

PACIRA PHARMACEUTICALS INC.

4Q10 & Outlook Support Positive Thesis

Lead product EXPAREL remains on track for potential FDA approval in July: Overall, the call reinforced our confidence in Pacira's outlook, with lead pipeline candidate EXPAREL, a long-acting formulation of bupivacaine, on track for approval and commercialization this year – with the next expected key catalyst being the product's PDUFA (FDA action date) on July 28. Key highlights of the 4Q report and conference call for us were first-time 2011 revenue and cash guidance and focus on upcoming medical conferences and presentations featuring EXPAREL.

Full roster of near-term medical meetings featuring EXPAREL will increase medical community exposure ahead of approval and launch: Pacira plans to have a presence at six medical meetings in April and May (five in May). Increased exposure for EXPAREL to key opinion leaders and other medical practitioners ahead of and following launch will play an important role in demand for the product, in our view

First-time FY11 financial guidance essentially in line with our estimates: With respect to 2011 guidance, management projects \$14-\$16M of revenues (excluding EXPAREL, which it plans to launch in 4Q11). Cash burn expected to be ~\$30M through 3Q11, and assuming launch, \$25M in 4Q11.

We are reiterating our 1-OW/Neutral investment rating: Within the next 12 months, we expect key risk-reducing events to enhance valuation -- with FDA approval of EXPAREL, and signs of early commercialization success as the likely two key drivers of stock outperformance.

PCR: Quarterly and Annual EPS USD

	2010		2011			2012			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2011	2012	
Q1	N/A	-0.52E	-0.52E	N/A	-0.63E	-0.63E	N/A	N/A	-21%	
Q2	N/A	-0.45E	-0.45E	N/A	-0.41E	-0.41E	N/A	N/A	9%	
Q3	N/A	-0.64E	-0.64E	N/A	-0.42E	-0.42E	N/A	N/A	34%	
Q4	N/A	-1.21E	-1.21E	N/A	-0.20E	-0.20E	N/A	N/A	83%	
Year	N/A	-2.83E	-2.83E	N/A	-1.65E	-1.65E	N/A	N/A	42%	
P/E			N/A			N/A				

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

Stock Rating	1-OVERWEIGHT Unchanged
Sector View	2-NEUTRAL Unchanged
Price Target	USD 11.00 Unchanged

Price (01-Apr-2011)	USD 7.03
Potential Upside/Downside	+56%
Tickers	PCRX

Market Cap (USD mn)	163
Shares Outstanding (mn)	17.23
Free Float (%)	49.29
52 Wk Avg Daily Volume (mn)	0.1
Dividend Yield (%)	N/A
Return on Equity TTM (%)	-123.46
Current BVPS (USD)	N/A

Source: FactSet Fundamentals

Price Performance	Exchange-Nasdaq
52 Week range	USD 7.60-6.16



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U.S. Specialty Pharmaceuticals

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Summary and Valuation

On March 31, Pacira reported 4Q10 and 2010 financial results, and hosted its first conference call since the company went public on February 3. In our view, management's communication was clear, concise, and provided balanced overview of the company – from both a qualitative and financial perspective. Overall, the call reinforced our confidence in Pacira's outlook, with lead pipeline candidate EXPAREL, a long-acting formulation of bupivacaine, on track for approval and commercialization this year – with the next expected key catalyst being the product's PDUFA (FDA action date) on July 28. Having initiated coverage on March 15, key highlights of the 4Q report and conference call for us were first-time 2011 revenue and cash guidance and focus on upcoming medical conferences and presentations featuring EXPAREL. Increased exposure for EXPAREL to key opinion leaders (KOLs) and other medical practitioners ahead of and following launch will play an important role in demand for the product, in our view. We understand from Pacira management that a number of KOLs have already requested slides from recent EXPAREL clinical study data presentations, which the KOLs plan to use in their presentations to the medical community.

With respect to 2011 guidance, management projects \$14-\$16M of revenues (excluding EXPAREL, which it plans to launch in 4Q11). Cash burn expected to be ~\$30M through 3Q11, and assuming launch, \$25M in 4Q11 (includes \$10M milestone to SkyePharma).

