PACIRA PHARMACEUTICALS INC.

Leading a Shift in Pain Therapy Paradigm

We are initiating coverage of Pacira with a 1-OW rating: 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, we believe 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 that 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.

PCRX: 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	N/A	-0.52E	N/A	N/A	-0.63E	N/A	N/A	-21%
Q2	N/A	N/A	-0.45E	N/A	N/A	-0.41E	N/A	N/A	9%
Q3	N/A	N/A	-0.64E	N/A	N/A	-0.42E	N/A	N/A	34%
Q4	N/A	N/A	-1.21E	N/A	N/A	-0.20E	N/A	N/A	83%
Year	N/A	N/A	-2.83E	N/A	N/A	-1.65E	N/A	N/A	42%
P/E			N/A			N/A			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 23.

Stock Rating	1-OVERWEIGHT from N/A
Sector View	2-NEUTRAL Unchanged
Price Target	USD 11.00 from N/A

Price (14-Mar-2011)	USD 6.87
Potential Upside/Downside	+60%
Tickers	PCRX

Market Cap (USD mn)	159
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 7.25-6.16

Link to Barclays Capital Live for interactive charting

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Investment Highlights

1) Lead product EXPAREL Represents Potential Game Changer in Post-Surgical Pain Management

EXPAREL is an NDA-filed, proprietary, long-acting formulation of widely-used anesthetic bupivacaine. With clinically demonstrated effectiveness up to 72 hours post-surgery versus 7 hours or less with bupivacaine, we believe 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 39 million annual opportunities in the US where EXPAREL may add value, very modest penetration assumptions would translate to a conservative $800-$1Bn in peak sales, in our view.

Targets Unmet Medical Need

Current therapies for postsurgical pain – including opioids, patient-controlled analgesia (PCA), and elastomeric bag systems – have limitations, including inadequate pain relief, potentially severe side effects, and patient complications, which can lead to higher healthcare costs.

Provides Advantages Over Existing Pain Treatments

By providing longer-lasting postsurgical anesthetic pain relief than current therapies, EXPAREL represents a potential replacement for bupivacaine in post-surgical infiltration by extending postsurgical analgesia for up to 72 hours, from seven hours or less.

EXPAREL reduces the need for subsequent pain treatment, including opioids, which should translate to it becoming the foundation for a post-surgical pain management regimen in order to reduce and delay opioid usage.

EXPAREL improves recovery time and patient satisfaction by: (1) reducing need for patients to be constrained by elastomeric bags and patient-controlled analgesia (PCA); (2) promoting early ambulation, which potentially reduces life-threatening blood clots, and allows for quicker return to bowel function, thereby leading to faster switch to oral nutrition and medicine, and therefore faster discharge from hospital; and (3) demonstrating economic benefits through education and data collection for postsurgical pain management.

Represents Near-Term Commercial Opportunity With Reduced Risk

Development risk removed: With clinical trials completed, the EXPAREL New Drug Application (NDA) was filed with the FDA on September 28, 2010, accepted for review on December 10, with a PDUFA action date of July 28, 2011.

Known active ingredient lowers regulatory risk: EXPAREL active ingredient bupivacaine is a well-characterized, FDA-approved anesthetic/analgesic, with an excellent safety profile and > 20 years of use in the U.S.

NDA is supported by efficacy and safety data: EXPAREL demonstrated efficacy and safety in two multi-center, randomized, double-blind, placebo-controlled, pivotal Phase 3 clinical trials in patients undergoing soft tissue surgery and orthopedic surgery, as well as Phase 2 trials. Safety was demonstrated in more than 1,300 subjects in 21 clinical trials.

2) Highly Experienced Management Team with Strong Commercialization Expertise

Responsible for multiple successful product launches – Several members of the team, including CEO and 30-year pharmaceutical industry veteran Dave Stack, have successfully launched multiple products in the hospital market, including Roche's Rocephin and Versed, Glaxo's Zantac IV, and The Medicines Company's Angiomax.

Pacira CEO Dave Stack, as President and CEO of The Medicines Company during his 2001-04 tenure, was responsible for the turnaround of key product Angiomax, with the product ultimately generating $400M in annual revenues.

3) DepoFoam is Validated, Proprietary, Patented Drug Delivery Platform

Parcira's development activities utilize a proprietary drug delivery technology called DepoFoam. Two currently marketed products – Depocyt(e) and DepoDur – validate the DepoFoam drug delivery technology also used in EXPAREL. Validation has come from the regulatory side – given that these two products have been approved by the FDA – and safety, with Depocyt(e) having been available in US since 1999. The DepoFoam formulation is highly differentiated from other lipid-based drug delivery technologies, which translates to several technical, regulatory, and commercial advantages – most notably a much more flexible drug release time from 1 to 30 days.

Regarding barriers to entry, DepoFoam is protected by more than 15 patent families and patent applications in several regions including North America, Europe, and Japan, with the last currently issued patent expiring in 2019, and pending applications providing protection until 2031. As important as the patent estate, in our view, are the trade secrets and know-how in manufacturing DepoFoam-based products at commercial scale. The complexity of the manufacturing is such that Pacira believes it would cost >$100M and take 7-8 years for another company to build a competing facility.

4) Pipeline Offers Additional Lower-Risk Future Value Drivers

Pacira's strategy includes expanding the list of approved uses for EXPAREL once the FDA provides initial approval in infiltration. Initial approval reduces clinical and regulatory risks for follow-on indications, in our opinion. These additional indications include:

- Nerve block – 8 million nerve block procedures were conducted annually in 2008, of which >590 utilized local anesthetics, including bupivicaine. Pacira demonstrated safety and efficacy in two completed Phase 2 trials in which 40 patients received EXPAREL.
- Epidural administration – 6 million procedures in the U.S. in 2007, of which >590K utilized local anesthetics, including bupivacaine. Pacira had demonstrated in a Phase 1 trial in 24 subjects that EXPAREL was safe and well tolerated.

Pacira also has other pipeline candidates which utilize its DepoFoam technology. These include DepoNSAID in preclinical development for acute pain (with formulation designed to provide longer duration), and DepoMethotrexate, currently in preclinical development, for treatment of rheumatoid arthritis and oncology (designed to improve patient compliance and ability to tolerate methotrexate therapy).

Valuation and Price Target

We value the stock using EV/Revenues and P/E methodologies. On our 2013 forecast, Pacira shares are trading at 0.80x on an EV/revenue basis and 15.3x on a P/E basis, compared with peer group averages of 2.35x and 19.3x, respectively. On our 2014 forecast, the stock is trading at 0.46x 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 3 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 1.87x 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.

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.

EXPAREL Up Close

Post-Surgical Pain Market – Large But With Unmet Needs

According to Thomson Reuters, there were approximately 45 million surgical procedures performed in the US for the 12 months ended 2007. Pacira estimates that there are approximately 39 million opportunities annually in the US for EXPAREL to improve patient outcomes and hospital economics. Of the total number, approximately 10.6 million currently utilize bupivacaine, representing the likely initial target for EXPAREL, when longer-acting pain relief is required. See Figure 1.

