

Pacira Pharmaceuticals, Inc.  
Form 10-Q  
August 06, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

---

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

**For the Quarterly Period Ended June 30, 2013**

**OR**

**o 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**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**51-0619477**  
(I.R.S. Employer  
Identification No.)

**5 Sylvan Way, Suite 100**

**Parsippany, New Jersey 07054**

(Address of Principal Executive Offices) (Zip Code)

**(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 (§ 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   
(Do not check if a smaller reporting company)

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

Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

As of July 26, 2013, 33,315,669 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

---

Table of Contents

**PACIRA PHARMACEUTICALS, INC.**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets</u> 3
	<u>Consolidated Statements of Operations</u> 4
	<u>Consolidated Statements of Comprehensive Loss</u> 5
	<u>Consolidated Statement of Stockholders' Equity</u> 6
	<u>Consolidated Statements of Cash Flows</u> 7
	<u>Condensed Notes to Consolidated Financial Statements</u> 8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 17
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 24
<u>Item 4.</u>	<u>Controls and Procedures</u> 24
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 24
<u>Item 1A.</u>	<u>Risk Factors</u> 24
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 25
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 25
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 25
<u>Item 5.</u>	<u>Other Information</u> 25
<u>Item 6.</u>	<u>Exhibits</u> 25
<u>Signatures</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****PACIRA PHARMACEUTICALS, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands, except share and per share amounts)**

	<b>June 30, 2013</b>	<b>December 31, 2012 (Note 2)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,626	\$ 10,126
Restricted cash	998	1,523
Short-term investments	87,330	30,924
Accounts receivable, net	7,756	4,352
Inventories	14,221	12,077
Prepaid expenses and other current assets	2,559	1,920
Total current assets	121,490	60,922
Fixed assets, net	42,065	39,116
Goodwill	8,980	8,297
Intangibles, net	2,183	3,208
Other assets	3,712	511
Total assets	\$ 178,430	\$ 112,054
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,712	\$ 2,569
Accrued expenses	12,260	9,792
Current portion of royalty interest obligation	891	823
Current portion of deferred revenue	972	972
Total current liabilities	15,835	14,156
Long-term debt, net of debt discount	96,892	25,191
Royalty interest obligation	584	857
Deferred revenue	3,234	3,720
Other liabilities	2,743	2,275
Total liabilities	119,288	46,199
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.001; 5,000,000 shares authorized, none issued and outstanding at June 30, 2013 and December 31, 2012		
Common stock, par value \$0.001, 250,000,000 shares authorized; 33,230,104 shares issued and 33,229,039 shares outstanding at June 30, 2013; 32,624,049 shares issued and 32,622,984 shares outstanding at December 31, 2012	33	33
Additional paid-in capital	328,787	298,317

Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

Accumulated deficit	(269,689)	(232,520)
Accumulated other comprehensive income	13	27
Treasury stock at cost, 1,065 shares	(2)	(2)
Total stockholders' equity	59,142	65,855
Total liabilities and stockholders' equity	\$ 178,430	\$ 112,054

*See accompanying condensed notes to consolidated financial statements.*

Table of Contents**PACIRA PHARMACEUTICALS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands, except share and per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Net product sales	\$ 16,278	\$ 4,981	\$ 27,113	\$ 5,427
Collaborative licensing and development revenue	243	6,600	486	13,090
Royalty revenue	620	763	1,129	1,631
Total revenues	17,141	12,344	28,728	20,148
<b>Operating expenses:</b>				
Cost of revenues	10,214	6,685	21,605	13,180
Research and development	4,857	1,872	10,762	3,166
Selling, general and administrative	14,080	10,413	27,017	21,565
Total operating expenses	29,151	18,970	59,384	37,911
Loss from operations	(12,010)	(6,626)	(30,656)	(17,763)
<b>Other (expense) income:</b>				
Interest income	72	68	145	131
Interest expense	(1,914)	(494)	(3,433)	(1,008)
Loss on early extinguishment of debt		(1,062)	(3,398)	(1,062)
Royalty interest obligation	(161)	(143)	(247)	(425)
Other, net	(18)	(39)	(22)	(63)
Total other expense, net	(2,021)	(1,670)	(6,955)	(2,427)
Loss before income taxes	(14,031)	(8,296)	(37,611)	(20,190)
Income tax benefit			442	
Net loss	\$ (14,031)	\$ (8,296)	\$ (37,169)	\$ (20,190)
<b>Net loss per share:</b>				
Basic and diluted net loss per common share	\$ (0.42)	\$ (0.27)	\$ (1.13)	\$ (0.72)
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	33,083,289	30,953,635	32,896,294	28,160,471

