi-vesicular liposomal particles which release the active ingredient over time without altering its chemistry.

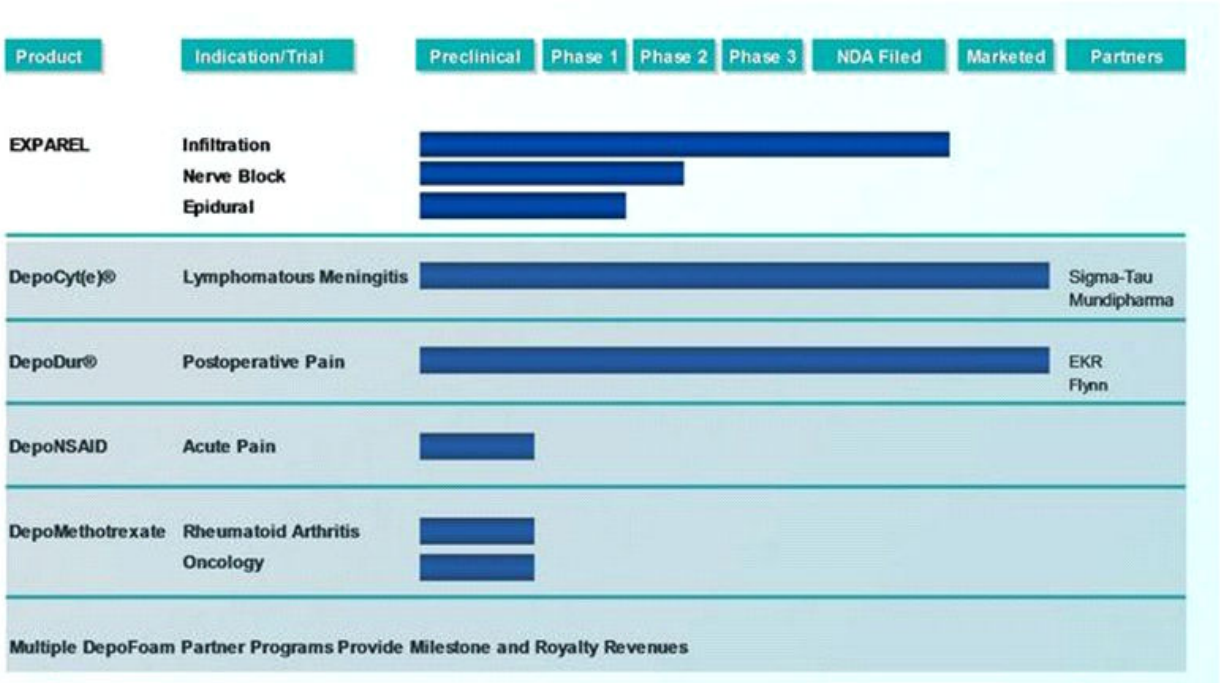
**DepoCyt(e)® (DepoFoam-based sustained-release cytarabine) and DepoDur® (DepoFoam-based sustained-release morphine sulfate) are indicated for lymphomatous meningitis and postoperative pain, respectively.** FDA approved in 1999 and 2004, these products provide annual revenues in the range of $12-18 million which we continue to project for the next several years as these products are mature. DepoCyt(e)® is partnered with Sigma-Tau (US) and Mundi Pharma (ex-US) while DepoDur® is partnered with EKR Therapeutics (US) and Flynn Pharma (ex-US). DepoCyt(e)® was approved for intrathecal treatment of lymphomatous meningitis, which begins as primary lymphoma and spreads to the meninges which line the spinal cord and brain. Its sustained release formulation has been associated with improved response rates and a more convenient dosing regimen compared with immediate release cytarabine. The DepoFoam formulation has a more patient-friendly administration from twice weekly to once every two weeks and can provide treatment on an outpatient basis. DepoDur®, a sustained-release, injectable morphine sulfate, was approved for treatment of postsurgical pain. One injection at the lumbar level can relieve pain up to 48 hours improving mobility without indwelling catheters.