Nearly all surgical patients experience postsurgical pain, with approximately 50% reporting inadequate pain relief according to epidemiological studies. Unrelieved pain causes patient suffering and can lead to other health problems, delaying recovery with potentially higher health care costs. Aggressive prevention of pain is better than treatment of pain because, once established, pain is more difficult to suppress. Current multimodal therapy for postsurgical pain includes wound infiltration with local anesthetics combined with the systemic administration of opioid and non-steroidal anti-inflammatory drugs. However, the current options have a number of drawbacks. See Figure 2.

Figure 1: EXPAREL Product Opportunity

EXPAREL: Significant Product Opportunity		
	Approximate Total Number of Product Opportunities	**Current Bupivicane Procedures**
Current bupivacaine procedures	5 million	5 million
Elastomeric bags	1 million	1 million
Other infiltration procedures	19 million	--
Nerve block procedures	8 million	4 million
Epidural procedures	6 million	0.6 million
Total potential opportunities	**39 million**	**10.6 million**

Source: Barclays Capital estimates, Company reports.

How EXPAREL'S Attributes Offer Game-Changing Potential

For use in postsurgical infiltration, the first approved indication Pacira is seeking for EXPAREL, the product has **the potential to replace currently marketed bupivicaine** owing to the following attributes: (1) pain relief up to 72 hours versus up to 7 hours with bupivacaine; (2) utilizes existing postsurgical infiltration administration techniques; (3) dilutes easily with saline to reach desired volume; (4) is a ready-to-use formulation and; (5) facilitates treatment of both small and large surgical wounds.

For postsurgical pain management, EXPAREL **significantly delays and reduces opioid usage**, as demonstrated in clinical trials. Specifically, EXPAREL: (1) delayed first opioid usage by approximately 14 hours post-surgery versus one hour for placebo; (2) significantly increased percentage of patients requiring no opioid rescue meds through 72 hours post-surgery to 28% compared to 10% for placebo; (3) 45% less opioid usage at 72 hours post-surgery versus placebo; (4) increased percentage of patients who are pain free at 24 hours post-surgery versus placebo; and (5) potential to reduce hospital cost and staff monitoring of PCA system.

EXPAREL **improves patient satisfaction** through: (1) reduced need for elastomeric bags and PCA systems, which are clumsy, difficult to use, and may introduce catheter-related issues, including infection; (2) promotes maintenance of early postsurgical pain management, thereby reducing time in the ICU; (3) promotes early ambulation, which potentially reduces the risk of life-threatening blood clots, and allows quicker return to bowel function, thereby faster switch to oral nutrition and medicine and faster discharge from hospital.

Figure 2: Current Practices for Post-Surgical Pain Management

Current Practices for Post-Surgical Pain Management	
Current Options	**Main Drawbacks**
Local Analgesic	Lasts seven hours or less Requires additional therapies to manage postsurgical pain
PCA / Elastomeric Bags	Expensive, difficult to use (Opioid AEs and PCA costs > $900, Elast. Bags >$250) – Elastomeric bags generate estimated annual U.S. sales of >$200mm[1] May delay ambulation and increase infection risk Requires add'l hospital resources to implement and monitor
Opioids	Potentially severe side effects (nausea and vomiting, respiratory depression, urinary retention, constipation, somnolence, pruritis) May require add'l medications and prolong hospital stay and cost
NSAIDS	Increased risk of bleeding, gastrointestinal / renal complications Limited ability to adequately manage severe pain

Source: Barclays Capital estimates, Company reports.

[1]Annual sales based on I-Flow SEC filings. Unit price based on price paid by 700 hospitals for 500,000 units in 2008.

Clinical and Regulatory Details

Summary: EXPAREL has demonstrated efficacy and safety in two multicenter, randomized, double blind, placebo-controlled, pivotal Phase 3 trials in patients undergoing soft tissue surgery (hemorrhoidectomy) and orthopaedic surgery (bunionectomy). (At a pre-NDA meeting in February 2010, the FDA acknowledged that these two pivotal trials appeared to be appropriately designed to evaluate the safety and efficacy of EXPAREL). Both trials met their primary endpoints in demonstrating statistically significant analgesia through 72 hours for the hemorrhoidectomy trial and 24 hours in the bunionectomy trial. Both trials also met secondary endpoints, including decreased opioid usage and delayed time to first opioid. Overall, EXPAREL demonstrated safety in over 1,300 subjects. With the two pivotal Phase 3 trials forming the basis of the evidence for efficacy, the company filed an NDA for EXPAREL with the FDA on September 28, 2010. It was accepted for review on December 10, 2010, with an FDA PDUFA action date of July 28, 2011. Pacira is initially seeking FDA approval for postsurgical analgesia by local administration into the surgical wound, also known as "infiltration", a procedure commonly used with bupivacaine. The company plans to expand the indications of EXPAREL to include nerve block and epidural administration, markets where bupivacaine is also commonly used.

Figure 3: EXPAREL Milestones to Launch

EXPAREL: Timeline of Key Milestones to Launch							
Oct '09	**Dec '09**	**Sept '10**	**Dec '10**	**1Q11**	**July '11**	**2H11**	**4Q11**
Phase 3 Bunionectomy Met Primary Endpoint	Phase 3 Hemorrhoidectomy Met Primary Endpoint	EXPAREL NDA Filing	NDA Filing Accepted	NDA Manufacturing Pre-approval inspection	PDUFA Goal Date	Initiation of Phase 2/3 Trials in Nerve Block expected	Expected EXPAREL commercial launch

Source: Barclays Capital estimates, Company reports

Pivotal Phase 3 Trials

Pivotal Hemorrhoidectomy Trial:

Trial Design: This trial was conducted in 189 patients at 14 sites in Europe. The study enrolled patients 18 years and older undergoing two to three column excisional hemorrhoidectomy under general anesthesia using the Milligan-Morgan technique – a commonly used method for surgically removing hemorrhoids. A 300 mg dose was administered with a primary endpoint of pain control for up to 72 hours with morphine rescue medication available to both trial groups. Additional endpoints included the proportion of pain-free patients, proportion of patients requiring opioid rescue medication, total opioid usage, time to first use of opioid rescue medication, and patient satisfaction.

Results: Primary endpoint demonstrated a statistically significant 30% reduction in pain ($p<0.0001$), as measured by the area under the curve (AUC) of the NRS-R* pain scores at 72 hours and at all additional time points measured up to 72 hours.

Multiple statistically significant secondary endpoints demonstrated efficacy in reducing the use of opioid rescue medication. EXPAREL demonstrated that approximately three times the number of patients in the EXPAREL treatment group avoided opioid rescue medication altogether, and patients in the EXPAREL group showed 45% less opioid usage compared with placebo group at 72 hours. The opioid-related secondary endpoints and results were as follows:

- Total avoidance of rescue medication – 28% of patients treated with EXPAREL received no postsurgical opioid rescue pain medication through 72 hours post-dose ($p=0.0007$), as compared to only 10% of placebo patients
- Reduced total consumption of opioid rescue medication – adjusted mean total postsurgical consumption of supplemental opioid pain medication was 45% lower in patients through 72 hours ($p=0.0006$)
- Delayed use of opioid medication – EXPAREL delayed the median time to first opioid use from approximately one hour to approximately 14 hours (<0.0001)

Secondary endpoints related to patient satisfaction and being pain free also demonstrated strong benefits from EXPAREL. Specifically, a greater number of EXPAREL treated patients were pain free at all times up to 24 hours post-dose ($p=0.0448$) and experienced a higher patient satisfaction at 24 hours and 72 hours post-dose ($p=0.0007$).

