

October 19, 2011

Richard Lau (415) 274-6851

Liana Moussatos, Ph.D. (415) 263-6626

Pacira Pharmaceuticals, Inc. (PCRX - OUTPERFORM): New Data Shows Reduction in Opioid Burden with Exparel and Is Likely To Support Launch if Approved by Oct. 28th PDUFA, in our View. Reiterate OUTPERFORM

Price: \$9.25

Fair Value Estimate: \$20

- **A retrospective analysis comparing Exparel to regular bupivacaine showed a longer time to first opioid use, reduction in opioid-related adverse events, reduction in opioid consumption, and better pain control with Exparel use.** The data were generated from a pooled analysis of five active-control, double-blind, randomized, multicenter, parallel-group trials with over 700 patients across three surgical models (hemorrhoidectomy, total knee arthroplasty, and hernia repair). Results demonstrated that Exparel was statistically superior ($P < 0.0001$) to bupivacaine on all four endpoints: 1) median time to first opioid (TTFO) was 3.5 times longer for Exparel patients versus bupivacaine patients (9.9 hrs vs. 2.7 hrs); 2) a 50% reduction in the total amount of morphine-equivalent opioids consumed for Exparel patients versus bupivacaine patients (7.9 mg vs. 15.8 mg); 3) a 46% reduction in the mean number of opioid-related adverse events (ORAEs) for Exparel patients versus bupivacaine (0.25 vs. 0.46); and 4) less pain over 72 hours for Exparel patients versus bupivacaine patients as measured by area under the curve (AUC) analysis (AUC0-72 315 vs. 427). (See page 2 for results table.) The data were presented at the 2011 Annual Meeting of the American College of Clinical Pharmacy (ACCP; October 16-19; Pittsburgh).
- **We believe this retrospective data will be an important marketing tool for commercial launch and expect additional retrospective and prospective health outcome data to be presented over the coming months.** In our view, the retrospective data presented at ACCP goes a long way in quantifying the reduction in opioid burden for patients using Exparel versus bupivacaine and should serve as an important marketing piece as most physicians are aware of the improved recovery experience by patients who use less opioids. Furthermore, the company is also generating data to support the pharmacoeconomic benefit of Exparel by quantifying the increase in cost related to treating an ORAE, including costs related to length of stay. We believe these retrospective and prospective data demonstrating both the clinical and economic benefit of Exparel will provide a compelling rationale for adoption by physicians. We also believe Pacira's comprehensive and detailed launch strategy highlights management's expertise in successful hospital-based commercial drug launches.
- **The next major catalyst for Pacira is the PDUFA date of October 28, 2011 for Exparel treatment of postsurgical pain management.** We estimate a 75% chance that Exparel is approved on its PDUFA date and think the stock could double on approval. With the recent pullback in PCRX shares, 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.
- **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 therapeutics advantages, some physicians may opt for the cheaper alternative.

Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see page 3 of this report for analyst certification and important disclosure information.

ACCP PRESENTATION

Poster Title: Bupivacaine Extended Release Liposome Injection (DepoFoam® bupivacaine) vs. Bupivacaine HCl: A Meta-analysis of Multimodal Trials of Doses Up to and Including 300 mg

Figure 1: Retrospective Analysis Comparing Exparel to Bupivacaine on Opioid Burden

	Exparel (75-300mg)	Bupivacaine (75-200mg)	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 patient	0.25	0.46	P<0.0001

*TTFO=Time To First Opioid use; ORAE=Opioid-related Adverse Event

Source: Company data, Wedbush Securities, Inc.

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

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.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ311.pdf>

Investment Rating System:

Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of September 30, 2011)	Investment Banking Relationships (as of September 30, 2011)
Outperform: 59%	Outperform: 10%
Neutral: 35%	Neutral: 2%
Underperform: 6%	Underperform: 0%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

Wedbush Equity Research Disclosures as of October 19, 2011

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

Research Disclosure Legend

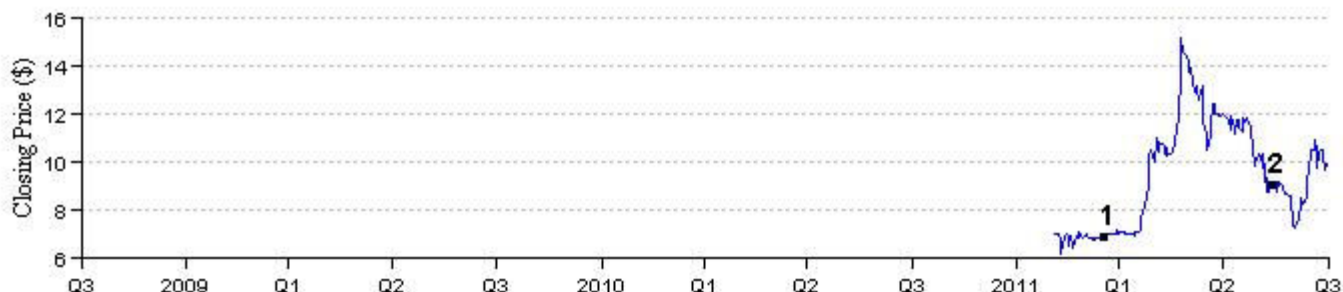
1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.
10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.
11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.