*See accompanying condensed notes to consolidated financial statements.*

Table of Contents

**PACIRA PHARMACEUTICALS, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(Unaudited)**

**(In thousands)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net loss	\$ (14,031)	\$ (8,296)	\$ (37,169)	\$ (20,190)
Other comprehensive income (loss):				
Net unrealized gain (loss) on investments	(31)	81	(14)	83
Total other comprehensive income (loss)	(31)	81	(14)	83
Comprehensive loss	\$ (14,062)	\$ (8,215)	\$ (37,183)	\$ (20,107)

*See accompanying condensed notes to consolidated financial statements.*



Table of Contents**PACIRA PHARMACEUTICALS, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****For the Six Months Ended June 30, 2013****(Unaudited)****(In thousands)**

	Common Stock		Additional	Accumulated	Treasury	Accumulated	Total
	Shares	Amount	Paid-In	Deficit	Stock	Other	
			Capital			Comprehensive	
						Income	
<b>Balances at December 31, 2012</b>	32,623	\$ 33	\$ 298,317	\$ (232,520)	\$ (2)	\$ 27	\$ 65,855
Exercise of stock options	406		2,064				2,064
Cashless exercise of warrants	200						
Stock-based compensation			4,450				4,450
Unrealized loss on short-term investments						(14)	(14)
Equity component of convertible senior notes, net			23,956				23,956
Net loss				(37,169)			(37,169)
<b>Balances at June 30, 2013</b>	33,229	\$ 33	\$ 328,787	\$ (269,689)	\$ (2)	\$ 13	\$ 59,142

*See accompanying condensed notes to consolidated financial statements.*

Table of Contents**PACIRA PHARMACEUTICALS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Net loss	\$ (37,169)	\$ (20,190)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,717	2,785
Amortization of unfavorable lease obligation and debt issuance costs	216	(116)
Amortization of debt discount	1,890	310
Loss on early extinguishment of debt	3,398	1,062
Loss on disposal of fixed assets	31	
Stock-based compensation	4,450	1,751
Changes in operating assets and liabilities:		
Restricted cash	525	(548)
Accounts receivable, net	(3,403)	(1,101)
Inventories	(2,144)	(8,054)
Prepaid expenses and other assets	(711)	430
Accounts payable and accrued expenses	3,260	(1,256)
Royalty interest obligation	(205)	(322)
Other liabilities	532	(42)
Deferred revenue	(486)	(12,483)
Net cash used in operating activities	(27,099)	(37,774)
<b>Investing activities:</b>		
Purchases of fixed assets	(4,672)	(7,267)
Proceeds from sales of fixed assets	1	1
Purchases of short-term investments	(87,220)	(52,772)
Sale of short-term investments	30,800	20,000
Payment of contingent consideration	(682)	(10,034)
Net cash used in investing activities	(61,774)	(50,072)
<b>Financing activities:</b>		
Proceeds from exercise of stock options and warrants	2,064	383
Proceeds from borrowings on long-term debt		27,500
Proceeds from offering, net		62,855
Proceeds from convertible senior notes	120,000	
Repayment of debt	(27,500)	(26,250)
Payment of debt issuance and financing costs	(7,191)	(1,365)
Net cash provided by financing activities	87,373	63,123
Net decrease in cash and cash equivalents	(1,500)	(24,723)
Cash and cash equivalents, beginning of period	10,126	46,168
Cash and cash equivalents, end of period	\$ 8,626	\$ 21,445
<b>Supplemental cash flow information</b>		
Cash paid for interest, including royalty interest obligation	\$ 846	\$ 2,282