* The numeric rating scale at rest score – NRS-R – is a commonly used patient-reported measurement of pain. Under the NRS-R, severity of pain is measured on a scale of 0-10, with 10 representing worst possible pain. The AUC of the NRS-R pain score represents a sum of the patient's pain measured at several time points using the NRS-R, from time of surgery to the specified endpoint. A lower number indicates less cumulative pain. The p-value is a measure of probability that the difference between the placebo group and the EXPAREL is due to chance. A p-value of less than or equal to 0.05 (5%) is commonly used as a criterion for statistical significance.

Pivotal Bunionectomy Trial:

Trial Design: This trial was conducted in 193 patients at four sites in the U.S. The study enrolled patients 18 years and older undergoing a bunionectomy, with opioid rescue medication available to both groups. A 120 mg dose was administered with a primary endpoint of pain control for up to 24 hours, the critical period for postsurgical pain management in bunionectomy, with rescue medication available to both trial groups.

Results: Primary endpoint demonstrated a statistically significant reduction in pain as measured by the area under the curve, or AUC, of the NRS-R pain scores at 24 hours (p=0.0005) with continued statistical significance at 36 hours.

In secondary endpoints, EXPAREL achieved statistical significance in endpoints related to pain measurement and the use of opioid medication, which was available to both patient groups. The specific endpoints included: total avoidance of opioid rescue medication; delayed usage of opioid rescue medication; and pain-free patients, with details as follows:

- A higher percentage of patients treated with EXPAREL did not require opioid rescue pain medication through 12 hours (p=0.0003) and 24 hours (p=0.0404).
- Delayed the median time before first opioid use (p<0.0001).
- An increase in percentage of pain-free patients 2 hours (p=0.0119), 4 hours (p=0.0002), 8 hours (p=0.0078), and 48 hours (p=0.0153) post dose; was not statistically significant at 24 hours post dose.

Figure 4: EXPAREL Phase 3 Results

Endpoint	Hemorrhoidectomy (at 72 hrs)	Bunionectomy (at 24 hrs)
Primary Endpoint Met		
Reduction in Pain Over Extended Time Period	p<0.0001	p=0.0005
Opioid Related Secondary Endpoints		
Total Avoidance of Opioid Rescue	p=0.0007	p=0.0404
Reduced Total Consumption of Opioid Rescue	p=0.0006	Not Studied
Delayed Use of Opioid Rescue	p<0.0001	p<0.0001
Patient Satisfaction Secondary Endpoint		
More Pain Free Patients	p=0.0448	p=0.0153[1]
Improved Patient Satisfaction	p=0.0007	Not Studied

Source: Barclays Capital estimates, Company reports

Safety

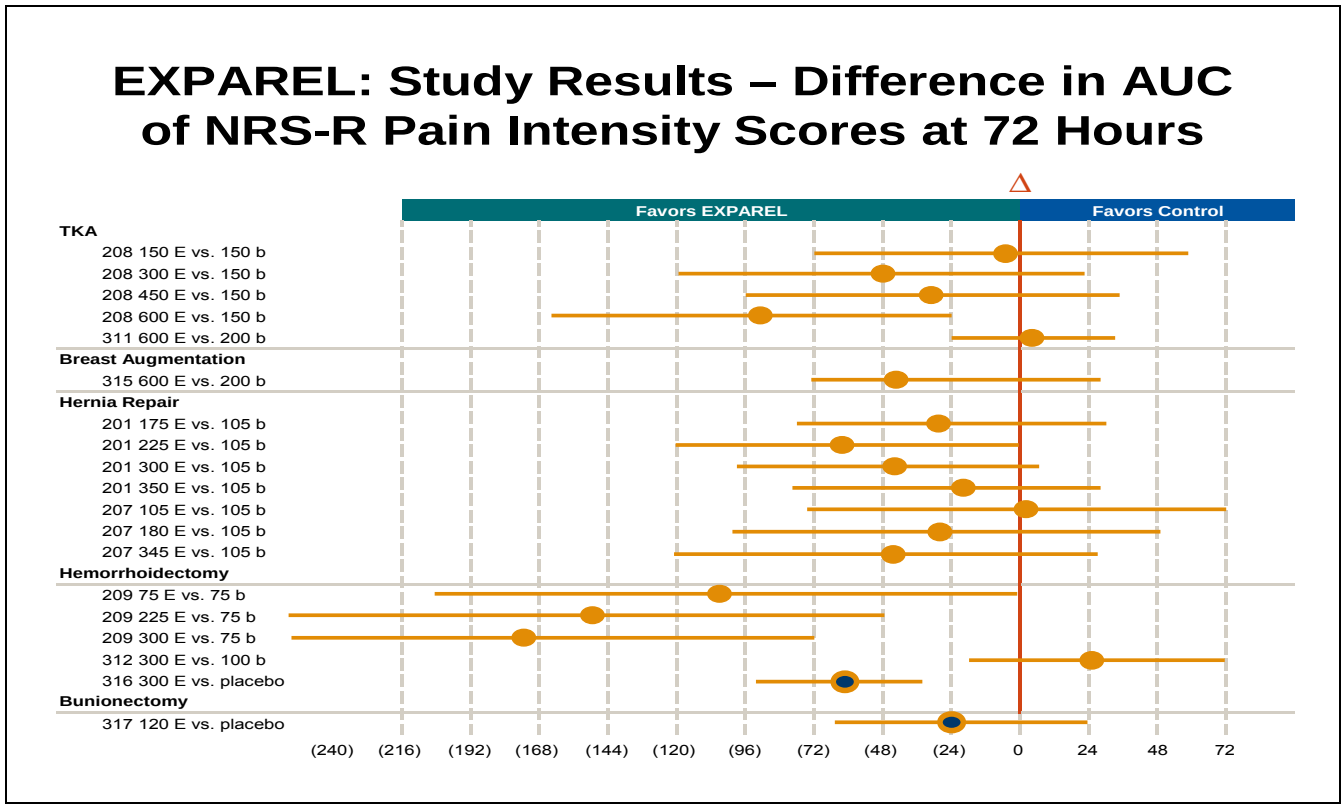
EXPAREL's safety has been demonstrated in 21 clinical trials including, nine Phase 1 trials, seven Phase 2 trials, and five Phase 3 trials. Over 1,300 human subjects were administered EXPAREL at doses ranging from 10mg to 750mg by local infiltration into the surgical wound, and by subcutaneous, perineural, epidural, and intrarticular administration. Worth noting, the 1,300 subject safety data set far exceeded the FDA's requirement for 500 subjects as part of the NDA submission. In all trials, EXPAREL was well tolerated. Nausea and vomiting were the most common treatment-emergent adverse events with similar frequency as placebo group. There were no central nervous system or cardiovascular adverse events typically observed with high doses of bupivacaine. Thorough QTc studies demonstrated that EXPAREL did not cause any significant QTc prolongation (a measure of cardiac safety mandated by the FDA for all new products) even at the highest doses evaluated. No events of chrondrolysis (destruction of cartilage) were reported in any of the trials. EXPAREL does not require dose adjustments in patients with mild to moderate liver impairment.