**What we consider to be Pacira's significant value driver is Exparel, a long-lasting formulation of bupivacaine using DepoFoam technology.** The two Phase 3 trials were multicenter, randomized, double-blind, placebo-controlled with one trial in soft tissue surgery

(hemorrhoidectomy) and the other trial in orthopedic surgery (bunionectomy). Both trials met their primary endpoints with statistical significance showing pain control (~30% reduction versus placebo) through 72 hours for the hemorrhoidectomy trial (P<0.0001) and 24 hours for the bunionectomy trial (P=0.0005). Additionally, both trials met multiple secondary endpoints related to both opioid use and patient satisfaction. Due to the attributes of DepoFoam-based delivery and successful clinical results indicating that Exparel can deliver up to 72 hours of pain relief post-surgery compared to about 7 hours for current formulations of bupivacaine, we consider Exparel to be superior to other bupivacaine formulations and anticipate significant uptake. Furthermore, we believe the reduction in opioid consumption presents a compelling argument for the use of Exparel from a health economic standpoint.

**An NDA for Exparel was submitted in September 2010 and accepted for filing in December 2010 and has a July 28, 2011, PDUFA date.** We estimate a 75% chance that Exparel is approved on its PDUFA date and believe the stock could potentially double (or more) from current levels on approval. Our confidence for approval is based on several main factors. First, the efficacy evidence for the NDA is based on two positive Phase 3 trials of Exparel which the FDA acknowledged at a pre-NDA meeting in February 2010 to be appropriately designed to evaluate safety and efficacy. Second, the safety profile of Exparel seems adequate for approval and while the FDA typically requires a 500 patient safety database for pain drugs, Pacira submitted data for over 1300 patients. Third, the FDA is already familiar with bupivacaine, the active ingredient in Exparel, as well as Pacira's DepoFoam technology. Furthermore, the hemorrhoidectomy (soft-tissue surgery) and bunionectomy (orthopedic surgery) indications were selected to support a broad label for use as a single dose local administration into the surgical wound to produce postsurgical analgesia. We believe Exparel is likely to receive this broad label given that other pain drugs—such as OFIRMEV, Caldolor, and Zipsor— were all recently approved with broad labels for pain.

## *PRODUCT PORTFOLIO*




*Source: Reprinted with permission from Pacira Pharmaceuticals*

## *RISKS TO ATTAINMENT OF OUR FAIR VALUE*

**Regulatory Risk.** Pacira submitted a 505(b)(2) NDA for Exparel treatment of postsurgical pain with the FDA in September 2010 that was accepted for review on December 10, 2010 and has a PDUFA date of July 28, 2011. The basis for the NDA is supported by two pivotal Phase 3 clinical trials with positive results which we believe to be adequate for approval of Exparel. However, unforeseen concerns may arise with the FDA that could result in approval delay or the FDA could determine the NDA to be not approvable. For example, in 2009, two Phase 3 trials of Exparel failed to meet their primary endpoints of showing a 30% better reduction in pain compared to regular bupivacaine. One of these trials was for total knee arthroplasty and the other was for hemorrhoidectomy. The trials were designed to compare Exparel to regular bupivacaine in a multimodal setting where patients also received concomitant analgesics. The trials did not meet their primary endpoints due to unexpectedly good results in the control arm. We believe this may have been partly due to the use of concomitant analgesics as well as poor trial design. Importantly, Exparel performed as expected in terms of both safety and efficacy. Based on the results of these two trials, the two successful pivotal trials were designed with more appropriate inclusion and exclusion criteria and protocol specified measures.

The FDA may require Pacira to conduct a study of Exparel in pediatric patients. Pacira has requested a waiver for patients under two years of age and a deferral for patients under 18 years of age. However, there can be no assurance that the waiver or deferral will be granted. In our opinion, the risk of the FDA requesting a pediatrics study prior to approval is low based on historical decisions by the FDA in which other companies developing pain products were allowed to conduct pediatric studies post-approval.

