

Pacira Pharmaceuticals, Inc.  
Form 10-Q  
May 02, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
 OF 1934

For the Quarterly Period Ended March 31, 2016

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
 OF 1934

For the transition period from to

Commission File Number: 001-35060

PACIRA PHARMACEUTICALS, INC.  
(Exact Name of Registrant as Specified in its Charter)

Delaware 51-0619477  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

5 Sylvan Way, Suite 300  
Parsippany, New Jersey, 07054  
(Address and Zip Code of Principal Executive  
Offices)

(973) 254-3560  
(Registrant's Telephone Number, Including Area  
Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

As of April 25, 2016, 37,167,255 shares of the registrant’s common stock, \$0.001 par value per share, were outstanding.

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PACIRA PHARMACEUTICALS, INC.  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE QUARTER ENDED MARCH 31, 2016

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## PART I — FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS (Unaudited)

PACIRA PHARMACEUTICALS, INC.  
CONSOLIDATED BALANCE SHEETS(In thousands, except share and per share amounts)  
(Unaudited)

|   | March 31,<br>2016 | December 31,<br>2015<br>(Note 2) |
|---|-------------------|----------------------------------|
| <b>ASSETS</b>   |                   |                                  |
| Current assets:   |                   |                                  |
| Cash and cash equivalents   | \$ 35,029         | \$ 56,984                        |
| Short-term investments  | 114,992           | 101,981                          |
| Accounts receivable, net  | 25,901            | 25,855                           |
| Inventories, net  | 63,744            | 61,645                           |
| Prepaid expenses and other current assets   | 8,959             | 6,117                            |
| Total current assets  | 248,625           | 252,582                          |
| Long-term investments   | 13,470            | 13,462                           |
| Fixed assets, net   | 95,846            | 90,324                           |
| Goodwill  | 32,784            | 30,880                           |
| Intangibles, net  | —                 | 81                               |
| Other assets  | 481               | 406                              |
| Total assets  | \$ 391,206        | \$ 387,735                       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                   |                                  |
| Current liabilities:  |                   |                                  |
| Accounts payable  | \$ 10,484         | \$ 8,739                         |
| Accrued expenses  | 29,067            | 35,375                           |
| Convertible senior notes  | 105,215           | 104,040                          |
| Current portion of deferred revenue   | 1,275             | 1,426                            |
| Income taxes payable  | 98                | 208                              |
| Total current liabilities   | 146,139           | 149,788                          |
| Deferred revenue  | 7,877             | 8,082                            |
| Other liabilities   | 11,020            | 11,473                           |
| Total liabilities   | 165,036           | 169,343                          |
| Commitments and contingencies (Note 12)   |                   |                                  |
| Stockholders' equity:   |                   |                                  |
| Preferred stock, par value \$0.001; 5,000,000 shares authorized; none issued and outstanding at | —                 | —                                |
| March 31, 2016 and December 31, 2015  |                   |                                  |
| Common stock, par value \$0.001, 250,000,000 shares authorized; 37,103,427 shares issued and    |                   |                                  |
| outstanding at March 31, 2016; 36,848,319 shares issued and outstanding at December 31,         | 37                | 37                               |
| 2015  |                   |                                  |
| Additional paid-in capital  | 538,227           | 526,696                          |
| Accumulated deficit   | (312,143 )        | (308,289 )                       |

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|   |           |            |   |
|---|-----------|------------|---|
| Accumulated other comprehensive income (loss) | 49        | (52        | ) |
| Total stockholders' equity                    | 226,170   | 218,392    |   |
| Total liabilities and stockholders' equity    | \$391,206 | \$ 387,735 |   |

See accompanying condensed notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS(In thousands, except per share amounts)  
(Unaudited)

|  | Three Months<br>Ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2016                               | 2015     |
| Revenues:  |                                    |          |
| Net product sales                                    | \$64,502                           | \$57,086 |
| Collaborative licensing and milestone revenue        | 356                                | 356      |
| Royalty revenue                                      | 616                                | 874      |
| Total revenues                                       | 65,474                             | 58,316   |
| Operating expenses:                                  |                                    |          |
| Cost of goods sold                                   | 20,278                             | 17,580   |
| Research and development                             | 9,493                              | 5,967    |
| Selling, general and administrative                  | 37,957                             | 31,428   |
| Total operating expenses                             | 67,728                             | 54,975   |
| Income (loss) from operations                        | (2,254 )                           | 3,341    |
| Other (expense) income:                              |                                    |          |
| Interest income                                      | 252                                | 155      |
| Interest expense                                     | (1,868 )                           | (1,996 ) |
| Royalty interest obligation                          | —                                  | (71 )    |
| Other, net   | 48                                 | (117 )   |
| Total other expense, net                             | (1,568 )                           | (2,029 ) |
| Income (loss) before income taxes                    | (3,822 )                           | 1,312    |
| Income tax expense                                   | (32 )                              | (52 )    |
| Net income (loss)                                    | \$(3,854 )                         | \$1,260  |
| Net income (loss) per share:                         |                                    |          |
| Basic and diluted net income (loss) per common share | \$(0.10 )                          | \$0.03   |
| Weighted average common shares outstanding:          |                                    |          |
| Basic  | 37,020                             | 36,235   |
| Diluted  | 37,020                             | 41,779   |

See accompanying condensed notes to consolidated financial statements.

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PACIRA PHARMACEUTICALS, INC.  
CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME (LOSS)

(In thousands)  
(Unaudited)

|                                    | Three Months<br>Ended<br>March 31, |         |
|------------------------------------|------------------------------------|---------|
|                                    | 2016                               | 2015    |
| Net income (loss)                  | \$(3,854)                          | \$1,260 |
| Other comprehensive income:        |                                    |         |
| Net unrealized gain on investments | 101                                | 52      |
| Total other comprehensive income   | 101                                | 52      |
| Comprehensive income (loss)        | \$(3,753)                          | \$1,312 |

See accompanying condensed notes to consolidated financial statements.

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PACIRA PHARMACEUTICALS, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2016

(In thousands)

(Unaudited)

|                                    | Common Stock |        | Additional         | Accumulated   | Accumulated                             |            |
|------------------------------------|--------------|--------|--------------------|---------------|---|------------|
|                                    | Shares       | Amount | Paid-In<br>Capital | Deficit       | Other<br>Comprehensive<br>Income (Loss) | Total      |
| Balances at December 31, 2015      | 36,848       | \$ 37  | \$ 526,696         | \$ (308,289 ) | \$ (52 )                                | \$ 218,392 |
| Exercise of stock options          | 254          | —      | 3,041              | —             | —                                       | 3,041      |
| Vested restricted stock units      | 1            | —      | —                  | —             | —                                       | —          |
| Stock-based compensation           | —            | —      | 8,490              | —             | —                                       | 8,490      |
| Net unrealized gain on investments | —            | —      | —                  | —             | 101                                     | 101        |
| Net loss                           | —            | —      | —                  | (3,854 )      | —                                       | (3,854 )   |
| Balances at March 31, 2016         | 37,103       | \$ 37  | \$ 538,227         | \$ (312,143 ) | \$ 49                                   | \$ 226,170 |

See accompanying condensed notes to consolidated financial statements.



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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|  | Three Months Ended<br>March 31,<br>2016 |  | 2015<br>(Note 2) |
|--|---|--|------------------|
| Operating activities:  |   |  |                  |
| Net income (loss)  | \$ (3,854 )                             |  | \$ 1,260         |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |   |  |                  |
| Depreciation of fixed assets and amortization of intangibles                             | 3,165                                   |  | 2,743            |
| Amortization of unfavorable lease obligation and debt issuance costs, net                | 120                                     |  | 122              |
| Amortization of debt discount  | 1,022                                   |  | 1,035            |
| Stock-based compensation   | 8,490                                   |  | 7,517            |
| Changes in operating assets and liabilities:   |   |  |                  |
| Restricted cash  | —                                       |  | 1,509            |
| Accounts receivable, net   | (46 )                                   |  | (2,145 )         |
| Inventories, net   | (2,099 )                                |  | (7,001 )         |
| Prepaid expenses and other assets  | (2,917 )                                |  | 372              |
| Accounts payable and accrued expenses  | (6,227 )                                |  | (5,679 )         |
| Royalty interest obligation  | —                                       |  | (276 )           |
| Other liabilities  | (419 )                                  |  | 29               |
| Deferred revenue   | (356 )                                  |  | (356 )           |
| Net cash used in operating activities  | (3,121 )                                |  | (870 )           |
| Investing activities:  |   |  |                  |
| Purchases of fixed assets  | (7,053 )                                |  | (7,874 )         |
| Purchases of investments   | (67,843 )                               |  | (49,937 )        |
| Sales of investments   | 54,925                                  |  | 59,631           |

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|   |           |   |           |   |
|---|-----------|---|-----------|---|
| Payment of contingent consideration                           | (1,904)   | ) | (1,620)   | ) |
| Net cash provided by (used in) investing activities           | (21,875)  | ) | 200       |   |
| Financing activities:   |           |   |           |   |
| Proceeds from exercise of stock options                       | 3,041     |   | 4,047     |   |
| Net cash provided by financing activities                     | 3,041     |   | 4,047     |   |
| Net (decrease) increase in cash and cash equivalents          | (21,955)  | ) | 3,377     |   |
| Cash and cash equivalents, beginning of period                | 56,984    |   | 37,520    |   |
| Cash and cash equivalents, end of period                      | \$ 35,029 |   | \$ 40,897 |   |
| Supplemental cash flow information:                           |           |   |           |   |
| Cash paid for interest, including royalty interest obligation | \$ 1,926  |   | \$ 2,297  |   |
| Cash paid for income taxes, net of refunds                    | \$ 142    |   | \$ 160    |   |
| Non-cash investing and financing activities:                  |           |   |           |   |
| Net increase in accrued fixed assets                          | \$ 1,554  |   | \$ 1,363  |   |

See accompanying condensed notes to consolidated financial statements.