Other Clinical Trials

In addition to the two pivotal Phase 3 trials that form the basis for the EXPAREL NDA, Pacira conducted three other Phase 3 trials. Two of the these trials completed in 2009 – one for total knee arthroscopy and the other for hemorrhoidectomy – included 223 patients comparing EXPAREL to bupivicaine in a multimodal setting where patients received additional analgesics. Although EXPAREL demonstrated its safety and tolerability, due to unexpectedly positive results in the control arm, these trials did not meet their primary endpoint. In addition, based on the outcome of these trials, Pacira discontinued a Phase 3 trial in breast augmentation early. At the time of discontinuation, only about half of the patients required to demonstrate statistical significance had been enrolled. Although EXPAREL demonstrated a positive trend and safety, it did not meet its primary endpoint. Pacirca plans to publish the data from the trial in a peer reviewed medical journal in the future.

The EXPAREL wound infiltration program includes 21 dosing comparisons throughout ten clinical trials – nine randomized parallel-group clinical trials, seven of which had a bupivacaine control, two of which had a placebo control. When a program-wide primary endpoint of the area under the curve of the numeric rating scale score for pain at rest from 0 to 72 hours was applied to the 19 doses in the randomized parallel-group clinical trials, 16 favored EXPAREL. See Figure 5.

Figure 5: EXPAREL Study Results – Difference in AUC of NRS-R Pain Intensity Scores at 72 Hours



Source: Company reports

Highly Differentiated Commercial Strategy and Experienced Management

In our opinion, Pacira possesses a powerful combination of highly experienced management and an EXPAREL commercial strategy that is highly differentiated. CEO Dave Stack has assembled a commercial team with a successful track record. Notably, several members of the Pacira team worked with him at The Medicines Company during the 2001-2004 turnaround period when he was CEO. Despite the challenging healthcare reimbursement environment, and in particular the hospital market, we believe the same comprehensive diligence with which Dave Stack and his team approached this market at The Medicines Company with the commercialization of its flagship product Angiomax will be employed with EXPAREL at Pacira. In addition to the depth of experience of the management team, we believe that the tremendous amount of pre-launch work puts Pacira well ahead of similar-sized companies launching new products into the hospital market.

Effectively Targeting the Opportunity

With its initial targeted indication for EXPAREL in infiltration, Pacira's strategy is three-pronged: (1) to target current 5 million bupivacaine users; (2) replace elastomeric bags (~1 million); and (3) replace morphine PCA. The company plans to do so by building an experienced sales team of 40 sales reps at the time of commercial launch, and growing to 100 reps within three years. Pacira's goal is to reach the top 1,000 U.S. hospitals performing surgical procedures, which represent approximately 70% of the market opportunity for EXPAREL. The target audience is healthcare practitioners who influence pain management decisions, including surgeons, anesthesiologists, pharmacists, and nurses.

Thorough Diligence Supports Strong Demand for EXPAREL

Pacira, on its own and with third parties, has completed in-depth diligence to help gauge demand for EXPAREL, and an appropriate price range. The feedback from multiple detailed market surveys, targeting a wide range of surgeons performing different types of procedures, as well as pain management specialists, has been overwhelmingly positive, according to the company. The efficacy attribute most valued was reduced need for opioids, although also compelling to survey participants was improved time to ambulation and earlier hospital discharge. From a hospital acquisition cost and resource consideration standpoint, we expect pricing for EXPAREL to be lower than the cost associated with use of elastomeric bags plus bupivacaine. Although Pacira's diligence suggests strong enthusiasm from KOLs and operating room professionals, we expect most of EXPAREL's initial post commercial launch revenues to come from the cash-paying segment of the market – principally cosmetic surgery – until the company gains greater traction with institutions and payors for the insured marketplace.

Comprehensive Marketing and Education Supported by Health Outcomes Research

In our opinion, Pacira possesses a number of success factors that bolster our confidence in the EXPAREL commercial opportunity, including: (1) the product's clinical attributes; (2) strong, positive feedback from practitioners based on extensive market research; and (3) comprehensive plans for establishment and expansion of a sales organization and institutional targeting. On the latter point, Pacira's commercial and sales management have identified the top 50 infiltrator accounts and visited the top KOLs in infiltration.

Utilization of extensive health outcomes research will be a critical component of Pacira's commercial strategy, and will strongly differentiate the company from others, in our view

However, utilization of extensive health outcomes research will be a critical component of Pacira's commercial strategy, and will strongly differentiate the company from others, in our view. These include retrospective and prospective registry economic outcome programs, as well as quality improvement initiatives. In the current environment, health economic benefits play an important role in formulary decision making, and are often overlooked by pharmaceutical companies in planning for commercial success. Several members of Pacira's management team have extensive experience applying economic outcomes research to support the launch of successful commercial products. "Owning" the top 40-50 hospitals will be one of the key goals for the commercial team and sales organization, which is the reason for the visits to the top institutions and working with not only KOLs, but also their health outcomes groups and their payor organizations.

Pacira will work directly with managed care payors, quality improvement organizations, postsurgical pain management KOLs, and leading influence hospitals with registry programs to demonstrate the economic benefits of EXPAREL. Here, the focus will be on special patient populations where opioids are most problematic, including the elderly, obese, sleep apnea, and opioid intolerant. The company will emphasize cost savings from opioid reduction resulting from reduced consumption and related side effects, translating to reduce length of hospital stay. Also, there will be a focus on economic education to demonstrate patient outcomes and reduced consumption of hospital resources and length of stay (LOS), through papers, patient algorithms, and pain protocols. Capitation's fixed reimbursement regardless of actual costs incurred translates to tremendous demand for reduced resource consumption or length of stay.

An extensive publication plan is another important part of the EXPAREL commercial strategy. In 2011, the company has a budgeted objective of approximately 17 publications of all the clinical work on EXPAREL to educate and increase awareness of target audience – i.e. pharmacologists/pharmacists, anesthesiologists, general surgeons, orthopedists, and plastic surgeons. In addition, Pacira's health outcomes programs is budgeted for approximately 20 publications before commercial launch, and 100 in the first year post-launch, which include a combination of retrospective and prospective analyses, with the latter targeted for after launch.

Most recently, one of the first of the publications on the EXPAREL clinical work was presented in February as a poster at the 2011 American Academy of Orthopedic Surgeons Annual Meeting in San Diego, CA . This clinical data from the pivotal Phase 3 bunionectomy trial followed the company's report of preliminary efficacy data in October 2009 and another updated efficacy data presentation in January 2011 during the Orthopedic Research Society meeting – examples of Pacira's campaign to increase awareness and education of the target physician audience as the company approaches commercial launch.

We believe CEO Dave Stack and his team have demonstrated high standards for achieving commercial success through a comprehensive understanding of the customers, their needs, and use of products

On both the tactical and strategic fronts, in our opinion, CEO Dave Stack and his team have demonstrated high standards for achieving commercial success through a comprehensive understanding of the customers, their needs, and use of products. One example was when, as CEO of Medicines Company, Dave scrubbed in to the operating room for 400 surgical procedures, which we believe provided invaluable, real-world experience at the practitioner level, and we believe helped establish and build relationships with users of Angiomax.