**Non-cash investing and financing activities:**

Value of equity premium on convertible senior notes	24,936	
Value of warrants issued with debt		1,354

*See accompanying condensed notes to consolidated financial statements.*

Table of Contents

**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 an emerging 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 in hospitals and ambulatory surgery centers. The Company's lead product EXPAREL®, which consists of bupivacaine encapsulated in DepoFoam, was approved by the United States Food and Drug Administration, or FDA, on October 28, 2011. The Company commercially launched EXPAREL 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 Pharmaceuticals, Inc. is the holding company for the California operating subsidiary of the same name, also referred to as PPI-California, which was acquired from Skyepharma Holding, Inc., or Skyepharma, in March 2007, referred to herein as the Acquisition.

**Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation and Principles of Consolidation*

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission, or SEC, 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 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, 2012.

The consolidated financial statements at June 30, 2013, and for the three and six months ended June 30, 2013 and 2012, 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 balance sheet as of December 31, 2012 has been derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. 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 period or for the full year. The Company has incurred losses and negative operating cash flow since inception and future losses are anticipated.

*Liquidity*

Management believes that the Company's existing cash and cash equivalents, short-term investments and revenue from product sales will be sufficient to enable the Company to meet its planned operating expenses, capital expenditure requirements and service its indebtedness for at least the next 12 months. However, changing circumstances may cause the Company to expend cash significantly faster than currently anticipated, and the Company may need to spend more cash than currently expected because of circumstances beyond its control. The Company expects to continue to incur substantial additional operating losses as it commercializes EXPAREL and develops and seeks regulatory approval for its other product candidates.

Table of Contents

*Concentration of Major Customers*

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 doctors. Wholesalers do not stock EXPAREL. The Company sells DepoCyt(e) to its commercial partners. The table below includes the percentage of revenue comprised by the three largest customers (i.e. wholesalers or commercial partners) in each year presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Largest customer	35%	48%	35%	58%
Second largest customer	27%	17%	27%	13%
Third largest customer	17%	11%	17%	10%
	79%	76%	79%	81%

No other individual customer accounted for more than 10% of the Company's revenues for these periods.

*Income Tax Benefit*

In February 2013, the Company received \$0.4 million from the sale of unused net operating losses through the State of New Jersey's Economic Development Authority Technology Business Tax Certificate Transfer Program. As a result, the Company recorded an income tax benefit by reversing the valuation allowance for the related net deferred tax assets. The Company continues to maintain a full valuation allowance on its remaining net deferred tax assets because there is significant doubt regarding the Company's ability to utilize such net deferred tax assets.

**Note 3 FINANCIAL INSTRUMENTS**

*Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or 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 Financial Accounting Standards Board, or 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 are:

- Level 1 Values are unadjusted quoted prices for identical assets and liabilities in active markets.

Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

- Level 2 Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- Level 3 Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement.

The carrying value of financial instruments including cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their respective fair values due to the short-term maturities of these instruments and debts. The fair value of the Company's convertible senior notes, further described in Note 7, *Debt and Financing Obligations*, is calculated utilizing market quotations from an over-the-counter trading market for such notes (Level 2). The carrying amount and fair value of the Company's long-term debt is as follows (in thousands):

Financial Liabilities	Carrying Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>June 30, 2013</b>				
Long-term debt	\$ 96,892	\$	\$ 169,050	\$

Short-term investments consist of investment grade commercial paper, asset-backed securities collateralized by credit card receivables and corporate bonds with initial maturities of greater than three months at the date of purchase but less than one year. The net unrealized gains (losses) from the Company's short-term investments are reported in other comprehensive income (loss). All of the

Table of Contents

Company's short-term investments are classified as available for sale investments and are determined to be Level 2 instruments. The fair value of the commercial paper is measured based on a standard industry model that uses the 3-month Treasury bill rate as an observable input. The fair value of the corporate bonds and asset-backed securities is principally measured or corroborated by trade data for identical issues or that of comparable securities in which related trading activity is not sufficiently frequent to be considered a Level 1 input. At June 30, 2013, the Company's short-term investments were rated A or better by Standard & Poor's and had maturities ranging from 154 to 363 days from the date of purchase.