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PACIRA PHARMACEUTICALS, INC.  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1—DESCRIPTION OF BUSINESS

Pacira Pharmaceuticals, Inc. and its subsidiaries (collectively, the “Company” or “Pacira”) is a specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on its proprietary DepoFoam® extended release drug delivery technology, for use primarily in hospitals and ambulatory surgery centers. The Company’s lead product, EXPAREL® (bupivacaine liposome injectable suspension), which consists of bupivacaine encapsulated in DepoFoam, was approved by the United States Food and Drug Administration, or FDA, on October 28, 2011 and launched commercially in April 2012. DepoFoam is also the basis for the Company’s other FDA-approved commercial product, DepoCyt(e), which the Company manufactures for its commercial partners.

Pacira is subject to risks common to companies in similar industries and stages of development, including, but not limited to, competition from larger companies, reliance on revenue from few products, reliance on a single manufacturing site, new technological innovations, dependence on key personnel, reliance on third-party service providers and sole source suppliers, protection of proprietary technology and compliance with government regulations.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, and in accordance with the rules and regulations of the Securities and Exchange Commission for interim reporting. Pursuant to these rules and regulations, certain information and footnote disclosures normally included in complete annual financial statements have been condensed or omitted. Therefore, these interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The consolidated financial statements at March 31, 2016, and for the three months ended March 31, 2016 and 2015, are unaudited, but include all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial information set forth herein in accordance with GAAP. The consolidated balance sheet as of December 31, 2015 has been derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The consolidated financial statements as presented reflect certain reclassifications from previously issued financial statements to conform to the current year presentation. The accounts of wholly owned subsidiaries are included in the consolidated financial statements. Intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim periods or for the full year.

Concentration of Major Customers

The Company’s customers are national and regional wholesalers of pharmaceutical products as well as commercial, collaborative and licensing partners. The Company sells EXPAREL through a drop-ship program under which orders

are processed through wholesalers (including AmerisourceBergen Health Corporation, Cardinal Health, Inc. and McKesson Drug Company), but shipments of the product are sent directly to individual accounts, such as hospitals, ambulatory surgery centers and individual doctors. The table below includes the percentage of revenue comprised by the Company's three largest customers (i.e., wholesalers or commercial partners) in each period presented:

|                         | Three<br>Months<br>Ended<br>March 31,<br>2016 2015 |     |
|-------------------------|--|-----|
| Largest customer        | 33%  | 29% |
| Second largest customer | 28%  | 29% |
| Third largest customer  | 27%  | 28% |
|                         | 88%  | 86% |

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### Recent Accounting Pronouncements

#### Recently Adopted

In April 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. The Company adopted this standard on January 1, 2016. The Company applied the new guidance retrospectively to all prior periods presented in the financial statements to conform to the 2016 presentation. As a result, \$1.9 million of debt issuance costs related to the Company's convertible senior notes at December 31, 2015 were reclassified from other assets to a reduction in the carrying value of the Company's convertible senior notes.

#### Not Adopted as of March 31, 2016

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires that an entity recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to its customers. In order to achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. This latest standard defers the effective date of revenue standard ASU 2014-09 by one year and permits early adoption on a limited basis. This update will replace existing revenue recognition guidance under GAAP when it becomes effective for the Company beginning January 1, 2018, with early adoption permitted in the first quarter of 2017. The updated standard will permit the use of either the retrospective or cumulative effect transition method. The Company is continuing to evaluate the impact of these updates on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The standard requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures, one of which is net realizable value). The standard is effective for the Company prospectively beginning January 1, 2017. The adoption of ASU 2015-11 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (ASC 842). This update requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous authoritative guidance. This update also introduces new disclosure requirements for leasing arrangements. The standard is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those annual periods. Early adoption is permitted. The Company is evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This update includes multiple provisions intended to simplify various aspects of the accounting for share-based payment transactions including accounting for excess tax benefits and tax deficiencies, classification of excess tax benefits in the statement of cash flows and accounting for forfeitures. This

update is effective for annual and interim reporting periods of public entities beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the impact of ASU 2016-09 on its consolidated financial statements.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or not significant to the consolidated financial statements of the Company.

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## NOTE 3—INVENTORIES

The components of inventories are as follows (in thousands):

|                 | March<br>31,<br>2016 | December<br>31,<br>2015 |
|-----------------|----------------------|-------------------------|
| Raw materials   | \$ 16,015            | \$ 16,712               |
| Work-in-process | 9,939                | 12,152                  |
| Finished goods  | 37,790               | 32,781                  |
| Total           | \$ 63,744            | \$ 61,645               |

## NOTE 4—FIXED ASSETS

Fixed assets, summarized by major category, consist of the following (in thousands):

|                                    | March<br>31,<br>2016 | December<br>31,<br>2015 |
|------------------------------------|----------------------|-------------------------|
| Machinery and laboratory equipment | \$ 31,086            | \$ 29,864               |
| Leasehold improvements             | 32,359               | 30,834                  |
| Computer equipment and software    | 4,724                | 4,007                   |
| Office furniture and equipment     | 1,440                | 1,439                   |
| Construction in progress           | 54,234               | 49,097                  |
| Total                              | 123,843              | 115,241                 |
| Less: accumulated depreciation     | (27,997 )            | (24,917 )               |
| Fixed assets, net                  | \$ 95,846            | \$ 90,324               |

For the three months ended March 31, 2016 and 2015, depreciation expense was \$3.1 million and \$2.7 million, respectively. For the three months ended March 31, 2016 and 2015, capitalized interest on the construction of manufacturing sites was \$0.3 million and \$0.2 million, respectively. As of March 31, 2016 and December 31, 2015, total fixed assets, net, includes leasehold improvements and manufacturing process equipment located in England in the amount of \$28.4 million and \$25.9 million, respectively.

## NOTE 5—GOODWILL AND INTANGIBLE ASSETS

In March 2007, the Company acquired from SkyePharma Holding, Inc., or Skyepharma, its California operating subsidiary (“Pacira California”), referred to herein as the Acquisition. The Company’s goodwill arose in April 2012 from a contingent milestone payment to Skyepharma in connection with the Acquisition. The Acquisition was accounted for under Statement of Financial Accounting Standards 141, Accounting for Business Combinations, which was the effective GAAP standard at the Acquisition date. In connection with the Acquisition, the Company agreed to certain earn-out payments based on a percentage of net sales of EXPAREL collected and certain other yet-to-be-developed products, as well as milestone payments for EXPAREL, as follows:

- (i) \$10.0 million upon the first commercial sale in the United States (met April 2012);
- (ii) \$4.0 million upon the first commercial sale in a major E.U. country (United Kingdom, France, Germany, Italy and Spain);
- (iii) \$8.0 million when annual net sales collected reach \$100.0 million (met September 2014);
- (iv) \$8.0 million when annual net sales collected reach \$250.0 million; and
- (v) \$32.0 million when annual net sales collected reach \$500.0 million.

The first milestone was met in April 2012, resulting in a \$10.0 million payment to Skyepharma. The Company recorded this payment net of a \$2.0 million contingent consideration liability recognized at the time of the Acquisition, resulting in \$8.0 million recorded as goodwill. In September 2014, the Company made an \$8.0 million milestone payment to Skyepharma in connection with achieving \$100.0 million of annual EXPAREL net sales collected. For purposes of meeting future milestone payments, annual net sales are measured on a rolling quarterly basis. Cumulatively through March 31, 2016, the Company has recorded an additional \$16.8 million as goodwill for earn-out payments which are based on a percentage of net sales of



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EXPAREL collected. Any remaining earn-out payments will also be treated as additional costs of the Acquisition and, therefore, recorded as goodwill if and when each contingency is resolved.

The change in the carrying value of goodwill is summarized as follows (in thousands):

|  |                   |
|--|-------------------|
|  | Carrying<br>Value |
| Balance at December 31, 2015                               | \$30,880          |
| Percentage payments on collections of net sales of EXPAREL | 1,904             |
| Balance at March 31, 2016                                  | \$32,784          |

Intangible assets, net, consist of core technology, developed technology and trademarks and trade names acquired in the Acquisition and are summarized as follows (in thousands):

|                                | March 31, 2016             |                             |                              | December 31, 2015          |                             |                              | Estimated<br>Useful Life |
|--------------------------------|----------------------------|-----------------------------|------------------------------|----------------------------|-----------------------------|------------------------------|--------------------------|
|                                | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Intangible<br>Assets,<br>Net | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Intangible<br>Assets,<br>Net |                          |
| Amortizable intangible assets: |                            |                             |                              |                            |                             |                              |                          |
| Core technology                | \$2,900                    | \$ (2,900 )                 | \$ —                         | —\$2,900                   | \$ (2,819 )                 | \$ 81                        | 9 Years                  |
| Developed technology           | 11,700                     | (11,700 )                   | —                            | 11,700                     | (11,700 )                   | —                            | 7 Years                  |
| Trademarks and trade names     | 400                        | (400 )                      | —                            | 400                        | (400 )                      | —                            | 7 Years                  |
| Total intangible assets        | \$15,000                   | \$ (15,000 )                | \$ —                         | —\$15,000                  | \$ (14,919 )                | \$ 81                        |                          |

Amortization expense for intangible assets was \$0.1 million for the three months ended March 31, 2016 and 2015.