Competitive Landscape

Opioids, NSAIDs, and Other Analgesics

Pacira will compete with a number of products for postsurgical pain management. As discussed earlier in this report, opioids are the most commonly used postsurgical pain medications – including morphine, fentanyl, hydromorphone, meperidine – available generically from several manufacturers, and some as proprietary products using novel delivery systems. Also used in the postsurgical setting are non-steroidal anti-inflammatories (NSAIDs), such as ketorolac (available generically), and Caldolor (ibuprofen for injection), which has been approved by the FDA for pain management and fever in adults, and is marketed by Cumberland Pharmaceuticals. Another relatively new proprietary entrant in the institutional pain management market is Ofirmev, a recently launched proprietary injectable (IV) version of acetaminophen, marketed by Cadence Pharmaceuticals. Ofirmev is indicated for management of mild to moderate pain, the management of adjunctive opioid analgesics, and the reduction of fever in adults and children of two years of age and older. Although Offirmev, like EXPAREL, is expected to help reduce opioid usage, we view the product as more complementary to EXPAREL rather than as a direct competitor.

Extended-Release Bupivacaine

Elastomeric bag systems: The only currently marketed product that could be viewed as a direct competitor to EXPAREL is an elastomeric bag/catheter device intended to provide bupivacaine over several days. Elastomeric infusion pumps are designed to deliver medication from an "elastic" balloon through a catheter. The market leader is On-Q, marketed by I-FLOW Corporation (part of Kimberly-Clark since 2009). On-Q was introduced into the US market in 2004, with an estimated 1 million units sold annually, according to Pacira. Although theoretically the target market opportunity for On-Q is no different than for EXPAREL, we believe that On-Q's market acceptance is limited by the clumsiness of a bag/catheter system and associated difficulty of use. As a result, patient ambulation, in some cases, may be delayed, leading possible catheter-related issues, including infection.

POSIDUR: DURECT Corporation is developing an extended-release bupivacaine and is licensed to Hospira in North America (under trade name POSIDUR) and to Nycomed in Europe (OPTESIA). The product is in a multi-center, randomized, double-blind, controlled-trial Phase 3 trial (BESST) in the U.S. in three abdominal surgical cohorts, with expected dosing of approximately 300 patients, and completion of patient enrollment targeted for mid-2011. On its 4Q10 earnings conference call, Durect management stated that an NDA submission is possible in early 2012. Assuming a smooth clinical and regulatory pathway, POSIDUR has the potential to reach the market by 2013. Although the product's "Saber" gel delivery technology platform has not been commercially validated with other applications, one competitive advantage is room temperature storage, versus EXPAREL's refrigeration requirement, though not significant enough to hamper EXPAREL's commercial success, in our view.

Last month, partner DURECT announced top-line results from a European, 107-patient Phase 2b shoulder clinical trial conducted by partner Nycomed. The trial included three treatment arms – POSIDUR, active comparator (bupivacaine), and placebo (SABER vehicle without drug). The POSIDUR group experienced a statistically significant reduction in pain intensity versus placebo. Results also indicated a clear clinically relevant trend in opioid sparing for POSIDUR vs. placebo. Safety was comparable in all three groups, with POSIDUR well tolerated. With the results of the Phase 2b trial, Durect also announced an amendment

to its agreement with Nycomed, whereby Nycomed will wait and review the BESST trial results before electing to continue European development of POSIDUR. Prior to Nycomed making this decision, Durect will have full control and responsibility for non-clinical and CMC (chemistry, manufacturing, controls) activities which had been previously jointly controlled by DURECT and Nycomed.

Intellectual Property and Manufacturing

Intellectual Property

Regarding barriers to entry, DepoFoam is protected by more than 15 patent families and patent applications in several regions including North America, Europe, and Japan, with the last currently issued patents expiring in 2019, and pending applications providing protection until 2031.

Specific to EXPAREL, there are issued patents in the U.S. covering the composition of EXPAREL and methods for modifying the rate of release of EXPAREL, which expire in November 2013 and January 2017, respectively. Pending patents in the U.S. relating to composition and the process for making EXPAREL, if granted, would expire in September 2018 and November 2018. In Europe, issued patents covering composition of EXPAREL expire in November 2014 and September 2018. Pending patents in Europe relating to methods of modifying the rate of drug release and the process for making EXPAREL, if granted, would expire in January 2018 and November 2018, respectively.

In addition, Pacira has filed a provisional patent relating to a new process to manufacture EXPAREL and other DepoFoam-based products. The process offers several advantages to the current process, including large-sale production and reduced manufacturing costs. Within the next year, Pacira will decide whether to keep this process as a trade secret or pursue the patent with a non-provisional application. If granted, the provisional patent could prevent others from using the process until 2013. Lastly, a non-exclusively licensed Pacira patent relating to EXPAREL was allowed in Europe, which expires in October 2021, but with an extension that has been granted October 2023.

Manufacturing and Distribution

In our view, as important as Pacira's patent estate is in providing barriers to entry, so are the company's trade secrets and manufacturing DepoFoam-based products at commercial scale. The complexity of the manufacturing is such that Pacira believes it would cost more than $100M and take 7-8 years for another company to build a competing facility.

In addition, distribution of Pacira's DepoFoam products requires cold-chain distribution, whereby the product must be maintained at specific temperatures. Pacira has validated the processes for continuous monitoring of temperatures from manufacturing through delivery to the end-users. We believe that the cold-chain distribution requirement translates to another barrier to entry for potential competition. It also allows for greater inventory control for Pacira, as all distribution is done from one facility.

Currently, Pacira manufactures DepoCyt(e) and DepoDur for its commercial partners, as well as its clinical supplies of EXPAREL, at two facilities in San Diego, CA. The current manufacturing suite – which is configured with a semi-automated batch system – has capacity to produce the projected DepoCyt(e) and DepoDur quantities, and up to an equivalent of $50M in annual EXPAREL revenues. Based on our EXPAREL forecast, this will provide sufficient capacity through 2012. Upon FDA approval of EXPAREL, Pacira will begin

investing in an automated batch system to be used in a new manufacturing suite within the same building, which will provide annual EXPAREL capacity of approximately $250M, and with a projected online date of early 2013. The last stage of Pacira's manufacturing expansion plans is one involving a new process ("continuous system"), which is expected to significantly reduce EXPAREL's manufacturing cost of goods. The majority of the development work to complete the new process (beginning with a bioequivalence study) for producing commercial quantities will not begin until mid-2012 (assuming EXPAREL launch in late 2011). Assuming the plan for the new process is completed successfully, including FDA approval, the timetable for coming on line would be by 2014 – having the potential to provide annual EXPAREL capacity of $1Bn.

