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Reason for Report:

Company Update

Changes	Previous	Current
Rating	--	Overweight
Price Tgt	--	\$14.00
FY11E Rev (mil)	--	\$15.5
FY12E Rev (mil)	--	\$50.6
FY11E EPS	--	\$(2.74)
FY12E EPS	--	\$(1.82)
Price		\$9.59
52 Week High		\$15.34
52 Week Low		\$6.16
12-Month Price Target		\$14.00
9x our 2014 EPS est. of \$2.11, disc. at 25%		
Shares Out (mil)		17.2
Market Cap. (mil)		\$164.9
Avg Daily Vol (000)		89
Book Value/Share		\$1.33
Net Cash Per Share		\$1.43
Debt to Total Capital		26%
Yield:		NM
PE to Est LT EPS Growth		NaN
Est LT EPS Growth		NA
Fiscal Year End:		Dec

Rev (mil)	2010A	2011E	2012E
Mar	--	\$3.9A	\$6.6E
Jun	--	\$3.6A	\$10.2E
Sep	--	\$4.0E	\$15.2E
Dec	\$2.2A	\$4.0E	\$18.6E
FY	\$14.6A	\$15.5E	\$50.6E
CY	\$14.6A	\$15.5E	\$50.6E
FY RM	11.3x	10.6x	3.3x
CY RM	11.3x	10.6x	3.3x

EPS	2010A	2011E	2012E
Mar	--	\$(0.98)A	\$(0.93)E
Jun	--	\$(0.51)A	\$(0.37)E
Sep	--	\$(0.57)E	\$(0.27)E
Dec	\$(12.27)A	\$(0.69)E	\$(0.25)E
FY	\$(47.29)A	\$(2.74)E	\$(1.82)E
CY	\$(47.29)A	\$(2.74)E	\$(1.82)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 Overweight

(PCRX – \$9.59)

Highlights from Management Meetings; Bullish on Prospects for Exparel

CONCLUSION:

We recently spent time with Pacira senior management in investor meetings. We came away with continued confidence that a timely FDA approval for Exparel (a long-acting formulation of bupivacaine for post-surgical pain) will take place. Recall that the FDA action date is 10/28/11. We continue to believe that peak U.S. sales of at least \$200M are achievable, pointing to an attractive risk/reward in the context of a market cap of only around \$160M (particularly given the high barriers to generic competition given the complexities of this liposome-based formulation). We reiterate our Overweight rating and \$14 price target.

- **Looking for a timely approval of Exparel; would not be concerned about relatively unconventional nature of surgical populations studied.** Recall that the filing was based on studies in patients undergoing hemorrhoidectomy and bunionectomy procedures. Though there has been some concern as to why the pivotal studies were not run in patients undergoing major abdominal surgeries or joint replacement procedures, PCRX has suggested that it chose these surgical models following a lengthy dialogue with the FDA. Further, both procedure types are associated with significant post-operative pain, so we would argue that these settings are appropriate. For instance, the hemorrhoidectomy procedure in the Phase III study was performed according to the Milligan-Morgan technique, which involves a full excision of the hemorrhoid and involves a deep incision of around 2-3 inches.

- **Significant room to take share from elastomeric infusion pumps.** These devices are generally labor-intensive catheter-based systems that are most often used to deliver bupivacaine over a long period directly to the surgical site. Exparel can essentially accomplish what these pumps do with a single, convenient and potentially less expensive injection (the pumps can cost over \$300 per patient; PCRX is likely to price Exparel in the \$200-\$250 range). PCRX has noted that there are nearly 1M surgical procedures that use these pumps (so converting say 20% of the market at a per patient cost of \$225 would be worth \$45M in Exparel sales).

- **Usage of Exparel in aesthetic surgeries also a possible source of early adoption.** A long-acting numbing agent could be well-received by patients undergoing painful aesthetic procedures like breast augmentation. Since these are cash-pay settings, Exparel usage would not be beholden to the formulary approval process.

INVESTMENT RECOMMENDATION:

We believe the risk/reward profile for PCRX shares is favorable given the value proposition associated with Exparel. We base our \$14 PT on our 2014 EPS estimate of \$2.11, times a P/E of 9x discounted at 25%. for 1.5 years.

RISKS TO ACHIEVEMENT OF TARGET PRICE:

Risks include regulatory and commercial risks associated with Exparel.