With respect to upcoming conferences, Pacira plans to have a presence at six medical meetings in April and May (five in May). According to management, the Annual Meeting of American Society of Colon & Rectal Surgeons (ASCRS) will be most important (held May 14-18, 2011 in Vancouver), where Pacira will have a few posters, hold an advisory board and conduct several one-one meetings. Second in importance will be the Annual Meeting of American Society of Regional Anesthesia (ASRA), held May 5-8 in Las Vegas, where Pacira will hold a medical education symposium.

We value the stock using EV/Revenues and P/E methodologies. On our 2013 forecast, Pacira shares are trading at 0.82x on an EV/revenue basis and 15.6x on a P/E basis, compared with peer group averages of 2.49x and 20.09x, respectively. On our 2014 forecast, the stock is trading at 0.48x on an EV/revenue basis and 2.7x on a P/E basis. We view 2014 as the year in which we expect key value driver EXPAREL to be gaining real traction, and therefore a truer base for growth.

Our one-year price target is \$11, derived by applying a 5.5x PE multiple to our 2014 EPS forecast of \$2.57 and discounted back three years at a rate of 10%. Relative to today, the \$11 price target translates to EV/revenues of 0.83x and P/E of 4.3x, using our 2014 EPS forecast. We believe that the closest comp in the peer group is Cadence Pharmaceutical (CADX), currently trading at 2.06x on an EV/revenue basis and 22.7x on a P/E basis, using the 2013 FC consensus estimate; and on the 2014 estimate, 1.5x on an EV/revenue basis and 9.5x on a P/E basis – keeping in mind that Cadence recently gained FDA approval and is launching its key growth driver Ofirmev and is targeting the hospital market.

We believe that 5.5x P/E multiple is appropriate to arrive at our price target for Pacira, based on the following factors: (1) within 12 months, we expect regulatory risk to be significantly reduced, assuming FDA approval of EXPAREL in 2011; (2) commercial risk will remain, although we expect to have gained insights into EXPAREL's early market acceptance; and (3) a requirement for additional sources of capital, with a number of options for management to consider, including product partnering, asset monetization, and/or financing.

Investment Thesis

Pacira is an emerging specialty pharmaceutical company focused on development, commercialization and manufacture of proprietary drug products, based on a commercially validated, proprietary drug delivery technology.

Lead product and value driver EXPAREL represents potential game-changer targeting attractive post-surgical pain management market. EXPAREL is an NDA-filed, proprietary, long-acting formulation of widely-used anesthetic bupivacaine. With clinically demonstrated effectiveness up to 72 hours post-surgery, EXPAREL addresses a significant unmet medical need for a long-acting non-opioid postsurgical analgesic, with potential to improve patient outcomes and hospital economics. With approximately 39M annual opportunities in the US where EXPAREL may add value, very modest penetration translates to a conservative \$800M-\$1Bn in peak sales, in our view.

Pacira is differentiated by highly experienced management team with successful commercial track record and a comprehensive marketing strategy: CEO and 30-year pharmaceutical industry veteran Dave Stack has brought together a team with deep, successful experience in drug development and commercialization in the hospital market. A strategy which includes use of comprehensive market and health outcomes research further differentiates Pacira from others, in our opinion.

Attractive valuation provides significant upside potential with pending EXPAREL approval and launch in 2H11. Within the next 12 months, we expect key risk-reducing events to enhance valuation to our \$11 price target – with a P/E of ~5x our FY14 EPS estimate of \$2.57 looking achievable.

Model Estimates Unchanged

Our unchanged 2011-2014 net loss or earnings/share and revenue estimates are as follows: 2011 – (\$2.83) and \$19.9M; 2012 – (\$1.65) and \$61.5M; 2013 - \$0.45 and \$121M; 2014 - \$2.57 and \$207M. We continue to assume a 4Q11 EXPAREL launch, following PDUFA of July 28, 2011. We continue to estimate that Pacira will end 2011 with \$10M in cash. Based on its cash position, we assume Pacira will complete a capital raise in early 2012, with a few options likely to be considered, potentially including new partnering agreements, asset monetization, and/or a financing.