The following summarizes the Company's short-term investments at June 30, 2013 and December 31, 2012 (in thousands):

<b>June 30, 2013</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value (Level 2)</b>
<b>Debt securities:</b>				
Corporate bonds	\$ 33,371	\$	\$ (34)	\$ 33,337
Commercial paper	48,439	50		48,489
Asset-backed securities	5,507		(3)	5,504
<b>Total</b>	<b>\$ 87,317</b>	<b>\$ 50</b>	<b>\$ (37)</b>	<b>\$ 87,330</b>

<b>December 31, 2012</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value (Level 2)</b>
<b>Debt securities:</b>				
Corporate bonds	\$ 8,874	\$ 1	\$ (1)	\$ 8,874
Commercial paper	15,974	23		15,997
Asset-backed securities	6,049	4		6,053
<b>Total</b>	<b>\$ 30,897</b>	<b>\$ 28</b>	<b>\$ (1)</b>	<b>\$ 30,924</b>

*Credit Risk*

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-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.

As of June 30, 2013, four customers accounted for over 10% each of the Company's accounts receivable: 34%, 27%, 19%, and 11% (for definition of the Company's customers, see Note 2, *Summary of Significant Accounting Policies*, under concentration of major customers). At December 31, 2012, four customers accounted for over 10% each of the Company's accounts receivable: 31%, 27%, 16% and 15%. Revenues are primarily derived from major wholesalers which generally have significant cash resources and as such the risk from concentration of credit is considered acceptable. Allowances for doubtful accounts receivable are maintained based on historical payment patterns, aging of accounts receivable and actual write-off history. As of June 30, 2013 and December 31, 2012, no allowances for doubtful accounts were deemed necessary by the Company on its accounts receivable.

**Note 4 INVENTORIES**



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

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Raw materials	\$ 3,427	\$ 4,081
Work-in-process	6,529	5,979
Finished goods	4,265	2,017
Total	\$ 14,221	\$ 12,077

Table of Contents**Note 5 FIXED ASSETS**

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

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Machinery and laboratory equipment	\$ 10,394	\$ 12,414
Computer equipment and software	1,681	1,579
Office furniture and equipment	394	437
Leasehold improvements	6,669	6,217
Construction in progress	33,498	30,072
Total	52,636	50,719
Less accumulated depreciation	(10,571)	(11,603)
Fixed assets, net	\$ 42,065	\$ 39,116

For the three months ended June 30, 2013 and 2012, depreciation expense was \$0.8 and \$0.9 million, respectively, and for the six months ended June 30, 2013 and 2012, depreciation expense was \$1.7 and \$1.8 million, respectively. For the three months ended June 30, 2013 and 2012, the Company capitalized interest on the construction of its manufacturing sites of \$0.3 and \$0.5 million, respectively, and for the six months ended June 30, 2013 and 2012, capitalized interest was \$0.6 and \$0.9 million, respectively.

**Note 6 GOODWILL AND INTANGIBLE ASSETS**

The Company's goodwill arose from the triggering in April 2012 of 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 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 first commercial sale in the United States;
- (ii) \$4.0 million upon first commercial sale in a major EU country (United Kingdom, France, Germany, Italy and Spain);
- (iii) \$8.0 million when annual net sales collected reach \$100.0 million;
- (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 contingency was resolved in April 2012, resulting in a \$10.0 million payment to Skyepharma. The Company recorded this payment net of the \$2.0 million contingent consideration liability recognized at the time of the Acquisition resulting in \$8.0 million recorded as goodwill. Cumulatively through June 30, 2013, the Company recorded an additional \$1.0 million as goodwill for the percentage payments on net sales of EXPAREL collected. Any remaining earn-out payments will also be treated as additional cost of the Acquisition and, therefore, recorded as goodwill if and when each contingency is resolved.