Figure 6: IP and Manufacturing Barriers to Entry

Intellectual Property & Manufacturing	
United States	**Europe**
• Issued patent on EXPAREL composition expires in Nov 2013	• Issued patents on EXPAREL composition expire in Nov 2014 and Sept 2018
• Issued patent on methods for modifying rate of drug release expires Jan 2017	• Pending applications relating to methods for modifying rate of drug release, if granted, would expire in Jan 2018
• Pending applications on composition and manufacturing methods, if granted, would expire Sept 2018 and Nov 2018, respectively	• Pending applications on manufacturing process, if granted, would expire in Nov 2018
• Two proprietary cGMP facilities in San Diego currently manufacture DepoDur and DepoCyt(e)	• Provisional patent may provide protection through 2031
• Provisional patent may provide protection through 2013	

Source: Barclays Capital estimates, Company reports.

Other Products Provide Validation of DepoFoam Technology

Pacira has two marketed products, **DepoCyt(e)** and **DepoDur**. While they provide important validation of Pacira's DepoFoam drug delivery technology – in terms of formulation, clinical, regulatory, and manufacturing – financially, they are (and will remain) very modest contributors, particularly relative to our expectations for EXPAREL.

How DepoFoam Technology is Different and its Advantages

To be clear, DepoFoam-reformulated products have the same physical appearance as the original drug compounds from which they reformulated. However, microscopically, the story is quite different. DepoFoam consists of microscopic spherical particles composed of a honeycomb-like structure of numerous aqueous chambers containing an active drug ingredient. Each chamber is separated from adjacent chambers by lipid membranes. Following injection, the DepoFoam particles release the drug over an extended period of time by erosion and/or reorganization of the particles' lipid membranes. Release rates are determined by the choice and relative amounts of lipids in the formulation.

Drilling down a bit more into the science supporting Pacira's DepoFoam technology, it is the "multivesicular" nature of its liposome-based technology that differentiates it from other liposome technologies, which are, instead, "unilamellar" in nature. In a multivesicular liposome, each particle consists of several wall-sharing large unilamellar liposomes. The biggest advantage of the multivesicular system is that it enables work on the tricglyceride component of DepoFoam to alter the release characteristics of the drug to deliver a target

dosing profile from 1 to 30 days. Regarding the proprietary nature of the technology, Pacira may, in fact, have the only multivesicular commercial manufacturing facility in the world.

The DepoFoam formulation provides several advantages versus competitive technologies, in our view, including: (1) convenience of being ready-to-use, without need for reconstitution or mixing with another solution; (2) regulatory precedent and safety history, with DepoFoam products having been approved by regulatory authorities in the U.S. and Europe, as well as over ten years of safety history; (3) products approved for epidural (DepoDur) and intrathecal injection (DepoCyt(e)) may aid in future approvals for administration in privileged sites; (4) proven manufacturing capabilities in cGMP facilities; (5) favorable pharmacokinetics and flexible drug release time from 1 to 30 days (as mentioned above); (6) shorter development timetable (with no altering of native compound and potentially enabling a 505(b)(2) application); and (6) asceptic manufacturing and filling, which enables use with proteins, peptides, nucleic acids, vaccines, and small molecules.

Other Products – Details

DepoCyt(e), a sustained-release liposomal formulation of the chemotherapeutic agent cytarabine utilizing DepoFoam technology, is indicated for the intrathecal treatment of lymphomatous meningitis, a life-threatening complication of lymphoma. Conventional catarabine may be used to treat lymphomatous meningitis, but because of the drug's short half-life, a spinal injection is required – a real disadvantage versus DepoCyt(e)'s dosing once every two weeks in an outpatient setting. The product was granted full approval by the FDA in 2007. Pacira's commercial partners include Sigma-Tau in the North America and Mundipharma International in the EU and certain other European countries. In 2009, Pacira received supply and royalty revenues of $9.6M from its commercial partners.

DepoDur is an extended-release injectable formulation of morphine utilizing DepoFoam technology. DepoDur is indicated for epidural administration for the treatment of pain following major surgery. DepoDur is designed to provide effective pain relief of up to 48 hours and has demonstrated improved patient mobility and freedom from indwelling catheters. DepoDur was approved by the FDA in 2004. Pacira's commercial partners include EKR Therapeutics in North, South, and Central America, and Flynn Pharmaceuticals in the EU, certain other European countries, South America, and the Middle East. The company received supply and royalty revenues from DepoDur of $1.0 million from its partners in 2009.

Investment Risks

Regulatory Approval Delay or Failure for EXPAREL

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.

Commercialization Risk

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 post-surgical pain.

Delays in Increased Manufacturing Capacity for EXPAREL

Pacira's existing cGMP manufacturing facilities have capacity to produce initial commercial quantities up to approximately $50M of product revenues, which will enable the company to operate through 2012. In order to satisfy demand beyond this level, Pacira is currently renovating its existing production process, and will start building an additional capacity to handle increased demand. For details, see "Manufacturing and Distribution" section above. Delays could jeopardize the company's ability to meet demand beyond the initial commercial quantities.

Potential Near-Term Liquidity Constraints

If EXPAREL is not approved by the FDA in the expected timeframe, the company may be 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 may require capital raising.

Management

Key Commercial Management Bios

David Stack – CEO: David Stack has served as President & CEO since November 2007. He has been a managing director at MPM Capital since 2005 and a managing partner of Stack Pharmaceuticals, Inc. since 1998. From 2001 to 2004, he was President & CEO of The Medicines Company. Previously, he was VP, Business Development & Marketing at Imunomedics from 1993 to 1995. Prior to that, he was with Roche Laboratories in positions of increasing responsibilities from 1981 until 1993. These positions included Therapeutic World Leader in Infectious Disease and Director, Business Development and Planning, Infectious Disease, Oncology, and Virology. David holds a B.S. in pharmacy from Albany College of Pharmacy and a B.S. in Biology from Siena College.

James Scibetta – Chief Financial Officer: James Scibetta has served as CFO since August 2008. Previously, he was CFO of Bioenvision from 2006 until its acquisition by Genzyme in 2007. From 2001 to 2006, he was EVP and CFO of Merrimack Pharmaceuticals and a member of the board from 1998 to 2004. He formerly served as a senior investment banker at Shattuck Hammond Partners, LLC and PaineWebber Inc., providing capital acquisition, M&A, and strategic advisory services to healthcare companies. He holds a B.S. from Wake Forest University, and an MBA in finance from the University of Michigan. He completed his executive education studies at the Harvard Business School Leadership & Strategy in Pharmaceuticals and Biotechnology program.

Gary Patou, M.D. – Chief Medical Officer: Gary Patou has served as Chief Medical Officer since March 2009. He has been a managing director since 2005. He served as Chief Medical Officer of the following MPM Capital portfolio companies: Peplin, Ltd. from July 2006 to April 2007, and from June 2008 to May 2009, Cerimon Pharmaceuticals from June 2005 to June 2006, and Oscient Pharmaceuticals from February 2004 to April 2005. He currently spends part of his time as the acting CEO of Cerimon. From 2001 to 2004, he was President of Genesoft. From 1995 to 2000, he worked at SmithKine Beecham Pharmaceuticals, where he held positions with increasing responsibility. From 1991 to 1995, held increasing senior level positions at Vernalis, formerly British Biotechnology. He currently serves on the Board of Directors of Xeon Pharmaceuticals. He has held a number of academic appointments at University College & Middlesex School of Medicine in London, and holds an M.D. from University College, London.