## NOTE 6—DEBT

The composition of the Company's debt and financing obligations is as follows (in thousands):

|                                  | March 31,<br>2016 | December<br>31,<br>2015 |
|----------------------------------|-------------------|-------------------------|
| Debt:                            |                   |                         |
| 3.25% convertible senior notes   | \$118,533         | \$118,533               |
| Deferred financing costs         | (1,735 )          | (1,888 )                |
| Discount on debt                 | (11,583 )         | (12,605 )               |
| Total debt, net of debt discount | \$105,215         | \$104,040               |

On January 23, 2013, the Company completed a private placement of \$120.0 million in aggregate principal amount of 3.25% convertible senior notes due 2019, or Notes, and entered into an indenture agreement, or Indenture, with respect to the Notes. The Notes accrue interest at a fixed rate of 3.25% per year, payable semiannually in arrears on February 1 and August 1 of each year. The Notes mature on February 1, 2019.

On or after August 1, 2018, until the close of business on the second scheduled trading day immediately preceding February 1, 2019, holders may convert their Notes at any time. Upon conversion, holders will receive cash up to the principal amount of the Notes and, with respect to any excess conversion value, may receive cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's option. The initial conversion rate for the Notes was 40.2945 shares of common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$24.82 per share of the Company's common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest.

Holders may convert their Notes prior to August 1, 2018, only if certain circumstances are met, including if during the previous calendar quarter, the sales price of the Company's common stock was greater than 130% of the conversion price then applicable for at least 20 out of the last 30 consecutive trading days of the quarter. During the quarter ended March 31, 2016, this condition for conversion was met. As a result, the Notes are classified as a current obligation and will be convertible until June 30, 2016. As of March 31, 2016, the Notes had a market price of \$2,215 per \$1,000 principal amount, compared to an estimated conversion value of \$2,135. In the event of conversion, holders would forgo all future interest payments, any unpaid

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accrued interest and the possibility of further stock price appreciation. Upon the receipt of conversion requests, the settlement of the Notes will be paid pursuant to the terms of the Indenture, which state that the principal must be settled in cash. In the event that all of the Notes are converted, the Company would be required to repay the \$118.5 million in principal value and approximately \$134.5 million of cash or issue approximately 2.5 million shares of its common stock (or a combination of cash and shares of its common stock at the Company's option) to settle the conversion premium as of March 31, 2016, causing dilution to the Company's shareholders and/or significant expenditures of the Company's cash and liquid securities.

While the Notes are classified in the Company's consolidated balance sheets at March 31, 2016 and December 31, 2015 as a current obligation, the future convertibility and resulting balance sheet classification of this liability will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of the Company's common stock during the prescribed measurement periods. In the event that the holders of the Notes continue to have the election to convert the Notes at any time during the prescribed measurement period, the Notes will continue to be considered a current obligation and classified as such. Prior to August 1, 2017, in the event that none of the conversion conditions are met in a given quarter, the Notes would be reclassified as a long-term liability.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, an entity must separately account for the liability and equity components of convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The equity component is recorded in additional paid-in capital in the consolidated balance sheet at the issuance date and that equity component is treated as a discount on the liability component of the Notes. The initial carrying value of the liability component of \$95.1 million was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying value of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

The Company allocated the total transaction costs of \$4.7 million related to the issuance of the Notes to the liability and equity components of the Notes based on their relative values. Transaction costs attributable to the liability component are amortized to interest expense over the six-year term of the Notes, and transaction costs attributable to the equity component are netted with the equity component in stockholders' equity.

The following table sets forth the total interest expense recognized (in thousands):

|                                     | Three Months<br>Ended<br>March 31, |         |
|-------------------------------------|------------------------------------|---------|
|                                     | 2016                               | 2015    |
| Contractual interest expense        | \$963                              | \$967   |
| Amortization of debt issuance costs | 153                                | 155     |
| Amortization of debt discount       | 1,022                              | 1,035   |
| Capitalized interest (Note 4)       | (270 )                             | (161 )  |
| Total                               | \$1,868                            | \$1,996 |

Effective interest rate on the Notes 7.22 % 7.19 %

## NOTE 7—FINANCIAL INSTRUMENTS

## Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or be paid to transfer a liability in the principal or most advantageous market in an orderly transaction. To increase consistency and comparability in fair value measurements, the FASB established a three-level hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of fair value measurements are:

Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2—Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

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Level 3—Unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

The carrying value of financial instruments including cash and cash equivalents, accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of these items. The fair value of the Notes at March 31, 2016 is calculated utilizing market quotations from an over-the-counter trading market for these Notes (Level 2). The carrying amount and fair value of the Notes are as follows (in thousands):

| Financial Liabilities Carried at Historical Cost | Carrying Value | Fair Value Measurements Using |           |         |
|--|----------------|-------------------------------|-----------|---------|
|  |                | Level 1                       | Level 2   | Level 3 |
| March 31, 2016                                   |                |                               |           |         |
| 3.25% convertible senior notes *                 | \$105,215      | \$—                           | \$262,551 | \$—     |

\* The fair value of the Notes was based on the closing price of the Company's common stock of \$52.98 per share at March 31, 2016 compared to a conversion price of \$24.82 per share which, if converted, would result in an approximate conversion premium of 2.5 million shares or \$134.5 million of cash. The maximum conversion premium that can be due on the Notes is 4.8 million shares, which assumes no increases in the conversion rate for certain corporate events.

Short-term investments consist of asset-backed securities collateralized by credit card receivables, investment grade commercial paper and corporate bonds with maturities less than one year. Long-term investments consist of corporate bonds with maturities greater than one year. The net unrealized gains and losses from the Company's short-term and long-term investments are reported in other comprehensive income. At March 31, 2016, all of the Company's short-term and long-term investments are classified as available for sale investments and are determined to be Level 2 instruments, which are measured at fair value using standard industry models with observable inputs. The fair value of the commercial paper is measured based on a standard industry model that uses the three-month Treasury bill rate as an observable input. The fair value of the asset-backed securities and corporate bonds is principally measured or corroborated by trade data for identical issues in which related trading activity is not sufficiently frequent to be considered a Level 1 input or that of comparable securities. At March 31, 2016, the Company's short-term and long-term investments were rated A or better by Standard & Poor's.

The following summarizes the Company's investments at March 31, 2016 and December 31, 2015 (in thousands):

| March 31, 2016          | Cost      | Gross            | Gross             | Fair            |
|-------------------------|-----------|------------------|-------------------|-----------------|
|                         |           | Unrealized Gains | Unrealized Losses | Value (Level 2) |
| Debt securities:        |           |                  |                   |                 |
| Short-term:             |           |                  |                   |                 |
| Asset-backed securities | \$26,164  | \$ 6             | \$ (4 )           | \$26,166        |
| Commercial paper        | 36,650    | 64               | —                 | 36,714          |
| Corporate bonds         | 52,098    | 22               | (8 )              | 52,112          |
| Subtotal                | 114,912   | 92               | (12 )             | 114,992         |
| Long-term:              |           |                  |                   |                 |
| Corporate bonds         | 13,501    | —                | (31 )             | 13,470          |
| Total                   | \$128,413 | \$ 92            | \$ (43 )          | \$128,462       |
| December 31, 2015       | Cost      | Gross            | Gross             | Fair            |
|                         |           | Unrealized Gains | Unrealized Losses | Value (Level 2) |
| Debt securities:        |           |                  |                   |                 |

## Short-term:

|                         |          |      |          |          |
|-------------------------|----------|------|----------|----------|
| Asset-backed securities | \$27,484 | \$ — | \$ (15 ) | \$27,469 |
| Commercial paper        | 35,191   | 31   | —        | 35,222   |
| Corporate bonds         | 39,319   | 2    | (31 )    | 39,290   |
| Subtotal                | 101,994  | 33   | (46 )    | 101,981  |

## Long-term:

|                 |           |       |          |           |
|-----------------|-----------|-------|----------|-----------|
| Corporate bonds | 13,501    | —     | (39 )    | 13,462    |
| Total           | \$115,495 | \$ 33 | \$ (85 ) | \$115,443 |

The fair value in these instances would be determined using Level 3 inputs. At March 31, 2016, the Company had no financial instruments which were measured using Level 3 inputs.

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## Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, long-term investments and accounts receivable. The Company maintains its cash and cash equivalents with high-credit quality financial institutions. At times, such amounts may exceed federally-insured limits. The Company performs ongoing credit evaluations of its customers as warranted and generally does not require collateral.

As of March 31, 2016, three customers each accounted for over 10% of the Company's accounts receivable, at 30%, 30% and 28%, respectively. At December 31, 2015, three customers each accounted for over 10% of the Company's accounts receivable, at 34%, 28% and 27%, respectively (for additional information regarding the Company's customers, see Note 2, Summary of Significant Accounting Policies). Revenues are primarily derived from major wholesalers and pharmaceutical companies which generally have significant cash resources. Allowances for doubtful accounts receivable are maintained based on historical payment patterns, aging of accounts receivable and the Company's actual write-off history. As of March 31, 2016 and December 31, 2015, no allowances for doubtful accounts were deemed necessary by the Company on its accounts receivable.