Table of Contents

Intangible assets are summarized as follows (in thousands):

	June 30, 2013	December 31, 2012	Estimated Useful Life
<b>Core Technology:</b>			
Gross amount	\$ 2,900	\$ 2,900	9 years
Accumulated amortization	(2,014)	(1,853)	
Net	886	1,047	
<b>Developed Technology:</b>			
Gross amount	11,700	11,700	7 years
Accumulated amortization	(10,446)	(9,610)	
Net	1,254	2,090	
<b>Trademarks and trade names:</b>			
Gross amount	400	400	7 years
Accumulated amortization	(357)	(329)	
Net	43	71	
Intangible assets, net	\$ 2,183	\$ 3,208	

Amortization expense for intangibles was \$0.5 million for the three months ended June 30, 2013 and 2012. Amortization expense was \$1.0 million for the six months ended June 30, 2013 and 2012. The approximate amortization expense for intangibles, all of which are subject to amortization on a straight-line basis, is as follows (in thousands):

	Core Technology	Developed Technology	Trademarks and Tradenames	Total
2013 (remaining six months)	\$ 161	\$ 836	\$ 29	\$ 1,026
2014	322	418	14	754
2015	322			322
2016	81			81
Total	\$ 886	\$ 1,254	\$ 43	\$ 2,183

**Note 7 DEBT AND FINANCING OBLIGATIONS**

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

	June 30, 2013	December 31, 2012
<b>Debt:</b>		
Long-term debt	\$ 120,000	\$ 27,500
Discount on debt	(23,108)	(2,309)
Total debt, net of debt discount	96,892	25,191
<b>Financing obligations:</b>		
Current portion of royalty interest obligation	891	823
Long-term portion of royalty interest obligation	584	857

Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

Total royalty interest obligation	1,475	1,680
Total debt and financing obligations	\$ 98,367	\$ 26,871

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, or Indenture, with Wells Fargo Bank, National Association, a national banking association, as trustee governing the Notes. The Notes accrue interest at a rate of 3.25% per year, payable semiannually in arrears on February 1 and August 1 of each year, beginning on August 1, 2013. The Notes mature on February 1, 2019.

The net proceeds from the offering were \$115.3 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses payable by the Company. The net proceeds from the Notes were used by the Company to repay the entire balance of the Oxford Credit Facility with Oxford Finance LLC. In connection with such termination, the Company prepaid

Table of Contents

the remaining principal amount of \$27.5 million, \$1.7 million end of term fee, \$0.8 million early prepayment penalty and \$0.2 million of accrued interest. The Company recorded a loss on extinguishment of debt of \$3.4 million comprised of the early prepayment penalty and the remaining unamortized debt issuance costs and the end of term fee.

Holders may convert their Notes prior to the close of business on the business day immediately preceding August 1, 2018, only under the following circumstances:

- (i) during any calendar quarter commencing after the calendar quarter ending on June 30, 2013 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than \$32.36, which represents 130% of the conversion price, on each applicable trading day;
- (ii) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price (as defined in the Indenture) per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;
- (iii) upon the occurrence of specified corporate events, including a merger or a sale of all or substantially all of the Company's assets; or
- (iv) if the Company calls the Notes for redemption, until the close of business on the business day immediately preceding the redemption date.

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, regardless of the foregoing 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 the Company's common stock, or a combination of cash and shares of the Company's common stock, at the Company's 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 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. The initial conversion price of the Notes represented a premium of approximately 32.50% to the closing sale price of \$18.73 per share of the Company's common stock on The NASDAQ Global Select Market on January 16, 2013, the date that the Company priced the private offering of the Notes.

While the Notes are currently classified in the Company's consolidated balance sheet at June 30, 2013 as a non-current portion of long-term debt, 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 have the election to convert the Notes at any time during the prescribed measurement period, the Notes would then be considered a current obligation and classified as such.

## Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

Prior to February 1, 2017, the Company may not redeem the Notes. On or after February 1, 2017, the Company may redeem for cash all or part of the Notes if the last reported sale price (as defined in the Indenture) of the Company's 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 the Company provides notice of redemption. The redemption price will equal the sum of (i) 100% of the principal amount of the Notes being redeemed, plus (ii) accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date, plus (iii) a make-whole premium payment in cash equal to the sum of the present values of the remaining scheduled payments of interest that would have been made on the Notes to be redeemed had such Notes remained outstanding from the redemption date to the maturity date (excluding interest accrued to, but excluding, the redemption date that is otherwise paid pursuant to the preceding clause (ii)). The present values of the remaining interest payments will be computed using a discount rate equal to 2.0%. The Company must make the make-whole premium payments on all Notes called for redemption prior to the maturity date, including Notes converted after the date the Company provides the notice of redemption. No sinking fund is provided for the Notes, which means that the Company is not required to redeem or retire the Notes periodically.

If the Company undergoes a fundamental change, as defined in the Indenture, subject to certain conditions, holders of the Notes may require the Company to repurchase for cash all or part of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Notes are senior unsecured obligations of the Company and will rank senior in right of payment to the Company's future indebtedness, if any, that is expressly subordinated in right of payment to the Notes and equal in right of payment to the Company's

Table of Contents

existing and future unsecured indebtedness that is not so subordinated. The Notes are effectively junior in right of payment to any secured indebtedness of the Company to the extent of the value of the assets securing such indebtedness and are structurally junior to all existing and future indebtedness and other liabilities (including trade payables) incurred by the Company's subsidiaries.

The Notes do not contain any financial or operating covenants or any restrictions on the payment of dividends, the incurrence of other indebtedness or the issuance or repurchase of securities by the Company. The Indenture contains customary events of default with respect to the Notes, including that upon certain events of default, 100% of the principal of and accrued and unpaid interest on the Notes will automatically become due and payable.

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20, 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 effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on the consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt 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 as a whole. 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 components in stockholders' equity.

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Contractual interest expense	\$ 975	\$	\$ 1,723	\$
Amortization of debt issuance costs	155		274	
Amortization of debt discount	1,035		1,828	
	\$ 2,165	\$	\$ 3,825	\$
Effective interest rate	7.22%		7.22%	

**Note 8 STOCKHOLDERS' EQUITY***Stock-Based Compensation*



## Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Cost of revenues	\$	391	\$	111	\$	626	\$	199
Research and development		509		285		1,465		464
Selling, general and administrative		1,325		644		2,359		1,088
Total	\$	2,225	\$	1,040	\$	4,450	\$	1,751

Table of Contents**Stock Incentive Plans**

The following table contains information about the Company's stock plans at June 30, 2013:

<b>Plan</b>	<b>Awards Reserved for Issuance</b>	<b>Awards Issued</b>	<b>Awards Available for Grant</b>
2011 Stock Incentive Plan	3,173,240	2,799,494	373,746
2007 Stock Incentive Plan	2,031,297	2,031,297	
	5,204,537	4,830,791	373,746

The following table summarizes the Company's stock option activity and related information for the period from December 31, 2012 to June 30, 2013:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at December 31, 2012	4,003,166	\$ 7.86
Granted	653,015	25.08
Exercised	(406,232)	5.08
Forfeited	(279,951)	10.37
Expired	(1,505)	6.85
Outstanding at June 30, 2013	3,968,493	10.80

**Note 9 LOSS PER SHARE**

Basic net loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated by dividing net loss available to common stockholders by the weighted average number of shares of common stock and dilutive 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 (using the treasury stock method). Potential common shares in the diluted net loss per share computation are excluded to the extent that they would be anti-dilutive. No potentially dilutive securities are included in the computation of any diluted per share amounts as the Company reported a net loss for all periods presented.

The following table sets forth the computation of basic and diluted loss per share for the three and six months ended June 30, 2013 and 2012 (in thousands, except per share amounts):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Numerator for basic and diluted loss per share</b>				

Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

Net loss	\$	(14,031)	\$	(8,296)	\$	(37,169)	\$	(20,190)
<b>Denominator</b>								
Weighted average shares of common stock outstanding		33,083		30,954		32,896		28,160
Effect of dilutive securities								
Weighted average shares of common stock -diluted		33,083		30,954		32,896		28,160
<b>Net loss per share</b>								
Basic net loss per share of common stock	\$	(0.42)	\$	(0.27)	\$	(1.13)	\$	(0.72)
Diluted net loss per share of common stock	\$	(0.42)	\$	(0.27)	\$	(1.13)	\$	(0.72)