COMPANY DESCRIPTION:

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

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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	3QE	4QE	2011E	1QE	2QE	3QE	4QE	2012E	2013E	2014E	2015E
Revenues															
Exparel U.S. sales								\$2.9	\$6.4	\$11.4	\$14.7	\$35.4	\$86.6	\$142.5	\$215.5
Exparel ex-U.S. revenue												0.0	0.0	0.0	0.0
(DepoCyte/DepoDur) ⁽¹⁾	10.4	11.3	2.9	2.8	3.1	3.1	11.9	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	0.9	0.9	3.6	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	\$6.6	\$10.2	\$15.2	\$18.6	\$50.6	\$100.5	\$157.0	\$230.8
Cost of sales ⁽³⁾	12.3	12.3	3.7	3.1	3.4	3.5	13.7	14.2	6.6	9.9	12.1	42.8	40.2	42.4	53.1
Gross Profit	\$2.7	\$2.3	\$0.2	\$0.5	\$0.6	\$0.5	\$1.8	(\$7.6)	\$3.6	\$5.3	\$6.5	\$7.8	\$60.3	\$114.6	\$177.7
Research & development	26.2	18.6	3.5	4.4	4.4	4.6	16.9	3.0	2.0	1.5	1.9	8.4	6.0	6.3	6.9
Selling, general, and administrative	5.0	6.0	3.8	4.7	5.0	6.8	20.3	8.6	8.8	8.8	9.1	35.4	42.2	50.2	53.1
Total expenses	\$43.6	\$36.9	\$11.0	\$12.2	\$12.9	\$14.9	\$50.9	\$25.8	\$17.5	\$20.2	\$23.1	\$86.6	\$88.4	\$98.9	\$113.1
Operating Income	(\$28.5)	(\$22.4)	(\$7.1)	(\$8.5)	(\$8.9)	(\$10.9)	(\$35.4)	(\$19.2)	(\$7.3)	(\$5.0)	(\$4.5)	(\$36.0)	\$12.0	\$58.1	\$117.7
Interest income	0.1	0.1	0.0	0.0	0.2	0.2	0.4	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)	(1.2)	(1.2)	(5.6)	(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	0.0	0.0	0.2	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)	(1.1)	(1.1)	(5.0)	(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)	(\$9.9)	(\$12.0)	(\$40.4)	(\$20.3)	(\$8.4)	(\$6.1)	(\$5.6)	(\$40.4)	\$10.3	\$59.5	\$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)	(\$9.9)	(\$12.0)	(\$40.4)	(\$20.3)	(\$8.4)	(\$6.1)	(\$5.6)	(\$40.4)	\$10.3	\$59.5	\$113.5
EPS, basic	(\$3.60)	(\$47.29)	(\$0.98)	(\$0.51)	(\$0.57)	(\$0.69)	(\$2.74)	(\$0.93)	(\$0.37)	(\$0.27)	(\$0.25)	(\$1.82)	\$0.46	\$2.59	\$4.88
EPS, diluted	(\$3.60)	(\$47.29)	(\$0.98)	(\$0.51)	(\$0.57)	(\$0.69)	(\$2.74)	(\$0.93)	(\$0.37)	(\$0.27)	(\$0.25)	(\$1.82)	\$0.37	\$2.11	\$3.96
Shares outstanding, basic ⁽⁵⁾	8.5	0.6	10.0	17.2	17.3	17.4	15.5	21.9	22.4	22.5	22.6	22.4	22.7	23.0	23.3
Shares outstanding, diluted ⁽⁵⁾	8.5	0.6	10.0	17.2	17.3	17.4	15.5	21.9	22.4	22.5	22.6	22.4	27.7	28.2	28.7
Expenses as % of sales:															
COGS	82.0%	84.3%	94.9%	85.7%	86.0%	88.0%	88.7%	215.0%	65.0%	65.0%	65.0%	84.6%	40.0%	27.0%	23.0%
R&D		127.9%	90.9%	120.5%	110.0%	115.0%	109.0%	45.0%	20.0%	10.0%	10.0%	16.6%	6.0%	4.0%	3.0%
SG&A		41.4%	98.5%	128.5%	125.0%	170.0%	130.8%	131.0%	86.0%	58.0%	49.0%	69.9%	42.0%	32.0%	23.0%
Margins:															
Gross margin								NM	35.0%	35.0%	35.0%	15.4%	60.0%	73.0%	77.0%
Operating margin													12.0%	37.0%	51.0%
Net income													10.3%	37.9%	49.2%
Income Tax													0.0%	0.0%	5.0%
Y-O-Y Growth rates:															
Exparel U.S. sales													144.6%	64.5%	51.3%
Total revenue			-6.3%	-11.8%	-3.0%	82.6%	6.4%	70.9%	180.5%	280.0%	365.2%	226.5%	98.5%	56.3%	47.0%
R&D			-29.5%	-12.1%	-11.7%	25.2%	-9.3%	-15.5%	-53.4%	-65.5%	-59.5%	-50.3%	-28.2%	4.2%	10.3%
Selling, general, and administrative			189.6%	255.6%	280.6%	225.5%	236.3%	127.2%	87.8%	76.3%	34.1%	74.4%	19.4%	19.1%	5.7%
Operating profit														382.2%	102.7%
Net income														475.0%	90.9%