Price Charts

Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

PCR

1) 03/15/11	2) 08/11/11
Outperform \$19	Outperform \$20



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmg/equities-division/research/equity-research>. Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com

EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * **EQUITY SALES** Los Angeles (800) 444-8076

CORPORATE HEADQUARTERS (213) 688-8000

The information herein is based on sources that we consider reliable, but its accuracy is not guaranteed. The information contained herein is not a representation by this corporation, nor is any recommendation made herein based on any privileged information. This information is not intended to be nor should it be relied upon as a complete record or analysis; neither is it an offer nor a solicitation of an offer to sell or buy any security mentioned herein. This firm, Wedbush Securities, its officers, employees, and members of their families, or any one or more of them, and its discretionary and advisory accounts, may have a position in any security discussed herein or in related securities and may make, from time to time, purchases or sales thereof in the open market or otherwise. The information and expressions of opinion contained herein are subject to change without further notice. The herein mentioned securities may be sold to or bought from customers on a principal basis by this firm. Additional information with respect to the information contained herein may be obtained upon request.

WEDBUSH

EQUITY RESEARCH DEPARTMENT
(213) 688-4529

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

RETAIL AND CONSUMER

Consumer Products

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

Entertainment: Toys

Edward Woo, CFA (213) 688-4382

Healthy Lifestyles

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

Restaurants

Nick Setyan (213) 688-4519

Specialty Retail: Hardlines

Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Specialty Retail: Softlines

Betty Chen (415) 273-7328
Alex Pham (415) 273-7315

RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

CLEAN TECHNOLOGY AND INDUSTRIAL GROWTH

Aerospace and Defense

Kenneth Herbert (415) 274-6875
Andrew Doupé (415) 274-6876

Clean Technology

Craig Irwin (212) 938-9926
David Giesecke (212) 938-9925

Environmental Services

Al Kaschak (213) 688-4539

Industrial Biotechnology

Liana Moussatos, Ph.D. (415) 263-6626
Christopher N. Marai, Ph.D. (415) 274-6861

Water and Renewable Energy Solutions

David Rose, CFA (213) 688-4319

TECHNOLOGY, MEDIA AND TELECOM

Communications Equipment

Rohit Chopra (212) 668-9871
Sanjit Singh (212) 938-9922

Computer Services: Financial Technology

Gil B. Luria (213) 688-4501

Entertainment: Retail

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Alicia Jenks (212) 938-9927

Entertainment: Software

Michael Pachter (213) 688-4474
Edward Woo, CFA (213) 688-4382
Nick McKay (213) 688-4343

Internet and E-Commerce

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Alicia Jenks (212) 938-9927

Edward Woo, CFA (213) 688-4382

Media

James Dix, CFA (213) 688-4315

Movies and Entertainment

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Alicia Jenks (212) 938-9927

Semiconductors

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

Telecommunications Infrastructure

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

Telecommunications Software

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

Wireless Equipment

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

LIFE SCIENCES

Biotechnology/Biopharmaceuticals/BioDefense

Gregory R. Wade, Ph.D. (415) 274-6863
David M. Nierengarten, Ph.D. (415) 274-6862
Christopher N. Marai, Ph.D. (415) 274-6861

Cardiac, Hepatic and Regenerative

Duane Nash, MD JD MBA (415) 263-6650
Akiva Felt (415) 263-6648
Larry Chen (415) 274-6874

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
Daniel Patt (212) 938-9937

Medical Diagnostics and Life Sciences Tools

Zarak Khurshid (415) 274-6823

EQUITY SALES

Los Angeles (213) 688-4470 / (800) 444-8076
San Francisco (415) 274-6800
New York (212) 938-9931
Boston (617) 832-3700

EQUITY TRADING

Los Angeles (213) 688-4470 / (800) 421-0178
San Francisco (415) 274-6811
New York (212) 344-2382
Boston (617) 832-3700

CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465
Tel: (213) 688-8000 www.wedbush.com