As discussed in Note 7, *Debt and Financing Obligations*, the Company must settle the principal of the Notes in cash upon conversion and it may settle any conversion premium in either cash or stock at the Company's discretion. For purposes of calculating the diluted impact, it is presumed that the conversion premium will be settled in common stock and the resulting potential common shares included in diluted earnings per share if the effect is more dilutive. The stock options, warrants and conversion premium on the Notes are excluded from the calculation of diluted loss per share because the net loss for the three and six months ended June 30, 2013 and 2012 causes such securities to be anti-dilutive. The potential dilutive effect of these securities is shown in the chart below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock options	2,038	1,203	1,934	1,183
Warrants	99	131	116	124
Conversion premium on the Notes	687		344	
Total	2,824	1,334	2,394	1,307

Table of Contents

**Note 10 RELATED PARTY TRANSACTIONS**

Since June 2011, Gary Pace, a member of the Company's board of directors, has provided consulting services for manufacturing-related activities. Under the agreement, Dr. Pace is eligible to receive a bonus up to \$0.2 million, contingent upon the FDA approval of the Company's Suite C manufacturing facility for EXPAREL. The expenses incurred under the consulting arrangement for the three months ended June 30, 2013 and 2012 were less than \$0.1 million. The expenses incurred under the consulting agreement for the six months ended June 30, 2013 and 2012 were also less than \$0.1 million. At both June 30, 2013 and December 31, 2012, the amount payable to Dr. Pace was less than \$0.1 million.

The Company's Chief Medical Officer, Gary Patou, is also a partner of MPM Asset Management, or MPM, a stockholder in the Company. The Company contracted with MPM for Dr. Patou's services. Expenses incurred by the Company relating to Dr. Patou's services for the three months ended June 30, 2013 and 2012 were less than \$0.1 million. The Company also incurred expenses relating to Dr. Patou's services for the six months ended June 30, 2013 and 2012 of \$0.1 million and \$0.2 million, respectively. At both June 30, 2013 and December 31, 2012, the amount payable to MPM was approximately \$0.1 million.

**Note 11 COMMITMENTS AND CONTINGENCIES**

*Leases*

The Company leases research and development and manufacturing facilities in San Diego, California, in two buildings referred to as the Science Center campus. On March 13, 2013, the Company entered into amendments with HCP TPSP, LLC and LASDK Limited Partnership, or Landlord, to extend the lease term on the Science Center campus. Pursuant to the amended lease agreements, the leases of both buildings were extended through August 31, 2020 with an option to extend the lease term for an additional five years.

The amendments provide that the Landlord will pay a one-time tenant improvement allowance in the amount of \$1.6 million for costs relating to the initial design and construction of the Company's improvements that are permanently affixed to the premises. It also provides that the Company can increase the tenant improvement allowance by an amount not to exceed \$1.4 million for base building work. Monthly basic rent is not adjusted on account of any portion of the base building allowance paid to the Company. The amendments further provide that, if exercised prior to October 1, 2013, the Company can increase the tenant improvement allowance by an amount not to exceed \$3.2 million. In the event the Company exercises its right to use all or any of this additional allowance, the monthly basic rent for the premises shall be increased retroactively to January 1, 2013, in order to repay the additional allowance to the Landlord. If the Company fails to utilize the tenant improvement allowance by June 30, 2015, any unused amounts will revert back to the Landlord, and the Company will have no further rights with respect thereto.

In May 2013, the Company entered into an agreement with Sorrento Montaña, L.P. to lease warehouse space in San Diego, California to be used primarily for the storage of inventory (the warehouse lease agreement). The Company intends to make certain improvements to the space, including the repair or replacement of any existing HVAC units and the repair of roof systems, electrical systems and plumbing systems. The lease term expires on August 31, 2020.

## Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

The Company also has a lease for its corporate headquarters in Parsippany, New Jersey, which expires in June 2017.