## NOTE 8—STOCK PLANS

## Stock-Based Compensation

The Company recognized stock-based compensation expense in its consolidated statements of operations as follows (in thousands):

|                                     | Three Months<br>Ended<br>March 31, |         |
|-------------------------------------|------------------------------------|---------|
|                                     | 2016                               | 2015    |
| Cost of goods sold                  | \$1,549                            | \$1,103 |
| Research and development            | 893                                | 1,510   |
| Selling, general and administrative | 6,048                              | 4,904   |
| Total                               | \$8,490                            | \$7,517 |

## Stock-based compensation from:

|  |         |         |
|--|---------|---------|
| Stock options (employee awards)          | \$6,856 | \$6,309 |
| Stock options (consultant awards)        | 274     | 997     |
| Restricted stock units (employee awards) | 1,085   | —       |
| Employee stock purchase plan             | 275     | 211     |
| Total                                    | \$8,490 | \$7,517 |

## Employee Stock Purchase Plan

The Company's 2014 Employee Stock Purchase Plan, or ESPP, features two six-month offering periods per year, running from January 1 to June 30 and July 1 to December 31. Under the ESPP, employees may elect to contribute after-tax earnings to purchase shares at 85% of the fair market value of the Company's common stock on either the offering date or the purchase date, whichever is less. During the three months ended March 31, 2016, no shares were purchased under the ESPP.

The following tables contain information about the Company's stock option and restricted stock unit, or RSU, activity for the three months ended March 31, 2016:





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|                                  | Number     | Weighted |
|----------------------------------|------------|----------|
| Stock Options                    | of Options | Average  |
|                                  |            | Exercise |
|                                  |            | Price    |
| Outstanding at December 31, 2015 | 4,645,722  | \$ 44.03 |
| Granted                          | 41,250     | 61.70    |
| Exercised                        | (254,170 ) | 11.97    |
| Forfeited                        | (216,515 ) | 71.22    |
| Expired                          | (28,755 )  | 79.53    |
| Outstanding at March 31, 2016    | 4,187,532  | 44.51    |

  

|                               | Number    | Weighted  |
|-------------------------------|-----------|-----------|
| Restricted Stock Units        | of Units  | Average   |
|                               |           | Grant     |
|                               |           | Date Fair |
|                               |           | Value     |
| Unvested at December 31, 2015 | 216,198   | \$ 78.59  |
| Granted                       | 1,150     | 63.84     |
| Vested                        | (938 )    | 79.43     |
| Forfeited                     | (17,838 ) | 79.43     |
| Unvested at March 31, 2016    | 198,572   | 78.34     |

## NOTE 9—STOCKHOLDERS' EQUITY

## Accumulated Other Comprehensive Income (Loss)

The following table illustrates the changes in the balances of the Company's accumulated other comprehensive income (loss) for the periods presented (in thousands):

|   | Three     |        |
|---|-----------|--------|
|   | Months    |        |
|   | Ended     |        |
|   | March 31, |        |
|   | 2016      | 2015   |
| Net unrealized gains (losses) from available for sale investments:      |           |        |
| Balance at beginning of period  | \$(52)    | \$(80) |
| Other comprehensive income before reclassifications                     | 101       | 52     |
| Amounts reclassified from accumulated other comprehensive income (loss) | —         | —      |
| Balance at end of period  | \$49      | \$(28) |

## NOTE 10—NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common shares by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is calculated by dividing the net income (loss) attributable to common shares by the weighted average number of shares outstanding plus dilutive potential common stock outstanding during the period. Potential common shares include the shares of common stock issuable upon the exercise of outstanding stock options and warrants, the vesting of RSUs and the purchase of shares from the ESPP (using the treasury stock method) as well as the conversion of the excess conversion value on the Notes. As discussed in Note 6, Debt, the Company must settle the principal of the Notes in cash upon conversion, and it may settle any conversion premium in either cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's discretion. For purposes of calculating the dilutive impact of the conversion premium on the Notes, it is presumed that the conversion

premium will be settled in common stock.

Potential common shares are excluded from the diluted net income (loss) per share computation to the extent that they would be antidilutive. Because the Company reported a net loss for the three months ended March 31, 2016, no potentially dilutive securities have been included in the computation of diluted net loss per share for that period.

The following table sets forth the computation of basic and diluted net income (loss) per share for the three months ended March 31, 2016 and 2015 (in thousands, except per share amounts):

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|   | Three Months<br>Ended<br>March 31,<br>2016 2015 |         |
|---|---|---------|
| Numerator:  |   |         |
| Net income (loss)   | \$(3,854)                                       | \$1,260 |
| Denominator:  |   |         |
| Weighted average shares of common stock outstanding—basic     | 37,020  | 36,235  |
| Computation of diluted securities:                            |   |         |
| Dilutive effect of stock options                              | —   | 1,885   |
| Dilutive effect of conversion premium on the Notes            | —   | 3,652   |
| Dilutive effect of warrants                                   | —   | 6       |
| Dilutive effect of ESPP                                       | —   | 1       |
| Weighted average shares of common stock outstanding—diluted   | 37,020  | 41,779  |
| Net income (loss) per share:                                  |   |         |
| Basic and diluted net income (loss) per share of common stock | \$(0.10 )                                       | \$0.03  |

The following outstanding stock options, RSUs, conversion premium on the Notes, warrants and ESPP purchase options are antidilutive in the periods presented (in thousands):

|  | Three<br>Months<br>Ended<br>March 31,<br>2016 2015 |       |
|--|--|-------|
| Weighted average number of stock options     | 4,324  | 1,323 |
| Weighted average number of RSUs              | 205  | —     |
| Conversion premium on the Notes              | 2,749  | —     |
| Weighted average number of warrants          | 3  | —     |
| Weighted average purchase options under ESPP | 23   | —     |
| Total  | 7,304  | 1,323 |

## NOTE 11—TAXES

Income (loss) before income taxes is as follows (in thousands):

|   | Three Months<br>Ended<br>March 31,<br>2016 2015 |         |
|---|---|---------|
| Income (loss) before income taxes:      |   |         |
| Domestic                                | \$(3,499)                                       | \$1,886 |
| Foreign                                 | (323 )  | (574 )  |
| Total income (loss) before income taxes | \$(3,822)                                       | \$1,312 |

The Company recorded tax provisions of less than \$0.1 million in both of the three month periods ended March 31, 2016 and 2015. The provision for income taxes is recorded based upon the best current estimate of the Company's annual effective tax rate, or AETR. Generally, the AETR is the result of a mix of profits and losses the Company and its subsidiaries earn in multiple tax jurisdictions with different income tax rates. For the three months ended March 31, 2016, the Company determined that its actual year-to-date rate was the best estimate of its AETR. For the three months ended March 31, 2015, the Company estimated its AETR based on full-year estimates for ordinary income

and related tax expense. The tax provisions reflect federal alternative minimum taxes as well as state income taxes. Due to the fact that the Company's deferred tax assets are fully offset by a valuation allowance, the tax provisions do not reflect deferred tax expenses.

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## NOTE 12—COMMITMENTS AND CONTINGENCIES

## Leases

The Company leases research and development, manufacturing and warehouse facilities in San Diego, California which expire in 2020 and its corporate headquarters in Parsippany, New Jersey which expires in March 2028.

As of March 31, 2016, annual aggregate minimum payments due under the Company's lease obligations are as follows (in thousands):

| Year                         | Aggregate<br>Minimum<br>Payments |
|------------------------------|----------------------------------|
| 2016 (remaining nine months) | \$ 5,749                         |
| 2017                         | 7,878                            |
| 2018                         | 8,081                            |
| 2019                         | 8,303                            |
| 2020                         | 6,420                            |
| 2021 through 2028            | 8,731                            |
| Total                        | \$ 45,162                        |

## CrossLink Agreement

In October 2013, the Company and CrossLink BioScience, LLC, or CrossLink, commenced a five-year arrangement for the promotion and sale of EXPAREL, pursuant to the terms of a Master Distributor Agreement. In February 2015, the Company entered into a Third Amendment to the Master Distributor Agreement (the "Third Amendment") with CrossLink to, among other things, amend certain payment terms of the agreement and specify certain sub-distributors that may promote and sell EXPAREL under the agreement. Under the terms of the Third Amendment, the Company and CrossLink have mutual termination rights under the Agreement, and the Company is permitted to terminate the Agreement without cause effective September 30, 2016, subject to certain terms and conditions set forth in the Agreement. In the event the Company terminates the agreement, a material termination payment based on a percentage of earned performance-based fees will be due to CrossLink.

## Litigation

From time to time, the Company has been and may again become involved in legal proceedings arising in the ordinary course of its business, including those related to patents, product liability and government investigations. Except as described below, the Company is not presently a party to any litigation which it believes to be material, and is not aware of any pending or threatened litigation against the Company which it believes could have a material adverse effect on its business, operating results, financial condition or cash flows.