Figure 1: Barclays Capital P&L Estimates – 2011-2015

Richard B. Silver - Barclays Capital							
Pacira Pharmaceuticals, Inc							
Quarterly Earnings Model (\$,Mil, Except Per Share)							
Fiscal Year End: December							
	FY09A	FY10A	FY11E	FY12E	FY13E	FY14E	FY15E
Supply Revenue, Royalties	10.4	11.3	12.5	13.7	15.1	16.5	18.1
Collaborative Licensing, Development	4.6	3.2	0.7	0.0	0.0	0.0	0.0
Milestones - Other		0.0	3.8	5.0	5.0	5.0	5.0
Expirel Revenues - US		0.0	2.9	42.9	100.9	185.8	291.2
TOTAL REVENUES	15.0	14.6	19.9	61.5	121.0	207.4	314.3
Total COGS	12.3	12.3	25.3	41.6	52.0	55.4	71.8
OVERALL GROSS PROFIT	2.7	2.3	(5.4)	19.9	69.0	151.9	242.4
R&D	26.2	18.6	18.2	7.7	7.7	16.6	31.4
SG&A	5.0	6.0	21.5	38.5	43.2	49.4	55.5
TOTAL OPERATING EXPENSE	31.3	24.7	39.7	46.2	50.8	66.0	86.9
Operating Income (EBIT)	(28.5)	(22.4)	(45.1)	(26.3)	18.2	85.9	155.5
Net Interest Expense	(3.2)	(4.8)	(4.0)	(4.1)	(3.6)	(3.0)	0.3
Pre-Tax Income	(31.7)	(27.1)	(49.1)	(30.4)	14.5	82.9	155.8
Income Taxes (benefit)	0.0	0.0	0.0	0.0	5.3	29.0	54.5
Net Income (Loss)	(31.7)	(27.1)	(49.1)	(30.4)	9.3	53.9	101.2
EPS diluted			(\$2.67)	(\$1.56)	\$0.45	\$2.57	\$4.73
EPS basic			(\$2.83)	(\$1.65)	\$0.47	\$2.70	\$4.98
Average Shares O/S - diluted			18.4	19.5	20.6	21.0	21.4
Average shares O/S - basic			17.4	18.5	19.6	20.0	20.4
BEGINNING CASH	12.4	7.1	26.1	9.7	24.3	24.3	50.6
Add: H1 2010 Notes - Investors 3			0.0	0.0	0.0		
Add: 2010 Debt - GE			0.0	0.0	0.0		
Add: 2010 Debt - Hercules			0.0	0.0	0.0		
Add: Dec 2010 Notes - Investors 3			0.0	0.0	0.0		
Add: IPO (net of Gross Spread)			38.5	60.0	0.0		
Add (Less): Free Cash Flow			(54.9)	(45.4)	(0.0)	26.3	91.5
ENDING CASH	7.1	26.1	9.7	24.3	24.3	50.6	142.1
	FY09A	FY10A	FY11E	FY12E	FY13E	FY14E	FY15E
MARGINS:							
Overall Gross Margin	NM	NM	NM	32.3%	57.0%	73.3%	77.1%
R&D	174.8%	127.9%	91.4%	12.5%	6.3%	8.0%	10.0%
SG&A	33.5%	41.4%	108.0%	62.6%	35.7%	23.8%	17.7%
Operating Income	NM	NM	NM	NM	15.0%	41.4%	49.5%
Pre-Tax Income	NM	NM	NM	NM	12.0%	40.0%	49.6%
Net Income	NM	NM	NM	NM	7.7%	26.0%	32.2%
Income Tax Rate					35.0%	35.0%	35.0%
YR-TO-YR CHANGES:							
Total Revenues	NM	-3.0%	36.7%	209.1%	96.5%	71.4%	51.6%
Expirel Revenues & Royalties	NM	NM	NM	1369.0%	135.3%	84.2%	56.7%
Total Gross Profit	NM	NM	NM	NM	246.6%	120.2%	59.6%
R&D	NM	-29.0%	-2.3%	-57.9%	0.0%	116.4%	89.5%
SG&A	NM	20.1%	256.7%	79.1%	12.1%	14.5%	12.3%
Operating Income	NM	NM	NM	NM	NM	372.6%	81.0%
Net Income	NM	NM	NM	NM	NM	482.1%	87.8%

Source: company and Barclays Capital.