Fred Ryan – VP, Business & Corporate Development: Fred Ryan joined Pacira in February 2008 as Vice President of Business and Commercial Development. He brings to Pacira over two decades of experience in the pharmaceutical industry. Prior to joining Pacira, Mr. Ryan was a founding partner of Stack Pharmaceuticals, Inc., a healthcare consulting firm specializing in developing commercial and business strategies for emerging healthcare companies, venture capital and private equity organizations. Mr. Ryan will maintain his partner role at Stack. In addition to his founding and consulting roles at Stack, he was also the founder and President of Global Pharma Solutions LLC, a healthcare consulting company. He was with The Medicines Company between 2000 and 2005. During his tenure he was Vice President of Corporate and Business Development, a member of the Executive Committee and a Corporate Officer focusing on licensing and commercial partnerships. Prior to joining the Medicines Company he spent 15 years with Novartis. From 1998-2000, he was Executive Director Commercial Development and Operations for

Novartis Pharmaceuticals in the US. He also served as a Director of Strategic Planning for Novartis Pharmaceuticals in the US during 1997.

Taunia Markvicka, Pharm.D. – VP, Commercial: Taunia Markvicka joined Pacira as Vice President, Marketing in 2010. She brings with her more than 15 years of experience in pharmaceutical marketing, new product planning/business analysis, and market research. She is a partner at Stack Pharmaceuticals, Inc., in addition to her role at Pacira. Her most recent pharmaceutical positions include serving as a franchise marketing director at The Medicines Company for the cardiovascular and hematology acute care products. Previously, she was Marketing Director at Watson Pharmaceuticals, where she oversaw marketing, medical marketing and new product planning for urology and general products. She was also with Advantage Healthcare, a strategic marketing and new product planning firm, as a Vice President for two years. She joined the pharmaceutical industry, initially taking a two year post-doctoral fellowship position with Sandoz (now Novartis). Ms. Markvicka holds a Doctor of Pharmacy degree from the University of Nebraska, an MBA from St. Josephs University, and she maintains her license as a registered pharmacist.

David St. Peter M.D., FHM – VP, Medical Affairs: David St. Peter joined Pacira as Vice President, Medical Affairs in October 2008. He has a proven track record in the late-phase commercialization and product launch of important acute care products, with more than 20 years experience in the healthcare sector. Dr. St. Peter has held executive level positions with five companies over the past 10 years, two of which he founded. He joined Pacira from Canyon Pharmaceuticals where he was VP, Commercial Operations helping orchestrate the successful launch of IPRIVASK (desirudin for injection) into the US market. He also served on the executive team of InVentiv Health, where he had P&L responsibility for a business unit with over $25M in annualized billings. In addition to industry positions at Marion Merrell Dow and Merck, Sharp & Dohme, he is a practicing Hospitalist and holds active medical licenses in two states and is board certified. Dr. St. Peter holds an M.D. from Kansas University Medical Center and a B.S. from the University of Kansas. He completed an internship in surgery at the University of Missouri and St. Lukes Hospital and a residency in medicine at Baptist Medical Center.

Company History

Pacira was formed through the acquisition of SkyePharma Holdings in March 2007. Pacira Pharmceuticals, Inc. is the holding company for a California operating subsidiary of the same name, referred to as PP-California. In March 2007, MPM Capital, Sanderling Ventures, Orbimed Advisors, and HBM Bioventures, the Foundation for Research and their co-investors, through Pacira Pharmaceuticals, Inc. acquired PPI-California, from SkyePharma Holding, Inc. PPI-California was known as SkyPharma, Inc. prior the acquisition.

Financial Discussion

Our 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.

Revenues – Pacira currently derives revenues from the following sources – proprietary products DepoCyt(e) and DepoDur, (both utilizing Pacira's DepoFoam drug delivery technology), contract revenues and milestones. With a July 28, 2011 PDUFA for key pipeline product EXPAREL (wound infiltration indication), we assume a 4Q11 commercial launch.

- **DepoCyte, DepoDur** – Pacira has outlicensed both Depocyte and DepoDur (and both US and exUS) and receives supply revenue from manufacturing product and royalties on end-user sales. DepoCyte is indicated for treatment of lymphomatous meningitis and is the predominant revenue generator of the two proprietary products. Sigma Tau distributes DepoCyte in the US and Canada, with Pacira receiving a 30% royalty on end-user sales. Mundipharma distributes DepoCyte in the EU and other European countries, with Pacira receiving a royalty on end-user sales. Regarding DepoDur – indicated for treatment of post-operative pain – EKR distributes in the Americas, while Flynn Pharma distributes in the EU, other European countries, South Africa and the Middle East. Over the next several years, on DepoCyte, we assume continued growth, factoring in Sigma Tau promotional initiatives, while on DepoDur, we project relatively flat revenues going forward – based on trends over the past few years.

- **Contract revenues** – Pacira derives contract revenues from collaborations with third parties who use Pacira's DepoFoam drug delivery technology to develop extended – release versions of their products and product candidates. Contract revenues are nominal, and we conservatively assume no additional revenue beyond 2011.

- **Milestones/Other** – This line reflects revenue from upfront and milestone payments, either from existing or future partnerships – including partnerships related to DepoFoam technology, pipeline products, and partnering EXPAREL exUS. With payments possible for many events going forward, we give some credit for business development and future milestones for existing partnerships.

- **EXPAREL –** As stated above, we assume a 4Q launch, following PDUFA of July 28, 2011. We conservatively assume US revenues only (Pacira has stated it plans to partner exUS) and our market share forecast for infiltration indication is derived from a starting point of approximately 25M procedures a year in the US, comprised of approximately 5M current bupivicaine procedures, 1M elastomeric bags, and 19M other infiltration procedures. We assume a selling price of $200/300mg. Our forecast estimates market share of .65% in the first full year of launch, 1.8% in the second year, 3.4% in the third year, 5.3% in the fourth year, and 7.4% in Year 5. We assume the launch of the nerve block indication at the end of 2013 and epidural indication in 2016.

COGS – We note that this line item includes EXPAREL royalties and milestones payable to SkyePharma and fixed costs associated with EXPAREL (including pre-approval). Margin increases over time due to manufacturing efficiencies associated with EXPAREL, including significant improvement due to switch to new process beginning in late 2013 or early 2014, (for details, see "Manufacturing and Distribution" section above).

R&D – Our R&D estimate increases in 2H11, as we assume Pacira moves forward on EXPAREL indications for nerve block and epidural (having currently completed Phase 2 and

Phase 1 respectively). Beyond 2013, our estimate also assumes R&D spend focused on development of DepoNSAID, DepoMethotrexate and potentially other products using EXPAREL technology.

SG&A – Our SG&A forecast begins to increase in 2H11, as Pacira ramps up for EXPAREL launch in late 2011. We assume a commercial team and sales force reps hired after FDA approval, with 40 reps at launch and additional reps hired thereafter, with a maximum of 100 reps. Spend assumes Phase 3b/4 studies and registries.