In April 2015, the Company received a subpoena from the U.S. Department of Justice, U.S. Attorney's Office for the District of New Jersey, requiring the production of a broad range of documents pertaining to marketing and promotional practices related to EXPAREL. The Company is cooperating with the government's inquiry. The Company can make no assurances as to the time or resources that will need to be devoted to this inquiry or its final outcome, or the impact, if any, of this inquiry or any proceedings on its business, financial condition, results of operations and cash flows.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q and certain other communications made by us contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including statements about our growth and future operating results, discovery and development of products, strategic alliances and intellectual property. For this purpose, any statement that is not a statement of historical fact should be considered a forward-looking statement. We often use the words "believe," "anticipate," "plan," "expect," "intend," "may," and similar expressions to help identify forward-looking statements. We cannot assure you that our estimates, assumptions and expectations will prove to have been correct. These forward-looking statements include, among others, statements about: the success of our sales and manufacturing efforts in support of the commercialization of EXPAREL®(bupivacaine liposome injectable suspension); the rate and degree of market acceptance of EXPAREL; the size and growth of the potential markets for EXPAREL and our ability to serve those markets; the Company's plans to expand the use of EXPAREL to additional indications and opportunities, and the timing and success of any related clinical trials; the related timing and success of a United States Food and Drug Administration, or FDA, supplemental New Drug Applications, or sNDA; the outcome of the U.S. Department of Justice, or DOJ, inquiry; the Company's plans to evaluate, develop and pursue additional DepoFoam®-based product candidates; clinical studies in support of an existing or potential DepoFoam-based product; the Company's plans to continue to manufacture and provide support services for its commercial partners who have licensed DepoCyt(e); our commercialization and marketing capabilities and the ability of the Company and Patheon UK Limited, or Patheon, to successfully and timely construct dedicated EXPAREL manufacturing suites. Important factors could cause our actual results to differ materially from those indicated or implied by forward-looking statements. We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, and readers should not rely on the forward-looking statements as representing the Company's views as of any date subsequent to the date of the filing of this Quarterly Report on Form 10-Q.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these statements. These factors include items mentioned herein and the matters discussed and referenced in Part I-Item 1A. "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2015 and in other reports as filed with the Securities and Exchange Commission, or SEC.

Unless the context requires otherwise, references to "Pacira," "we," the "Company," "us" and "our" in this Quarterly Report on Form 10-Q refer to Pacira Pharmaceuticals, Inc. and its subsidiaries. In addition, references in this Quarterly Report on Form 10-Q to DepoCyt(e) mean DepoCyt® when discussed in the context of the United States and Canada and DepoCyte® when discussed in the context of Europe.

Overview

We are a specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on our proprietary DepoFoam extended release drug delivery technology, for use primarily in hospitals and ambulatory surgery centers. As of March 31, 2016, our commercial stage products are EXPAREL and DepoCyt(e):

EXPAREL is a liposome injection of bupivacaine, an amide-type local anesthetic indicated for single-dose administration into the surgical site to produce postsurgical analgesia, which was approved by the FDA on October 28, 2011. We commercially launched EXPAREL in April 2012. We drop-ship EXPAREL directly to the end-user based on orders placed to wholesalers or directly to us, and we have no product held by wholesalers.

DepoCyt(e) is a sustained release liposomal formulation of the chemotherapeutic agent cytarabine and is indicated for the intrathecal treatment of lymphomatous meningitis. DepoCyt(e) was granted accelerated approval by the FDA in 1999 and full approval in 2007. We sell DepoCyt(e) to our commercial partners located in the United States and

Europe.

We expect to continue to incur significant expenses as we further commercialize EXPAREL; pursue expanded uses of EXPAREL in additional indications and opportunities; advance the development of DepoFoam-based product candidates, such as DepoMeloxicam and DepoTranexamic Acid; seek FDA approval for our product candidates that successfully complete clinical trials; develop our sales force and marketing capabilities to prepare for their commercial launch; expand and enhance our manufacturing capacity for EXPAREL and support regulatory and legal matters.

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### Recent Highlights and Developments

Total revenues increased \$7.2 million, or 12%, in the three months ended March 31, 2016, as compared to the same period in 2015, primarily driven by EXPAREL net product sales of \$63.8 million, up \$7.8 million, or 14%.

In February 2016, we announced topline results of a randomized controlled EXPAREL trial in third molar, or “wisdom teeth”, procedures, with a per-protocol analysis demonstrating statistical significance and an intention-to-treat analysis strongly trending towards significance in spite of the underpowered study size resulting from one of three clinical sites being eliminated for protocol violations. We plan to generate Phase 4 studies in additional oral and maxillofacial surgeries to provide clinical guidance to the oral and maxillofacial community. We anticipate a late third quarter 2016 launch for oral surgery.

In April 2016, we announced the appointment of two key executives to the management team. Our new Chief Financial Officer, Charles A. Reinhart, III, was appointed effective May 3, 2016, and will be responsible for all financial and capital market activities, including accounting, financial reporting, financial planning and analysis and investor relations. He will succeed our former Chief Financial Officer, James Scibetta, who will continue to serve as President. Our new Chief Commercial Officer, Robert Weiland, will oversee commercial activities for EXPAREL, which include marketing, sales, national accounts, training and commercial operations and analytics.

In April 2016, we enrolled the first patient in our 300 patient EXPAREL infiltration total knee arthroplasty, or TKA, randomized controlled trial. We expect to complete enrollment in the second half of 2016.

### EXPAREL

We are pursuing several additional indications for EXPAREL. We plan to conduct Phase 3 studies for both upper and lower extremity nerve blocks, specifically a brachial plexus nerve block for patients undergoing total shoulder arthroplasty or rotator cuff repair and a femoral nerve block for patients undergoing TKA. We believe that this additional indication for EXPAREL presents a method of pain control that has the potential to reduce the need for opioids and replace the costly and cumbersome perineural catheter, drug reservoir and pump with a single injection to continuously deliver bupivacaine, and will allow us to fully leverage our manufacturing and commercial infrastructure. In addition to the nerve block indication, we are also pursuing studies for the expanded use of EXPAREL in chronic pain. For chronic pain, we intend to initiate a Phase 2 trial in 2016 with patients suffering from chronic lower back pain caused by facet joint dysfunction with EXPAREL as a single dose administration to define the duration of efficacy and determine the optimal dose, which will better inform the Phase 3 study design. We also plan on commencing pediatric trials for EXPAREL, which have been required by the FDA.

We expect to continue to implement a variety of programs to educate customers about EXPAREL. Our commercial team, consisting of both sales representatives and scientific and medical affairs professionals, executes on a full range of activities for EXPAREL, including disseminating publications and abstracts evidencing the clinical efficacy and safety of EXPAREL, health outcomes and economic research and review articles on postsurgical pain management. We also provide resources for real world evidence data collection such as drug utilization and/or medication use evaluations and pharmacoeconomic studies, which aid in demonstrating the true cost of opioid-based postsurgical pain control through retrospective and prospective analyses for our hospital customers utilizing their own hospital data. Finally, we intend to launch an integrated patient engagement and activation campaign focused on educating the patient population about their postsurgical analgesic options. The initiative is centered on empowering individuals to proactively discuss non-opioid options, including EXPAREL, with their clinicians prior to surgical procedures.

### Product Pipeline

DepoFoam is used to extend the release of the active drug substances. With this technology, we are currently developing two new DepoFoam-based product candidates, DepoMeloxicam, or DepoMLX, a DepoFoam-based non-steroidal anti-inflammatory drug, or NSAID, and DepoTranexamic Acid, or DepoTXA, a DepoFoam-based antifibrinolytic. Completion of clinical trials may take several years or more. The length of time generally varies according to the type, complexity, novelty and intended use of a product candidate. We are also evaluating other potential DepoFoam products as pipeline candidates.

DepoMLX is a long-acting NSAID, designed to treat moderate to severe acute pain. Meloxicam, which is currently available as an oral formulation, is a commonly used NSAID on the market today. A product designed for single dose



local administration such as DepoMLX could provide a longer duration of pain relief at a significantly lower concentration of systemic NSAIDs, which are known to cause dose dependent gastrointestinal side effects. We expect our customer audience for this drug to be similar to the target audience for EXPAREL infiltration. DepoMLX is currently in pre-clinical development, and we expect the initiation of a Phase 1 clinical study under an investigational new drug application, or IND, in the second half of 2016.

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Tranexamic Acid, or TXA, is currently used as a systemic injection or as a topical application, and is used to treat or prevent excessive blood loss during surgery by promoting hemostasis. The current formulation of tranexamic acid, however, has a short-lived effect consisting of only a few hours, while the risk of bleeding continues for two to three days after surgery. We believe DepoTXA, a long acting local antifibrinolytic agent combining immediate and extended release TXA, could address the unmet, increasing need for rapid ambulation and discharge in the ambulatory surgery environment for joint surgery (primarily orthopedic surgery, including spine and trauma procedures and cardiothoracic surgery). Designed for single dose local administration into the surgical site, DepoTXA could provide enhanced hemostabilization for patients over the systemic use of TXA by reducing bleeding, the need for blood transfusions, swelling, soft-tissue hematomas and the need for postoperative drains, thereby increasing not only vigor in patients, but also by decreasing overall costs to the hospital system. DepoTXA is currently in pre-clinical development, and we expect an IND approval to be followed by the initiation of a Phase 2 clinical study in the second half of 2016.

## Results of Operations

## Comparison of the Three Months Ended March 31, 2016 and 2015

## Revenues

Our net product sales include sales of EXPAREL in the United States and DepoCyt(e) in the United States and Europe. We also earn royalties based on sales by commercial partners of DepoCyt(e) and license fees and milestone payments from third parties.