FDA approval of Exparel is dependent on a pre-approval inspection of Pacira's manufacturing facilities. Additionally, the FDA might not agree that the registration batches submitted in Pacira's NDA are fully representative of the manufacturing process and could request new batches in order to provide additional stability data. While we note these risks, we are not currently aware of any reasons for either of these negative scenarios to play out.

Overall, we believe regulatory risk is below average given that bupivacaine, the active ingredient in Exparel, is an already approved drug as well as that two drugs using the DepoFoam technology have already been approved.

**Commercial Risk.** Pacira does not currently have a commercial infrastructure for the marketing, sale or distribution of any pharmaceutical products. If Exparel is approved by the FDA, Pacira plans to build a specialty sales force of approximately 100 reps within three years of launch. Furthermore, the company may seek to further penetrate the US market through collaborations with other pharmaceutical companies. Outside the US, we believe Pacira is likely to out-license rights to Exparel without building its own sales force. There can be no assurance that Pacira will be able to successful build a commercial sales team in a timely and cost-effective manner or obtain commercial partners. Furthermore, market uptake of Exparel will be dependent on acceptance of the product onto hospital formularies which can be a lengthy process that typically takes between six to 12 months. Overall, we believe commercial risk is average given Pacira's current lack of sales and marketing infrastructure. However, we believe this is offset by management's track record of successfully commercializing pharmaceutical products.

**Competitive Risk.** We expect Exparel will directly compete with Durect's Posidur (Optesia in Europe), if Posidur is eventually approved. However, we believe Exparel offers several advantages over Posidur including more convenient dosing as well as likely being the first to market. We also anticipate Exparel will compete with other non-opioid products such as bupivacaine, Marcaine, ropivacaine, and other anesthetics/analgesics. While many of these products are generic and thus cheaper than Exparel, they also all have a shorter duration of action. Therefore, we believe Exparel will offer a therapeutic advantage that can command premium pricing due to decreased opioid consumption and related opioid side effects. However, there is risk that physicians will still opt to use cheaper generic caine-based products.

Furthermore, we expect Exparel will indirectly compete against several other classes of approved drugs, some of which are generic. Competing products available for the treatment of postsurgical pain include opioids such as morphine, fentanyl, meperidine and hydromorphone. Additionally, Ketorolac (generic) and Caldolor (branded ibuprofen) are two injectable non-steroidal anti-inflammatory drugs (NSAIDs) available for the treatment of postsurgical pain management. OFIRMEV (IV acetaminophen) is a non-NSAID and non-narcotic IV analgesic that was recently approved for pain management and fever.

Overall, we believe competitive risk in the near-term is low given that the only direct competitor we see is Posidur which is at least one year behind Exparel.

**Reimbursement Risk.** Sales of DepoCyt(e), DepoDur®, Exparel, and/or any future product candidates are partially dependent on the availability of coverage and reimbursement from third-party payers such as Medicare, Medicaid, managed care providers, private health insurers and other organizations. Coverage decisions by third-party payers are generally based upon clinical and economic benefit that can sometimes disfavor new higher priced drugs versus lower cost alternatives. As such, we expect Pacira's commercialization strategy for Exparel to include a health economics and outcomes research (HEOR) program that highlights the economic benefits of Exparel versus lower cost alternatives. Overall, we believe reimbursement risk is average as we have confidence in management's experience with applying health economic outcomes research to support a successful launch of Exparel.

**Manufacturing Risk.** Pacira currently manufactures all DepoFoam-based products at their two manufacturing facilities in San Diego. The facilities are in compliance with current good manufacturing practices (cGMP), but there can be no guarantee for the future. If Exparel is approved, Pacira plans to install additional specialized processing equipment in order to expand the manufacturing capacity. While we believe Pacira has properly prepared for the expansion of its manufacturing capacity, unforeseen issues could arise. If Pacira is unable to expand their manufacturing capacity, they may not be able to produce sufficient quantities of Exparel to meet patient demand. Furthermore, failure to scale up manufacturing would likely have a negative impact on gross margins.

