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Pacira Pharmaceuticals, Inc. (PCRX - OUTPERFORM): We Are Optimistic for Potential EXPAREL Approval by the PDUFA Date of this Friday, October 28th. Reiterate OUTPERFORM.

Price: $10.30 **Fair Value Estimate: $20**

- **Reminder: The PDUFA date for EXPAREL™ treatment of postsurgical pain management is this Friday, October 28th.** We estimate a 75% chance that EXPAREL™ is approved by its PDUFA date and see about 40% upside on approval. Heading into the PDUFA date, we see a favorable risk/reward scenario and remain confident in approval for three main reasons. 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.

- **PCRX will host its Q3:11 financials conference call on October 31st at 9:00AM ET (Domestic 866-831-6272; International 617-213-8859; Passcode 24414196) during which we expect a discussion around the potential approval of EXPAREL™. Given that the company may not hear from the FDA until late on Friday, October 28th, we suspect they may wait until they report their Q3:11 financial results before the market open on Monday, October 31st to announce whether EXPAREL™ has been approved or not.**

- **If approved by the October 28 PDUFA date, we believe Pacira can launch EXPAREL™ around mid-to-late January.** Previously, Pacira signed agreements with Quintiles Commercial US, Inc., and Integrated Commercialization Services, Inc., to build out their commercial infrastructure. Quintiles will provide a U.S. sales force of approximately 70 reps through the end of 2012, or beyond if the agreement is extended, and we believe a sales force of this size is sufficient to cover over 80% of the market opportunity. Additionally, Pacira has entered into a three-year agreement with Integrated Commercial Solutions to provide third-party logistics. We believe the hiring and training of regional managers and sales reps could be completed by year-end allowing for a mid-to-late January launch of EXPAREL™, assuming it is approved by the October 28 PDUFA deadline. We estimate peak sales of EXPAREL™ administered via infiltration could reach about $358 million in the U.S. by 2017 with potential upside from additional follow-on indications and ex-U.S. royalty revenue.

- **Targeted launch strategy could differentiate EXPAREL's™ launch from other recently launched hospital products that have aimed to address a larger patient population, in our view.** We anticipate that Pacira's initial launch strategy will focus on high-volume hospitals in the areas of soft tissue surgery, plastic surgery, and elastomeric bag replacement, with potential early (pre-formulary approval) sales from plastic surgeries given it is generally an all-cash business. To support the launch, the company expects to have data from both retrospective and prospective health outcome studies showing both the medical and economic benefits of EXPAREL™ treatment due to decreased opioid usage and opioid-related adverse events. Furthermore, in generating these data Pacira has been working closely with influential high-volume hospitals which we believe should drive early adoption by key opinion leaders and should also ultimately have a trickledown effect to a broader range of hospitals and surgery centers.

- **We reiterate our OUTPERFORM rating and fair value of $20.** 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.

- Risks to our fair value include regulatory and commercial risk for Pacira's lead drug candidate Exparel. The PDUFA date for Exparel is October 28, 2011 and there is always risk that the FDA could delay approval. On the commercial front, Exparel will compete with generic forms of regular bupivacaine and, although we believe Exparel offers therapeutic advantages, some physicians may still opt for the cheaper alternative.

*POTENTIAL UPCOMING MILESTONES (*OUR ESTIMATES)*

October 23-27, 2011	Participation at American College Surgeons (ACS; San Francisco, CA)
October 28, 2011	**Exparel (infiltration) PDUFA date**
2011*	Select clinical candidate from DepoNSAID program
2011/2012*	Potential partnership for ex-US rights of Exparel
2011/2012*	Potential additional technology partnerships
Q1:12	**US launch of Exparel (infiltration)**
H1:12*	Initiate pivotal trial of Exparel in nerve block
H2:12*	Pivotal trial data for Exparel in nerve block

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

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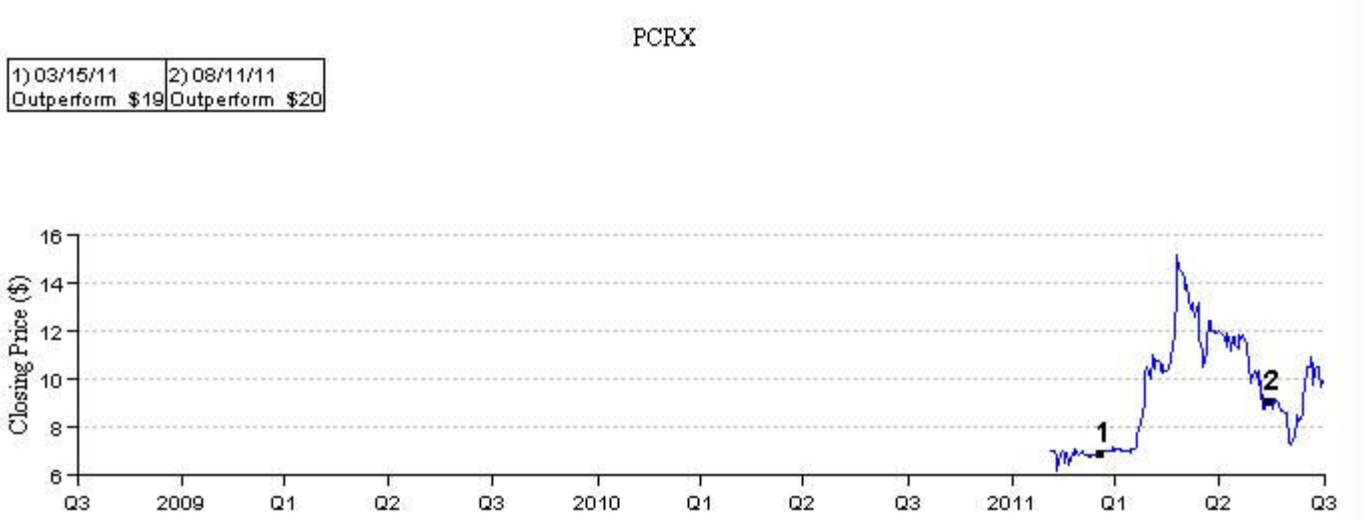

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