(1) Reflects manufacturing and supply revenue and royalties from third parties on DepoCyte and DepoDur

(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 1Q12 to Skye Pharma related to the first commercial sale of Exparel

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

(5) Assumes additional common share offering in 2012

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Current disclosure information for this company can be found at

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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	\$23.2	\$11.4	\$18.7
Operating Activities							
Net Income (Loss)	(\$41.9)	(\$31.7)	(\$27.1)	(\$40.4)	(\$40.4)	\$10.3	\$59.5
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)	(\$10.0)	(\$0.8)	(\$4.1)
Cash From Operations	(\$29.2)	(\$20.8)	(\$24.9)	(\$36.0)	(\$44.7)	\$15.9	\$62.4
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	\$38.0	\$48.0	\$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	\$38.0	\$38.0	(\$5.7)	(\$4.0)
Net Change In Cash	\$5.1	(\$5.3)	\$19.1	(\$3.0)	(\$11.7)	\$7.2	\$55.4
Year End Cash & Equivalents	\$12.4	\$7.1	\$26.1	\$23.2	\$11.4	\$18.7	\$74.1

(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 \$41M from February 2011 IPO. Also assumes additional share offering in 2012.

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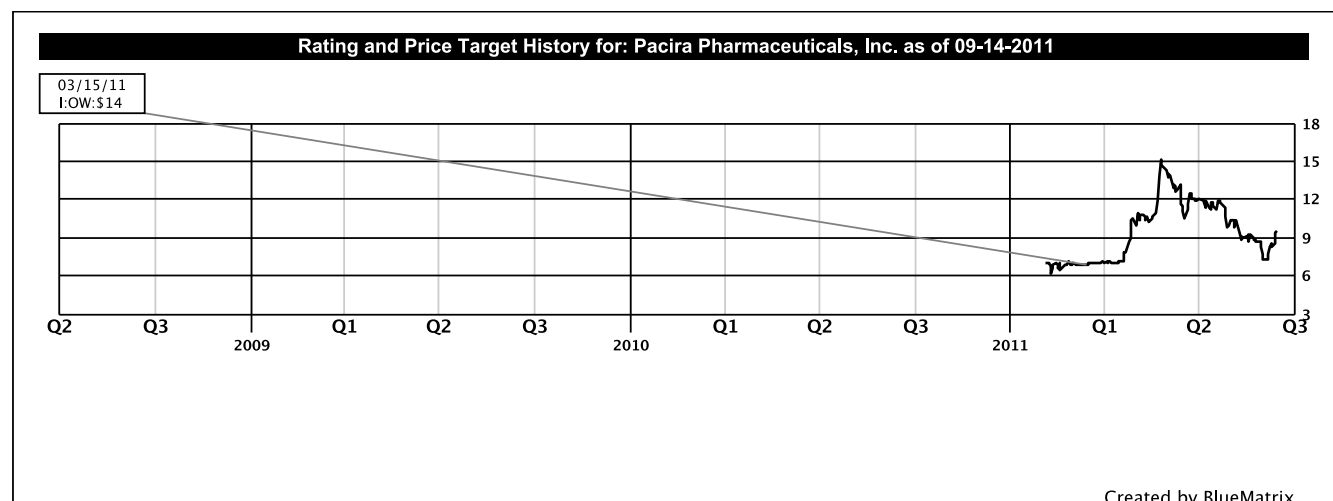
Pacira - Annual Balance Sheet

(\$ in millions)

	2008A	2009A	2010A	2011E	2012E	2013E	2014E
Current Assets							
Cash & Equivalents	\$12.4	\$7.1	\$26.1	\$23.2	\$11.4	\$18.7	\$74.1
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	\$10.4	\$12.4	\$17.2
Inventories	\$2.0	\$1.7	\$1.6	\$1.7	\$4.7	\$4.4	\$4.6
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	\$29.6	\$28.9	\$37.9	\$98.5
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	\$66.2	\$66.0	\$73.2	\$131.4
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)	(\$50.4)	(\$42.3)	(\$28.1)	\$35.3
Total Liabilities & Equity	\$50.5	\$44.0	\$66.6	\$66.2	\$66.0	\$73.2	\$131.4

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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]	352	56.10	69	19.60
HOLD [N]	240	38.20	22	9.17
SELL [UW]	36	5.70	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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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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