The company also plans to transition to a new manufacturing process in 2013 in order to further improve gross margins. Given the complex process by which Exparel is manufactured, there can be no assurance that Pacira will be able to switch to the new manufacturing process. We believe this risk is off-set by the company's significant experience in manufacturing Depo-Foam based products for many years. Overall, we see manufacturing risk as average given that Pacira already has a manufacturing process in place with a plan to have adequate supply of Exparel to support initial launch.

**Intellectual Property (IP) Risk.** Pacira relies on several strategies to protect their intellectual property around DepoFoam-based products. In the US, the issued patent on Exparel composition expires in November 2013 and the issued patents on methods for modifying rate of drug release expires on January 2017. Additionally, pending applications on composition and manufacturing methods, if granted, would expire in September 2018 and November 2018, respectively. In the EU, the issued patents on Exparel composition expire in November 2014 and September 2018. Additionally, pending applications relating to methods for modifying rate of drug release and manufacturing process, if granted, would expire in January 2018 and November 2018, respectively. Pacira has also filed preliminary patents for the new manufacturing process which could provide intellectual property through 2031 if granted. Furthermore, Pacira's DepoFoam technology is protected by 15 patent families.

Aside from patent protection, we believe Pacira's intellectual property is also protected by significant manufacturing know-how. It is our understanding that the manufacturing process for DepoFoam-based products is fairly complex as it requires aseptic manufacturing and filling, and would require a significant amount of capital to replicate. Therefore, we believe the hurdle for another company to develop generic DepoFoam-based products to be higher than for normal pharmaceuticals. Overall, we believe IP risk is average given the patent protection and manufacturing know-how.

**Financial Risk.** Through their IPO, which priced on February 3, 2011, Pacira raised approximately $36.8 million in net proceeds based on an offering of 6 million shares at $7.00 per share. We estimate the company ended 2010 with about $64.6 million which we project is sufficient to fund operations into Q1:12. This includes Pacira's plan to spend $30 million through Q3:11 and $25 million in Q4:11. We note that the timing of the expenses in Q4:11 is largely dependent on potential FDA approval of Exparel on or by July 28, 2011 and would likely be deferred if there is a delay in approval. In the event that Exparel approval and the associated expenses related to a Q4:11 launch are delayed, we estimate that Pacira's current cash balance could fund the company into late 2012.

**Analyst Certification**
I, Richard Lau, Liana Moussatos, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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| Company | Disclosure |
|---|---|
| Pacira Pharmaceuticals, Inc. | 1,3,4,5,7 |