The following table provides information regarding our revenues during the periods indicated, including percent changes (dollars in thousands):

|   | Three Months<br>Ended<br>March 31, |          | % Increase / (Decrease) |
|---|------------------------------------|----------|-------------------------|
|   | 2016                               | 2015     |                         |
| Net product sales:                            |                                    |          |                         |
| EXPAREL                                       | \$63,752                           | \$55,951 | 14%                     |
| DepoCyt(e)                                    | 750                                | 1,135    | (34)%                   |
| Total net product sales                       | 64,502                             | 57,086   | 13%                     |
| Collaborative licensing and milestone revenue | 356                                | 356      | —%                      |
| Royalty revenue                               | 616                                | 874      | (30)%                   |
| Total revenues                                | \$65,474                           | \$58,316 | 12%                     |

EXPAREL revenue grew 14% in the three months ended March 31, 2016, compared to the same period in 2015, primarily due to a 9% increase in sales volume. The demand for EXPAREL has continued as a result of new accounts and growth within existing accounts, which has been driven by continued adoption of EXPAREL use in soft tissue and orthopedic procedures. The remaining increase in EXPAREL revenue was due to a 5% price increase effective April 2015, partially offset by lower pricing on government sales resulting from our participation in the Federal Supply Schedule beginning in the third quarter of 2015.

DepoCyt(e) product sales decreased 34% in the three months ended March 31, 2016, compared to the same period in 2015, primarily due to a lower number of DepoCyt(e) lots sold to our commercial partners and a decrease in the value of Euro denominated sales.

Collaborative licensing and milestone revenue remained at a constant level in the three months ended March 31, 2016 and 2015.

Royalty revenue reflects royalties earned on collections of end-user sales of DepoCyt(e) by our commercial partners.

#### Cost of Goods Sold

Cost of goods sold primarily relates to the costs to produce, package and deliver our products to customers. These expenses include labor, raw materials, manufacturing overhead and occupancy costs, depreciation of facilities, royalty payments, quality control and engineering.

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The following table provides information regarding our cost of goods sold and gross margin as a percentage of product-related revenues during the periods indicated, including percent changes (dollar amounts in thousands):

|                    | Three Months Ended |          | % Increase / (Decrease) |
|--------------------|--------------------|----------|-------------------------|
|                    | March 31,          |          |                         |
|                    | 2016               | 2015     |                         |
| Cost of goods sold | \$20,278           | \$17,580 | 15%                     |
| Gross margin *     | 69                 | % 70     | %                       |

\* The gross margin calculation excludes collaborative licensing and development revenue.

The increase in cost of goods sold in the three months ended March 31, 2016 versus the same period in 2015 was primarily due to increases in sales volume of EXPAREL during the period.

Gross margin decreased slightly due to higher costs in preparation of commercial production at our new manufacturing site in Swindon, England.

### Research and Development Expenses

Research and development expenses consist primarily of costs related to clinical studies and related outside services, stock-based compensation expenses and other research and development costs. Clinical study expenses include costs for clinical personnel, clinical studies performed by third-party contract research organizations, materials and supplies, database management and other third-party fees. Product development and other expenses include development costs for our pipeline products and medical information expenses, which include personnel, equipment, materials and contractor costs for both new process development and new product candidates, toxicology studies and facility costs for our research space. Stock-based compensation expense relates to the costs of stock option grants to employees and non-employees, awards of restricted stock units, or RSUs, and our employee stock purchase plan, or ESPP.

The following table provides information regarding our research and development expenses during the periods indicated, including percent changes (dollar amounts in thousands):

|  | Three Months Ended |         | % Increase / (Decrease) |
|--|--------------------|---------|-------------------------|
|  | March 31,          |         |                         |
|  | 2016               | 2015    |                         |
| Clinical studies                       | \$4,335            | \$1,958 | 121%                    |
| Product development and other          | 4,265              | 2,499   | 71%                     |
| Stock-based compensation               | 893                | 1,510   | (41)%                   |
| Total research and development expense | \$9,493            | \$5,967 | 59%                     |
| % of total revenues                    | 14                 | % 10    | %                       |

Research and development expenses increased 59% in the three months ended March 31, 2016 compared to the same period in 2015, due to a \$2.4 million increase in clinical development expense and a \$1.8 million increase in product development and other expenses, partially offset by a \$0.6 million decrease in stock-based compensation expense. Clinical development expense reflected start-up costs for our EXPAREL infiltration TKA trial commencing enrollment in the second quarter of 2016 and costs for two nerve block trials, including a femoral nerve block in subjects undergoing TKA and a brachial plexus block in patients undergoing total shoulder arthroplasty or rotator cuff repair, both of which are expected to commence enrollment in the second quarter of 2016. Also included in the change is a larger clinical workforce to manage our increasing investment in research and development initiatives. The increase in clinical development expense was partially offset by a decrease in research grants and trial related expenses for Phase 4 EXPAREL trials. Product development and other research and development expense increased due to increased investment in our pipeline drug candidates, including preclinical trials in DepoTXA and DepoMLX,

coupled with increased depreciation due to placing our new research and development facility into service. These increases were partially offset by a decrease in stock-based compensation expense due to the requirement to revalue non-employee options.

#### Selling, General and Administrative Expenses

Sales and marketing expenses primarily consist of compensation and benefits for our sales force and personnel that support our sales, marketing, medical and scientific affairs operations, commission payments to CrossLink BioScience, LLC, or

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CrossLink, for the promotion and sale of EXPAREL, expenses related to communicating health outcome benefits of EXPAREL patients and educational programs for our customers. General and administrative expenses consist of compensation and benefits for legal, finance, regulatory, compliance, information technology, human resources, business development, executive management and other supporting personnel. It also includes professional fees for legal, audit, tax and consulting services. Stock-based compensation expense relates to the costs of stock option grants, RSU awards and our ESPP.

The following table provides information regarding our selling, general and administrative expenses during the periods indicated, including percent changes (dollar amounts in thousands):

|  | Three Months Ended |          | % Increase / (Decrease) |
|--|--------------------|----------|-------------------------|
|  | March 31,          |          |                         |
|  | 2016               | 2015     |                         |
| Sales and marketing                                | \$20,338           | \$18,172 | 12%                     |
| General and administrative                         | 11,571             | 8,352    | 39%                     |
| Stock-based compensation                           | 6,048              | 4,904    | 23%                     |
| Total selling, general and administrative expenses | \$37,957           | \$31,428 | 21%                     |
| % of total revenues                                | 58                 | % 54     | %                       |

Selling, general and administrative expenses increased 21% in the three months ended March 31, 2016, compared to the same period in 2015.

Sales and marketing expenses increased by 12% in the three months ended March 31, 2016, compared to the same period in 2015, driven by an increase in the number of our field-based sales and national accounts personnel to better support and educate our customers, resulting in a \$1.1 million increase in salaries, benefits and other headcount related costs. Additionally, we increased our promotional and medical spending for EXPAREL by \$1.1 million, which included educational initiatives and programs to create product awareness in key orthopedic and soft tissue surgical markets, the initiation of a patient awareness campaign related to postsurgical analgesic options for pain relief and other selling initiatives and promotional activities to support the growth of EXPAREL.

General and administrative expenses increased 39% in the three months ended March 31, 2016, compared to the same period in 2015. Increases in legal costs were \$1.8 million versus the prior period, primarily related to a DOJ subpoena received in April 2015. Additionally, there was a \$0.9 million increase in costs largely to support compliance and business development initiatives and \$0.5 million for compensation related expenses partly due to an increase in personnel.

Stock-based compensation increased \$1.1 million in the three months ended March 31, 2016, versus 2015, largely due to increases in headcount and significantly higher grant date fair values of our equity awards.

## Other Income (Expense)

The following table provides the components of other income (expense) during the periods indicated, including percent changes (dollar amounts in thousands):

|                             | Three Months Ended |          | % Increase / (Decrease) |
|-----------------------------|--------------------|----------|-------------------------|
|                             | March 31,          |          |                         |
|                             | 2016               | 2015     |                         |
| Interest income             | \$ 252             | \$ 155   | 63%                     |
| Interest expense            | (1,868 )           | (1,996 ) | (6)%                    |
| Royalty interest obligation | —                  | (71 )    | (100)%                  |
| Other, net                  | 48                 | (117 )   | N/A                     |

Total other expense, net \$ (1,568 ) \$ (2,029 ) (23)%

Total other expense, net decreased by 23% in the three months ended March 31, 2016, compared to the same period in 2015, due to a decrease in interest expense due to higher capitalized interest, a decrease in royalty interest expense due to the expiration of our DepoCyt(e) royalty obligation, an increase in interest income arising from higher average investment balances and a favorable fluctuation in other net expense due to recently appreciating Euro currency rates.

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## Income Tax Expense

The following table provides information regarding our income tax expense during the periods indicated, including percent changes (dollar amounts in thousands):

|                    | Three Months<br>Ended<br>March 31, |      | % Increase / (Decrease) |
|--------------------|------------------------------------|------|-------------------------|
|                    | 2016                               | 2015 |                         |
| Income tax expense | \$32                               | \$52 | (38)%                   |
| Effective tax rate | (1 )%                              | 4 %  |                         |

Under generally accepted accounting principles, the provision for income taxes is recorded based upon the best current estimate of a company's annual effective tax rate, or AETR. The AETR generally includes the effect of all current and deferred income tax expenses related to ordinary income, including federal income taxes, state income taxes and alternative minimum taxes. The AETR is the result of a mix of profits and losses that a company's legal entities earn in multiple tax jurisdictions with different income tax rates.