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Primary Stocks (Ticker, Date, Price)

Pacira Pharmaceuticals Inc. (PCRX, 01-Apr-2011, USD 7.03), 1-Overweight/2-Neutral

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In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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U.S. Specialty Pharmaceuticals

Elan PLC (ELN)	Endo Pharmaceuticals Holdings (ENDP)	Forest Labs (FRX)
Jazz Pharmaceuticals Inc. (JAZZ)	Medicis Pharmaceutical Corp. (MRX)	Mylan Inc. (MYL)
Nektar Therapeutics (NKTR)	Pacira Pharmaceuticals Inc. (PCRX)	Par Pharmaceutical Cos. (PRX)
Teva Pharmaceutical (TEVA)	Watson Pharmaceuticals (WPI)	

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IMPORTANT DISCLOSURES CONTINUED

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IMPORTANT DISCLOSURES CONTINUED

Pacira Pharmaceuticals Inc. (PCRX)

USD 7.03 (01-Apr-2011)

Stock Rating

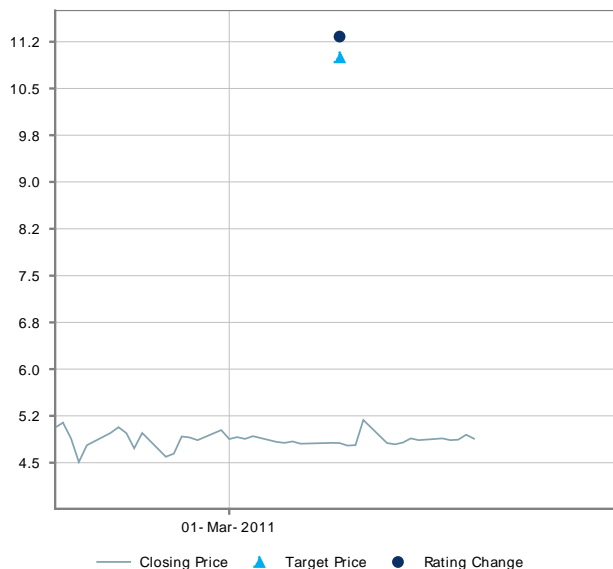
1-OVERWEIGHT

Sector View

2-NEUTRAL

Rating and Price Target Chart - USD (as of 01-Apr-2011)

Currency=USD



Date	Closing Price	Rating	Price Target
15-Mar-2011	6.84	1-Overweight	11.00

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Valuation Methodology: Our \$11 price target is derived by applying a 5.5x multiple to our 2014 EPS estimate of \$2.57, discounted back 3 years at the rate of 10%. Relative to today, the \$11 price target translates to EV/revenues of 0.83x and P/E of 4.3x, using our 2014 EPS forecast. We believe that the closest comp in the peer group is Cadence Pharmaceutical (CADX), currently trading at 1.88x on an EV/revenue basis and 20.9x on a P/E basis, using the 2013 FC consensus estimate; and on the 2014 estimate, 1.37x on an EV/revenue basis and 8.8x on a P/E basis – keeping in mind that Cadence recently gained FDA approval and is launching its key growth driver Ofirmev and is targeting the hospital market.

Risks which May Impede the Achievement of the Price Target: Despite having successfully completed two pivotal Phase 3 clinical trials, EXPAREL still faces risks of delay in FDA approval or failure to gain approval, for safety and or efficacy reasons. In addition, Pacira's manufacturing facilities and processes must successfully pass FDA inspection as part of the drug approval process.

Pacira must effectively develop sales, marketing, and distribution capabilities. EXPAREL will require acceptance among physicians, patients, and third party payors to achieve commercial success. Even if the medical community views EXPAREL as safe and effective for its approved uses, physicians and patients may not be immediately receptive, potentially translating to slower adoption as accepted treatment for postsurgical pain.

If EXPAREL is not approved by the FDA in the expected timeframe, the company will required to raise additional funds. Assuming an EXPAREL commercial launch in 4Q11, we expect current cash position to be sufficient through year end 2011, at which point further advance of pipeline will require capital raising.

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