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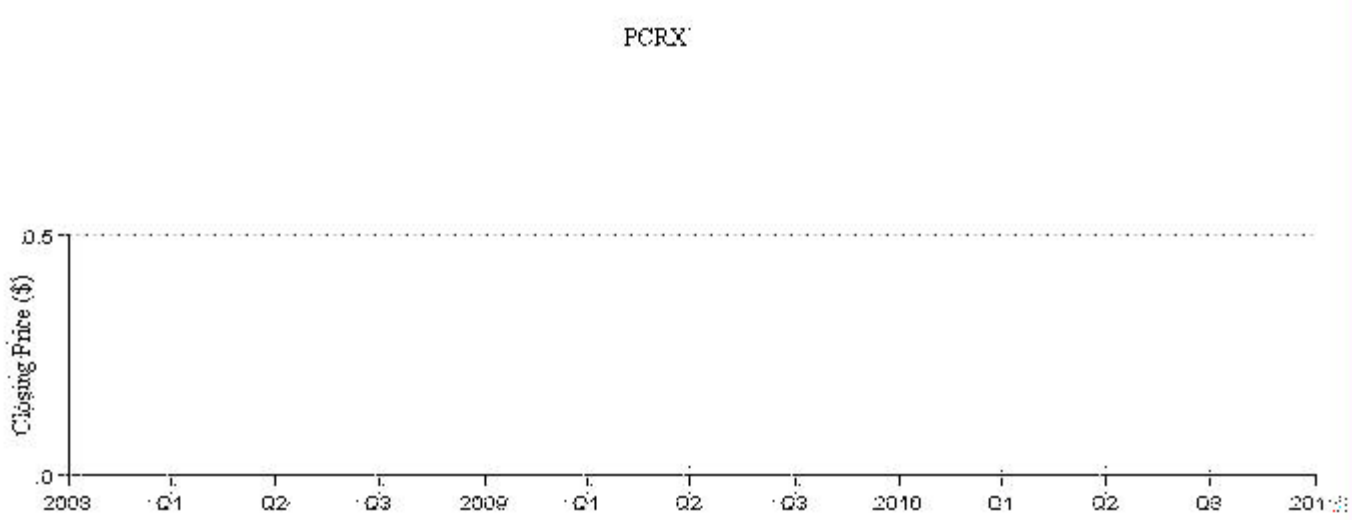


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**EQUITY RESEARCH DEPARTMENT**
**(213) 688-4529**

**DIRECTOR OF RESEARCH**
**Mark D. Benson (213) 688-4435**

## CONSUMER PRODUCTS AND SERVICES

**Consumer Products**
Rommel T. Dionisio (212) 938-9934
Kurt M. Frederick, CFA CPA (213) 688-4459

**E-Commerce**
Edward Woo, CFA (213) 688-4382
Nick McKay (213) 688-4343

**Entertainment: Toys**
Edward Woo, CFA (213) 688-4382
Nick McKay (213) 688-4343

**Footwear and Apparel**
Camilo Lyon (212) 938-9924
Alicia Jenks (213) 688-4355

**Healthy Lifestyles**
Kurt M. Frederick, CFA CPA (213) 688-4459

**Specialty Retail: Hardlines**
Joan L. Storms, CFA (213) 688-4537
John Garrett (213) 688-4523

Camilo Lyon (212) 938-9924
Alicia Jenks (213) 688-4355

**Specialty Retail: Softlines**
Betty Chen (415) 273-7328

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Camilo Lyon (212) 938-9924
Alicia Jenks (213) 688-4355

## RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

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Andrew Doupé (415) 274-6876

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David Giesecke (212) 938-9925

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Al Kaschalk (213) 688-4539
Kevin Lee (213) 688-4303

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Christopher N. Marai, Ph.D. (415) 274-6861

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Christine Hersey (213) 688-4311

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Sanjit Singh (212) 938-9922

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Michael J. Anderson (212) 668-9778

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Edward Woo, CFA (213) 688-4382
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Nick McKay (213) 688-4343

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Max Pinigin (213) 688-4518

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Nick McKay (213) 688-4343

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Betsy Van Hees (415) 274-6869
Ryan Jue (415) 263-6669

**Telecommunications Software**
Scott P. Sutherland, CFA (213) 688-4522
Suhail Chandy (213) 688-4380

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Scott P. Sutherland, CFA (213) 688-4522
Suhail Chandy (213) 688-4380

## LIFE SCIENCES

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David M. Nierengarten, Ph.D. (415) 274-6862
Christopher N. Marai, Ph.D. (415) 274-6861

**Cardiovascular, Devices and Regenerative**
Duane Nash, MD JD MBA (415) 263-6650
Akiva Felt (415) 263-6648

**Emerging Pharmaceuticals**
Liana Moussatos, Ph.D. (415) 263-6626
Richard Lau (415) 274-6851
Christopher N. Marai, Ph.D. (415) 274-6861

**Healthcare Services - Managed Care**
Sarah James (213) 688-4503
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**CORPORATE HEADQUARTERS**
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