Since our deferred tax assets are fully offset by a valuation allowance, our total tax expense includes only current tax expense. The -1% effective tax rate for the three months ended March 31, 2016 consists solely of state taxes because we are in a current taxable loss position. The effective tax rate of 4% for the quarter ended March 31, 2015 reflects federal alternative minimum taxes as well as state income taxes.

## Liquidity and Capital Resources

Since our inception in December 2006, we have devoted most of our cash resources to manufacturing, research and development and selling, general and administrative activities related to the development and commercialization of EXPAREL. We are highly dependent on the commercial success of EXPAREL, which we launched in April 2012. We have financed our operations primarily with the proceeds from the sale of equity and debt securities, borrowings under debt facilities, product sales and collaborative licensing and milestone revenue. As of March 31, 2016, we had an accumulated deficit of \$312.1 million, cash and cash equivalents, short-term investments and long-term investments of \$163.5 million and working capital of \$102.5 million.

## Summary of Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for the periods indicated (in thousands):

|  | Three Months<br>Ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2016                               | 2015     |
| Consolidated Statement of Cash Flows Data:           |                                    |          |
| Net cash provided by (used in):                      |                                    |          |
| Operating activities                                 | \$(3,121 )                         | \$(870 ) |
| Investing activities                                 | (21,875 )                          | 200      |
| Financing activities                                 | 3,041                              | 4,047    |
| Net (decrease) increase in cash and cash equivalents | \$(21,955)                         | \$3,377  |

## Operating Activities



During the three months ended March 31, 2016, our net cash used in operating activities was \$3.1 million, which was in line with our \$3.9 million operating loss. Our operating loss was in part driven by increased expenditures for research and development and legal costs related to the DOJ inquiry. Non-cash expenses of \$12.8 million, including stock-based compensation, depreciation and amortization expenses, which offset the operating loss, were largely offset by \$12.1 million of investments in working capital including \$6.2 million to pay down accounts payable and accrued expenses, \$2.1 million invested in inventory and \$2.1 million to prepay certain payroll related expenses.

During the three months ended March 31, 2015, our net cash used in operating activities was \$0.9 million. We had \$1.3 million of net income due to the significant increase in EXPAREL product sales coupled with improved gross margins and \$11.4 m

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illion in add backs of non-cash expenses, including \$7.5 million of stock-based compensation and \$3.9 million of depreciation and amortization, which were offset by an investment in inventory of \$7.0 million and \$5.7 million to pay down accounts payable and accrued liabilities.

### Investing Activities

During the three months ended March 31, 2016, our net cash used in investing activities was \$21.9 million, which reflected \$12.9 million of short-term investment purchases (net of maturities), purchases of fixed assets of \$7.1 million and contingent consideration payments of \$1.9 million related to the March 2007 acquisition of Skyepharma Holding, Inc., or Skyepharma. Major fixed asset purchases included continuing expenditures for expanding our manufacturing capacity in Swindon, England in partnership with Patheon and the completion of our new research facility at our Science Center Campus in San Diego, California.

During the three months ended March 31, 2015, our net cash provided by investing activities was \$0.2 million, which reflected net sales of short-term investments of \$9.7 million, partially offset by purchases of fixed assets of \$7.9 million and contingent consideration payments to Skyepharma of \$1.6 million. Major capital expenditures were for equipment purchases to expand our manufacturing capacity and our investment in our new research facility.

### Financing Activities

Net cash provided by financing activities consisted of proceeds from the exercise of stock options of \$3.0 million and \$4.0 million in the three months ended March 31, 2016 and 2015, respectively.

### Convertible Senior Notes

On January 23, 2013, we completed a private offering of \$120.0 million in aggregate principal, 3.25% convertible senior notes due 2019, or Notes. The net proceeds from the Notes offering were \$115.3 million, after deducting the initial purchasers' discounts and commissions as well as offering expenses. The Notes accrue interest at a rate of 3.25% per annum, payable semiannually in arrears on February 1 and August 1 of each year, and mature on February 1, 2019. As of March 31, 2016, the outstanding principal on the Notes was \$118.5 million.

On or after August 1, 2018, until the close of business on the second scheduled trading day immediately preceding February 1, 2019, holders may convert their Notes at any time. Upon conversion, holders will receive cash up to the principal amount of the Notes and, with respect to any excess conversion value, may receive cash, shares of our common stock or a combination of cash and shares of our common stock, at our option. The conversion rate for the Notes is initially 40.2945 shares of common stock per \$1,000 principal amount, which is equivalent to an initial conversion price of approximately \$24.82 per share of our common stock. The conversion rate will be subject to adjustment for some events (as outlined in the indenture governing the Notes, or the Indenture), but will not be adjusted for any accrued and unpaid interest. Additionally, during any given calendar quarter, the holders have the right to convert if our stock price closes at or above 130% of the conversion price then applicable (the "Consecutive Sales Price") during a period of at least 20 out of the last 30 consecutive trading days of the previous quarter.

During the three months ended March 31, 2016, the requirements with respect to the Consecutive Sales Price were met and, as a result, the Notes are classified as a current obligation and are convertible at any time during the quarter ended June 30, 2016. The future convertibility and resulting balance sheet classification of the Notes will be monitored on a quarterly basis. Prior to February 1, 2018, in the event such requirements are not met in a given quarter, the Notes would be reclassified as a long-term liability. In the event of conversion, holders would forgo all future interest payments and the possibility of further stock price appreciation. In the event that all of the Notes are converted, we would be required to repay the \$118.5 million in principal value in cash and approximately \$134.5

million of cash or issue approximately 2.5 million shares of our common stock (or a combination of cash and shares of our common stock at our option) to settle the conversion premium as of March 31, 2016, causing dilution to our current shareholders and/or significant expenditures of our cash and liquid securities.

On or after February 1, 2017, we may redeem for cash all or part of the Notes if the last reported sale price (as defined in the Indenture) of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading-day period, ending within five trading days prior to the date on which we provide notice of redemption. If we decide to call the Notes on or after February 1, 2017, we currently intend, subject to market conditions and the trading price of our common stock, to provide holders of the Notes with the maximum 60 day redemption notice provided for in the Indenture.

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See Note 6, Debt, to our consolidated financial statements included herein for further discussion of the Notes.

### Future Capital Requirements

We believe that our existing cash and cash equivalents, short-term and long-term investments and cash received from product sales will be sufficient to enable us to fund our operating expenses, capital expenditure requirements, payment of the principal on any conversions of the Notes and to service our indebtedness for at least the next 12 months.

Our future use of cash will depend on many forward-looking factors, including, but not limited to, the following:

- our ability to successfully continue to expand the commercialization of EXPAREL;

- the cost and timing of expanding our manufacturing facilities for EXPAREL and our other product candidates, including costs associated with certain technical transfer activities and the construction of manufacturing suites at Patheon's Swindon, United Kingdom facility;

- the timing of and extent to which the holders of our Notes elect to convert the Notes;

- the cost and timing of potential milestone payments to Skyepharma, which could be up to an aggregate of \$44.0 million if certain milestones pertaining to net sales of EXPAREL are met;

- costs related to legal and regulatory issues;

- the costs of performing additional clinical trials for EXPAREL and pipeline drug candidates, including the pediatric trials required by the FDA as a condition of approval, and costs of development for our other product candidates; and

- the extent to which we acquire or invest in research and development, products, businesses and technologies.

We may require additional debt or equity financing to meet our future operating and capital requirements. We have no committed external sources of funds, and additional equity or debt financing may not be available on acceptable terms, if at all.

### Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements as of March 31, 2016, except for operating leases, nor do we have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

### Critical Accounting Policies and Estimates

See Note 2, Summary of Significant Accounting Policies, to our consolidated financial statements included herein for a discussion of recently issued accounting pronouncements and their impact or future potential impact on our financial results, if determinable. For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of our consolidated financial statements, refer to our most recent Annual Report on Form 10-K for the year ended December 31, 2015.

### Revenue Recognition

Our principal sources of revenue include (i) sales of EXPAREL in the United States, (ii) sales of DepoCyt(e) in the United States and Europe, (iii) royalties based on sales by commercial partners of DepoCyt(e) and (iv) license fees and milestone payments from third parties. We recognize revenue when there is persuasive evidence that an arrangement exists, title has passed, collection is reasonably assured and the price is fixed or determinable.

### Net Product Sales

We sell EXPAREL through a drop-ship program under which orders are processed through wholesalers based on orders of the product placed by end-users which include hospitals, ambulatory surgery centers and doctors. EXPAREL is delivered directly to the end-user without the wholesaler ever taking physical possession of the product. We record revenue at the time the product is delivered to the end-user. We also recognize revenue from DepoCyt(e) upon shipment. Prior to the shipment of manufactured products, we conduct initial product release and stability testing in accordance with current Good Manufacturing Practices.

Revenues from sales of products are recorded net of returns allowances, prompt payment discounts, wholesaler service fees and volume rebates and chargebacks. The calculation of some of these items requires management to make estimates based on sales data, contracts, inventory data and other related information which may become known in the future. We review the adequacy of our provisions on a quarterly basis.



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## Returns Allowances

We allow customers to return product that is damaged or received in error. In addition, we allow EXPAREL to be returned beginning six months prior to, and twelve months following, product expiration. We estimate our sales returns reserve based on return history from other hospital-based products with similar distribution models and our historical returns rates, which we believe is the best estimate of the anticipated product to be returned. The returns reserve is recorded at the time of sale as a reduction to gross product sales and an increase in accrued expenses.

