Pacira Pharmaceuticals (PCRX/NASDAQ)

October 20, 2011

BREAN MURRAY CARRET & CO.

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Pooled Trial Data Illustrates Exparel's Benefit Against Bupivacaine

Buy
Target Price: $20

Investment Summary

Pacira released data today that goes beyond the clinical trial data to show the efficacy of Exparel versus bupivacaine, as compared to the initially submitted trial data that tested Exparel versus placebo. These positive results not only give a better understanding of the data set submitted to the FDA, but also act as an excellent marketing tool for Pacira's upcoming launch in 1Q12. As a general reminder, the impending PUDFA date for Exparel is October 28th.

The data released today is a pooled analysis of five trials that enrolled more than 700 patients dosed with up to 300mg of Exparel or up to 200mg of bupivacaine through wound infiltration. The patients in the trials were post-operative pain patients, undergoing either total knee arthroplasty, hemorrhoidectomy, or herniorrhaphy. The results demonstrated a 3.5 times longer median time to first opioid (TTFO) for Exparel versus bupivacaine ($p<0.0001$) (9.9 hours vs 2.7 hours, respectively). There was also a 50% reduction in total opioids consumed (on a morphine-equivalent basis) for Exparel patients versus bupivacaine patients ($p<0.0001$) (7.9mg vs 15.8mg, respectively). The reduction in opioids is extremely relevant, because it led to a 46% reduction in opioid AE's for Exparel patients versus bupivacaine patients ($p<0.0001$). The opioid AE's include nausea, vomiting, constipation, urinary retention, pruritis, somnolence, and respiratory depression, all of which interfere with patient recovery. Patients using Exparel also had significantly less pain over the first 72 hours as determined by the area under the curve analysis ($p<0.0001$) (AUCO-72 315 vs 427, respectively). The avoidance of pain immediately after surgery helps the patient to sleep and recover instead of being evaluated for a specific opioid dose while experiencing pain.

Additionally, in a second poster at the American College of Clinical Pharmacy annual meeting, more pharmacokinetic data was released. As expected, the Cmax of Exparel was far below the minimal toxicity threshold for bupivacaine. Specifically, the Cmax was 935ng/ml with 600mg of Exparel, as compared to the >2000ng/ml of bupivacaine needed to cause central nervous system effects or the >4000ng/ml of bupivacaine needed to cause cardiac system effects. Furthermore, the second peak in plasma concentration seen between 12-24 hours further supports the effectiveness of DepoFoam as an extended release technology, compared to the rapid decline in plasma concentration of bupivacaine seen after 2 hours. Exparel also exhibited a half-life of 34.1 hours.

Price	$9.25
52-Week High/Low	$15.34 - 6.16
Shares Outstanding (000)	17,233.00
Market Cap. (000)	$159,405.25
Average Daily Volume (000)	66.74

EPS	**FY10A**	**FY11E**	**FY12E**
Mar	-	$(0.47)A	-
Jun	-	$(0.42)A	-
Sep	-	$(0.62)	-
Dec	-	$(0.71)	-
FY	**$(1.58)**	**$(2.22)**	**$(1.69)**
Prior	-	-	-
Consensus	$(47.29)	$(2.76)	$(1.99)
P/E	NM	NM	NM
FY Rev. (000)	$14,562.00	$15,403.62	$47,557.13

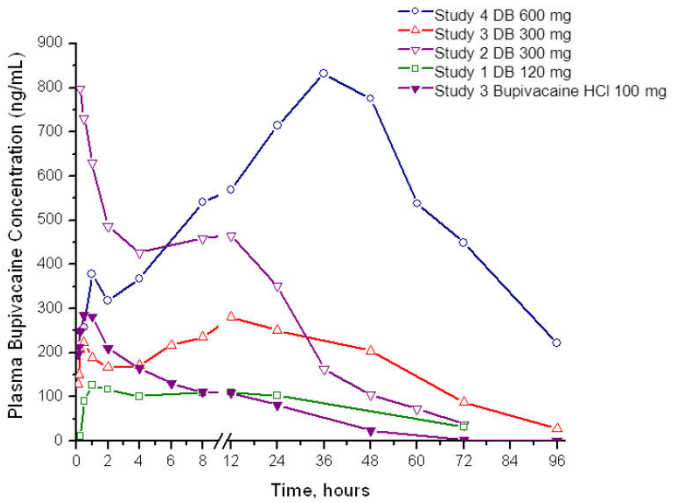
Source: BigCharts.com

Exhibit 1: Efficacy results of Exparel versus bupivacaine

	DB (75-300 mg)	Bupivacaine HCl (75-200 mg)	*P* Value
AUC 0-72 hr	315	427	*P*<0.0001
Median TTFO	9.9 hours	2.7 hours	*P*<0.0001
Morphine	7.9 mg	15.8 mg	*P*<0.0001
ORAEs per pt	0.25	0.46	*P*<0.0001

Source: 300-mg poster for ACCP 2011 (poster #198) by Joseph Dasta

Exhibit 2: Mean plasma concentration of Exparel and bupivacaine over time



Source: PK profile poster for ACCP 2011 (Poster #200) by Deedee Hu

Valuation. Our target price is underpinned by a DCF analysis, based primarily on the revenue generated by Exparel for the infiltration application, and the net cash position. Within the DCF analysis we assume a 40% discount rate and a 7x multiple of the terminal value for the projected 2016 EBITDA.