Interest Expense – Pacira has outstanding debt of $26.5M, for the Hercules Credit Facility – entered into 11/24/10 and maturing 5/31/14. The facility has an interest only period from 11/24/10 thru 8/31/11, which can be extended to either 11/30/11 or 2/28/12 if certain conditions are satisfied. Following end of interest only period, the term loan is to be repaid in 33 monthly installments. Interest expense on Tranche A ($11.25M) and Tranche B ($15M) of 10.25% and 12.65%, respectively. In addition, under its royalty interest assignment agreement with affiliates of Paul Capital, Paul Capital receives a portion of Pacira's revenue stream from DepoCyte and DepoDur. Paul Capital's right to DepoCyte royalty stream ends after 2014.

Taxes – While Pacira has NOLs, because the NOLs have some limitations, we assume Pacira will be unable to use them. We therefore assume Pacira begins paying taxes in 2Q13, the first quarter in which we estimate Pacira is profitable.

Cash – We estimate Pacira ended 2010 with $26M in cash, will end 1Q11 with $55M in cash, which includes $38M of net proceeds from the initial public offering. For year-end 2011, we project $9M in cash. We assume Pacira will complete a capital raise in early 2012, with a few options likely to considered, including new partnering agreements, asset monetization, and/or a financing.

Figure 7: 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	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Royalty on Product Sales							
Contract Development	2.6	1.5	0.7	0.0	0.0	0.0	0.0
Milestones - Other	5.7	0.0	3.8	5.0	5.0	5.0	5.0
Exparel Revenues - US	0.0	0.0	2.9	42.9	100.9	185.8	291.2
TOTAL REVENUES	19.1	12.9	19.9	61.5	121.0	207.4	314.3
				1.1			
OVERALL GROSS PROFIT	(0.5)	(12.8)	(19.6)	19.9	69.0	151.9	242.4
R&D	12.2	6.3	4.0	7.7	7.7	16.6	31.4
SG&A	8.9	7.9	21.5	38.5	43.2	49.4	55.5
TOTAL OPERATING EXPENSE	21.1	14.2	25.5	46.2	50.8	66.0	86.9
Operating Income (EBIT)	(21.6)	(27.0)	(45.1)	(26.3)	18.2	85.9	155.5
Adjusted EBITDA	(18.1)	(23.5)	(41.1)	(21.7)	23.1	90.8	160.3
Net Interest Expense	(1.7)	(2.4)	(4.0)	(4.1)	(3.6)	(3.0)	0.3
Pre-Tax Income	(23.3)	(29.3)	(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)	(23.3)	(29.3)	(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	12.2	7.1	26.4	9.4	24.0	24.0	50.3
Add: H1 2010 Notes - Investors 3	21.3	18.8	0.0	0.0	0.0		
Add: 2010 Debt - GE		11.3	0.0	0.0	0.0		
Add: 2010 Debt - Hercules		15.0	0.0	0.0	0.0		
Add: Dec 2010 Notes - Investors 3		7.5	0.0	0.0	0.0		
Add: IPO (net of Gross Spread)			38.0	60.0	0.0		
Add (Less): Free Cash Flow	(26.4)	(37.8)	(54.9)	(45.4)	(0.0)	26.3	91.5
ENDING CASH	7.1	26.4	9.4	24.0	24.0	50.3	141.8
	FY09A	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
MARGINS:							
Overall Gross Margin	NM	NM	NM	32.3%	57.0%	73.3%	77.1%
R&D	63.7%	48.6%	20.1%	12.5%	6.3%	8.0%	10.0%
SG&A	46.7%	60.9%	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	-32.2%	53.8%	209.1%	96.5%	71.4%	51.6%
Exparel 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	-48.3%	-36.2%	91.2%	0.0%	116.4%	89.5%
SG&A	NM	-11.5%	172.7%	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	482.3%	87.8%

Source: company and Barclays Capital.

Figure 8: Pacira Comparative Valuation Table

Comparative Valuation

Companies[1]	Price 03/14/11	Market Value ($M)	Net Debt ($M)	Enterprise Value ($M)	EV/Revs 2011E	EV/Revs 2012E	EV/Revs 2013E	EV/Revs 2014E	P/E 2011E	P/E 2012E	P/E 2013E	P/E 2014E
Mature												
Cubist	$24.64	$1,719.9	($257.5)	$1,462.4	2.13x	1.95x	1.81x	1.70x	33.3x	17.0x	15.0x	11.6x
ViroPharma	$18.60	$1,675.9	($304.5)	$1,371.4	3.21x	3.60x	3.15x	2.73x	19.6x	33.8x	22.7x	18.1x
The Medicines Company	$16.07	$858.1	($227.5)	$630.6	1.34x	1.18x	1.05x	0.84x	13.1x	11.5x	11.6x	6.3x
				Mean	**2.23x**	**2.25x**	**2.00x**	**1.75x**	**21.98x**	**20.76x**	**16.42x**	**11.99x**
				Median	**2.13x**	**1.95x**	**1.81x**	**1.70x**	**19.58x**	**16.99x**	**15.02x**	**11.62x**
Growth												
Questcor Pharmaceuticals	$13.18	$854.1	($111.4)	$742.7	4.83x	3.83x	3.36x	3.20x	17.3x	12.7x	10.7x	10.1x
Auxilium Pharmaceuticals	$23.60	$1,123.4	($142.4)	$981.0	3.65x	2.82x	2.22x	1.75x	NM	NM	24.3x	12.0x
Optimer Pharmaceuticals	$11.95	$463.9	($58.7)	$405.2	20.50x	5.42x	2.99x	2.18x	NM	NM	29.9x	10.4x
Cadence Pharmaceuticals	$8.76	$442.4	($41.1)	$401.3	15.34x	3.46x	1.87x	1.37x	NM	NM	20.9x	8.8x
				Mean	**11.08x**	**3.88x**	**2.61x**	**2.12x**	**17.34x**	**12.67x**	**21.44x**	**10.32x**
				Median	**10.09x**	**3.65x**	**2.61x**	**1.96x**	**17.34x**	**12.67x**	**22.59x**	**10.26x**
				Universe								
				Mean	**7.29x**	**3.18x**	**2.35x**	**1.96x**	**20.82x**	**18.74x**	**19.29x**	**11.03x**
				Median	**3.65x**	**3.46x**	**2.22x**	**1.75x**	**18.46x**	**14.83x**	**20.86x**	**10.39x**
Pacira*	**$6.87**	**$125.0**	**($28.8)**	**$96.28**	**4.84x**	**1.56x**	**0.80x**	**0.46x**	**NA**	**NA**	**15.3x**	**2.7x**

Source: Thomson One, Company Reports, Barclays Capital estimates

[1] Except for Pacira, estimates are consensus

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I, Richard B. Silver, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Pacira Pharmaceuticals Inc. (PCRX, 14-Mar-2011, USD 6.87), 1-Overweight/2-Neutral

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Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

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.

Stock Rating

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.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

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

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

Below is the list of companies that constitute the "sector coverage universe":

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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43% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 46% of

IMPORTANT DISCLOSURES CONTINUED

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Pacira Pharmaceuticals Inc. (PCRX)

Stock Rating	Sector View
USD 6.87 (14-Mar-2011)	**1-OVERWEIGHT**	**2-NEUTRAL**

Rating and Price Target Chart - USD (as of 14-Mar-2011) — **Currency=USD**

Date	Closing Price	Rating	Price Target

Link to Barclays Capital Live for interactive charting

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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 captial raising.

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