Our commercial partners can return Depocyt(e) within contractually specified timeframes if the product does not meet the applicable inspection tests. We estimate our returns reserves based on our experience with historical return rates. Historically, our product returns have not been material.

## Prompt Payment Discounts

The prompt payment reserve is based upon discounts offered to wholesalers as an incentive to meet certain payment terms. We accrue discounts to wholesalers based on contractual terms of agreements and historical experience. We account for these discounts at the time of sale as a reduction to gross product sales and a reduction to accounts receivable.

## Wholesaler Service Fees

Our customers include major and regional wholesalers with whom we have contracted a fee for service based on a percentage of gross product sales. This fee for service is recorded as a reduction to gross product sales and an increase to accrued expenses at the time of sale, and is recorded based on the contracted percentage.

## Volume Rebates and Chargebacks

Volume rebates and chargeback reserves are based upon contracted discounts and promotional offers we provide to certain end-users such as members of group purchasing organizations. Volume rebates are recorded at the time of sale as a reduction to gross product sales and an increase in accrued expenses. Chargeback reserves are recorded at the time of sale as a reduction to gross product sales and a reduction to accounts receivable.

The following tables provide a summary of activity with respect to our sales related allowances and accruals for the three months ended March 31, 2016 and 2015 (in thousands):

| March 31, 2016               | Returns Allowances | Prompt Pay Discounts | Wholesaler Service Fees | Volume Rebates and Chargebacks | Total    |
|------------------------------|--------------------|----------------------|-------------------------|--------------------------------|----------|
| Balance at December 31, 2015 | \$ 1,733           | \$ 625               | \$ 745                  | \$ 797                         | \$3,900  |
| Provision                    | 166                | 1,302                | 982                     | 418                            | 2,868    |
| Payments/Credits             | (289 )             | (1,412 )             | (1,195 )                | (601 )                         | (3,497 ) |
| Balance at March 31, 2016    | \$ 1,610           | \$ 515               | \$ 532                  | \$ 614                         | \$3,271  |
| March 31, 2015               | Returns Allowances | Prompt Pay Discounts | Wholesaler Service Fees | Volume Rebates and Chargebacks | Total    |
| Balance at December 31, 2014 | \$ 1,559           | \$ 575               | \$ 588                  | \$ 321                         | \$3,043  |
| Provision                    | 117                | 1,139                | 830                     | 350                            | 2,436    |
| Payments/Credits             | (21 )              | (1,108 )             | (934 )                  | (412 )                         | (2,475 ) |
| Balance at March 31, 2015    | \$ 1,655           | \$ 606               | \$ 484                  | \$ 259                         | \$3,004  |

Total reductions of gross product sales from sales-related allowances and accruals were \$2.9 million and \$2.4 million, or 4.3% and 4.1% of gross product sales for the three months ended March 31, 2016 and 2015, respectively. The overall increase in sales-related allowances and accruals was directly related to the increase in EXPAREL sales. The increase in the percentage of sales-related allowances and accruals for the three months ended March 31, 2016 was primarily related to a slight increase in wholesaler fees as a result of higher services rates. As a percentage of gross product sales, the provisions for returns allowances, prompt payment discounts and volume rebates also increased slightly from 2015 to 2016.

## Contractual Obligations

In October 2013, we entered into a five-year arrangement with CrossLink for the promotion and sale of EXPAREL, pursuant to the terms of a Master Distributor Agreement. In February 2015, we entered into a Third Amendment to the Master Distributor Agreement (the “Third Amendment”) with CrossLink to, among other things, amend certain payment terms of the

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agreement and specify certain sub-distributors that may promote and sell EXPAREL under the agreement. Under the terms of the Third Amendment, the Company and CrossLink have mutual termination rights, and the Company is permitted to terminate the Agreement without cause effective September 30, 2016, subject to certain terms and conditions set forth in the Agreement. In the event the Company terminates the agreement, a material termination payment based on a percentage of earned performance-based fees will be due to CrossLink.

In April 2014, we and Patheon entered into a Strategic Co-Production Agreement and Technical Transfer and Service Agreement to collaborate in the manufacture of EXPAREL. Under the terms of the Technical Transfer and Service Agreement, Patheon has agreed to undertake certain technical transfer activities and construction services needed to prepare its Swindon, England facility for the manufacture of EXPAREL in two dedicated manufacturing suites. Upon an early termination of this agreement (other than termination by us in the event that Patheon does not meet the construction and manufacturing milestones or for a breach by Patheon), we will pay for the make good costs occasioned by the removal of our manufacturing equipment and for Patheon's termination costs.

Potential future milestone payments to Skyepharma could be up to an aggregate of \$44.0 million if certain milestones pertaining to net sales of EXPAREL are met, including \$8.0 million when annual net sales of EXPAREL collected reach \$250.0 million (measured on a rolling quarterly basis). This contingency is described further in Note 5, Goodwill and Intangible Assets, of our consolidated financial statements included herein.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our cash equivalent and investment activities is to preserve principal while at the same time maximizing the income that we receive from our investments without significantly increasing risk. We invest in corporate bonds, commercial paper and asset-backed securities, which are reported at fair value. These securities are subject to interest rate risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the interest rate later rises, we expect that the fair value of our investment will decline. A hypothetical 100 basis point increase in interest rates would have reduced the fair value of our available-for-sale securities at March 31, 2016 by approximately \$0.4 million.

In January 2013, we issued \$120.0 million in aggregate principal amount of 3.25% convertible senior notes, which mature in February 2019. Holders may convert their notes prior to maturity under certain circumstances. Upon conversion, holders will receive cash up to the principal amount of the Notes and, with respect to any excess conversion value, cash, shares of our common stock or a combination of cash and shares, at our option. The fair value of the Notes is impacted by both the fair value of our common stock and interest rate fluctuations. As of March 31, 2016, the estimated fair value of the Notes was \$2,215 per \$1,000 principal amount. We do not have interest rate exposure related to the Notes, as they have a fixed annual interest rate. See Note 6, Debt, to our consolidated financial statements included herein for further discussion of the Notes.

Most of our transactions are conducted in United States dollars. We do have certain agreements with commercial partners located outside the United States which have transactions conducted in Euros. As of March 31, 2016, we had approximately \$0.8 million in receivables from customers denominated in Euros. A hypothetical 10% decrease in the value of the Euro relative to the United States dollar would have decreased our revenue by approximately \$0.1 million for the quarter ended March 31, 2016.

Additionally, our accounts receivable are concentrated with three large regional wholesalers of pharmaceutical products. In the event of non-performance or non-payment, there may be a material adverse impact on our financial condition, results of operations or net cash flow.

### Item 4. CONTROLS AND PROCEDURES



## Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, as amended, our management, including our Chief Executive Officer and Chairman and our President and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures which are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management,

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including our Chief Executive Officer and Chairman and our President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on that evaluation, our Chief Executive Officer and Chairman and our President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2016.

### Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Inherent Limitations on Effectiveness of Controls

Our company's management, including the Chief Executive Officer and Chairman and our President and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

## PART II — OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

From time to time, we have been and may again become involved in legal proceedings arising in the ordinary course of our business. Except as described below, we are not presently a party to any litigation that we believe to be material and we are not aware of any pending or threatened litigation against us that we believe could have a material adverse effect on our business, operating results, financial condition or cash flows.

In April 2015, we received a subpoena from the U.S. Department of Justice, U.S. Attorney's Office for the District of New Jersey, requiring the production of a broad range of documents pertaining to marketing and promotional practices related to EXPAREL. We are cooperating with the government's inquiry. We can make no assurances as to the time or resources that will need to be devoted to this inquiry or its final outcome, or the impact, if any, of this inquiry or any proceedings on our business, financial condition, results of operations and cash flows.

### Item 1A. RISK FACTORS

You should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition, cash flows or future results. There have been no material changes in our risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2015. The risks described herein and in our Annual Report on Form 10-K for the year ended December 31, 2015 are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS  
None.

Item 3. DEFAULTS UPON SENIOR SECURITIES  
None.

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Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

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Item 6. EXHIBITS

The exhibits listed below are filed or furnished as part of this report.

| Exhibit<br>No. | Description   |
|----------------|---|
| 10.1 +         | Executive Employment Agreement, dated June 11, 2015, between Pacira Pharmaceuticals, Inc. and Scott Braunstein.*  |
| 10.2 +         | Executive Employment Agreement, dated August 24, 2015, between Pacira Pharmaceuticals, Inc. and James Jones.*   |
| 31.1           | Certification of Chief Executive Officer and Chairman pursuant to Rule 13a-14(a) and 15d-14(a), as amended.*  |
| 31.2           | Certification of President and Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as amended.*   |
| 32.1           | Certification of Chief Executive Officer and Chairman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**   |
| 32.2           | Certification of President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**  |
| 101            | The following materials from the Quarterly Report on Form 10-Q of Pacira Pharmaceuticals, Inc. for the quarter ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statement of Stockholders' Equity; (v) the Consolidated Statements of Cash Flows; and (vi) the Condensed Notes to Consolidated Financial Statements.* |

\* Filed herewith.

\*\* Furnished herewith.

+ Denotes management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACIRA PHARMACEUTICALS, INC.  
(REGISTRANT)

Dated: May 2, 2016 /s/ DAVID STACK

David Stack  
Chief Executive Officer and Chairman  
(Principal Executive Officer)

Dated: May 2, 2016 /s/ JAMES SCIBETTA

James Scibetta  
President and Chief Financial Officer  
(Principal Financial Officer)