Risks applicable to Pacira not achieving our target price include financial risk, product development risk, competitive risk, the potential for high stock-price volatility, and litigation risk.

PACIRA PHARMACEUTICALS INC
Income Statement
Fiscal Year ends December
(All amounts in 000s except per share items)

	2009A	2010A	1Q11A	2Q11A	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E	2016E
PRODUCT Sales:												
Exparel for Pain (infiltration) in the US						-	-	31,675	99,172	190,518	271,583	340,809
Exparel for Pain (Nerve Block & Epidural) in the US							-	-	3,361	14,057	35,638	48,015
DepoCyt(e) Supply revenue	5,882	6,820	1,716	1,469	1,750	1,750	6,685	6,886	7,092	7,305	7,524	7,750
DepoDur Supply revenue	442	820	-	-	-	-	-	-	-	-	-	-
Other												
Total product revenues	**6,324**	**7,640**	**1,716**	**1,469**	**1,750**	**1,750**	**6,685**	**38,560**	**109,625**	**211,880**	**314,745**	**396,574**
Royalty and license revenues	4,044	3,705	937	884	900	900	3,621	3,746	3,858	8,877	20,553	36,556
Contract/Collaborative agreement revenues	4,638	3,217	1,210	1,283	1,296	1,309	5,098	5,251	5,408	5,570	5,737	5,910
Total revenues	**15,006**	**14,562**	**3,863**	**3,636**	**3,946**	**3,959**	**15,404**	**47,557**	**118,892**	**226,327**	**341,036**	**439,039**
COGS	12,301	12,276	3,667	3,115	3,236	3,246	13,264	51,635	51,960	55,754	77,211	94,367
R&D	26,233	18,628	3,513	4,381	6,000	6,500	20,394	12,236	14,072	16,183	18,610	20,471
SG&A	5,020	6,030	3,805	4,671	6,539	7,847	22,863	25,149	28,921	33,259	36,585	40,244
Acquired in-process R&D												
Total operating expenses	**43,554**	**36,934**	**10,985**	**12,167**	**15,775**	**17,593**	**56,520**	**89,020**	**94,953**	**105,196**	**132,407**	**155,082**
Operating income (EBIT)	**(28,548)**	**(22,372)**	**(7,122)**	**(8,531)**	**(11,829)**	**(13,635)**	**(41,117)**	**(41,463)**	**23,939**	**121,130**	**208,629**	**283,957**
Other income	367	(34)	110	(22)			88					
Interest income	77	146	29	37	100	50	216	190	100	500	600	700
Interest expense	(1,723)	(3,959)	(2,481)	(676)	(1,200)	(1,200)	(5,557)	(4,835)	(4,062)	(3,092)		
Royalty interest obligation	(1,880)	(930)	(311)	429			118					
Income before taxes	**(31,707)**	**(27,149)**	**(9,775)**	**(8,763)**	**(12,929)**	**(14,785)**	**(46,252)**	**(46,109)**	**19,978**	**118,543**	**209,230**	**284,658**
Provision for income taxes									6,992	41,490	73,231	99,630
Net income, GAAP	**(31,707)**	**(27,149)**	**(9,775)**	**(8,763)**	**(12,929)**	**(14,785)**	**(46,252)**	**(46,109)**	**12,986**	**77,053**	**136,000**	**185,028**
EPS basic	(55)	$ (47.29)	$ (0.98)	$ (0.51)	$ (0.75)	$ (0.86)	$ (3.00)	$ (1.96)	$ 0.54	$ 3.14	$ 5.44	$ 7.25
EPS diluted, GAAP	(4)	$ (1.58)	$ (0.47)	$ (0.42)	$ (0.62)	$ (0.71)	$ (2.22)	$ (1.69)	$ 0.47	$ 2.72	$ 4.71	$ 6.28
Basic shares outstanding	573	574	10,014	17,233	17,233	17,233	15,428	23,578	24,049	24,530	25,021	25,521
Diluted shares outstanding	8,545	17,233	20,791	20,791	20,791	20,791	20,791	27,207	27,751	28,306	28,872	29,450

Source: Company documents and Brean Murray Carret & Co. estimates

Important Disclosures

Ratings and Target Price History

All prices are as of the market close on 10/19/11.

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Buy - Expected to appreciate by at least 10% within the next 12 months.
Hold - Fully valued, not expected to appreciate or decline materially within the next 12 months.
Sell - Expected to decline by at least 10% within the next 12 months.

	# of Securities	% of Total Securities	# of IB-Related Securities in Past 12 mos.	% of Total Securities
BUY	138	66.99%	12	8.7%
HOLD	58	28.16%	2	3.45%
SELL	7	3.4%	0	0%
NOT RATED	3	1.46%	0	0%
TOTAL	**206**			

Note : Stock price volatility may cause temporary non-alignment of some ratings with some target prices.

Valuation Methodology and Risks

Pacira Pharmaceuticals (PCRX): Our target price is underpinned by a DCF analysis, based primarily on the revenue generated by Exparel for the infiltration application, and the net cash position. Within the DCF analysis we assume a 40% discount rate and a 7x multiple of the terminal value for the projected 2016 EBITDA. Risks applicable to Pacira not achieving our target price include financial risk, product development risk, competitive risk, the potential for high stock-price volatility, and litigation risk.

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