As of June 30, 2013, annual aggregate minimum payments due under the Company's lease obligations are as follows (in thousands):

Year		
2013 (remaining six months)	\$	2,224
2014		4,765
2015		4,978
2016		5,130
2017		5,072
Thereafter		13,734
Total	\$	35,903

Table of Contents

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

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks, uncertainties and assumptions that are difficult to predict. All statements in this Quarterly Report on Form 10-Q, other than statements of historical fact, are forward-looking statements. These forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements, among other things, regarding our plans and expectations regarding EXPAREL; the success of our commercialization of EXPAREL; 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; our plans to expand the indications of EXPAREL to include nerve block; our manufacturing, commercialization and marketing capabilities, regulatory developments in the United States and foreign countries; our ability to obtain and maintain intellectual property protection; the accuracy of our estimates regarding expenses and capital requirements; and the loss or hiring of key scientific or management personnel. In some cases, you can identify these statements by forward-looking words, such as estimate, expect, anticipate, project, plan, intend, believe, forecast, foresee, likely, may, should, goal, target, might, could, predict, continue, the negative or plural of these words and other comparable terminology. Forward-looking statements are only predictions based on our current expectations and our projections about future events. All forward-looking statements included in this Quarterly Report on Form 10-Q are based upon information available to us as of the filing date of this Quarterly Report on Form 10-Q. You should not place undue reliance on these forward-looking statements. We undertake no obligation to update any of these forward-looking statements for any reason. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date 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 the matters discussed and referenced herein, in Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2012, and in our other reports filed with the 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 DepoCyt(e) when discussed in the context of Europe.*

**Overview**

We are an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on our proprietary DepoFoam drug delivery technology, for use in hospitals and ambulatory surgery centers. On October 28, 2011, the United States Food and Drug Administration, or FDA, approved our New Drug Application, or NDA, for our lead product candidate, EXPAREL, a liposome injection of bupivacaine, an amide-type local anesthetic, indicated for administration into the surgical site to produce postsurgical analgesia. We have developed a sales force entirely dedicated to commercializing EXPAREL, which we commercially launched in April 2012. We are currently working to expand our manufacturing facility located in San Diego, California and anticipate receiving FDA approval for our newly installed manufacturing facility, referred to as Suite C, in 2014. Combined with our current facility, we expect this facility to significantly increase our manufacturing capacity and ability to meet the growing demand for EXPAREL.

We sell our other approved product, DepoCyt(e), to commercial partners. 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 also partner with other companies who desire access to our proprietary

DepoFoam extended release drug delivery technology to conduct research, feasibility and formulation work with their products.

Table of Contents

We expect to continue to incur significant expenses as we commercialize EXPAREL, advance the development of other product candidates and pursue the use of EXPAREL in additional indications such as nerve block, seek FDA approval for our product candidates that successfully complete clinical trials and develop our sales force and marketing capabilities to prepare for their commercial launch. We are currently running two Phase 3 nerve block trials comparing the effect of EXPAREL versus placebo through a femoral nerve-block study for total knee arthroplasty and an intercostal block study in posterolateral thoracotomy procedures. In August 2013, we reported that the pivotal Phase 3 clinical trial assessing the safety and efficacy of using EXPAREL to achieve an intercostal nerve block for posterolateral thoracotomy did not achieve its primary endpoint. In May 2013, we reported positive findings from the first part of our other pivotal nerve block trial, a femoral nerve block study for total knee arthroplasty; the final part of this study is still ongoing. The FDA has previously indicated to us at its end of Phase 2 meeting that a single pivotal trial meeting its primary endpoint would be sufficient to gain approval for the nerve block indication, assuming demonstration of adequate safety. We plan to submit data from the ongoing femoral nerve block study to demonstrate efficacy and safety, as well as safety data from the intercostal nerve block study, for a supplemental U.S. Food and Drug Administration New Drug Application, or sNDA, anticipated in early 2014. We believe that this new indication will present an alternative long-term method of pain control with a single injection, replacing the costly and cumbersome standard of care requiring a perineural catheter, drug reservoir, and pump needed to continuously deliver bupivacaine.

We also expect to incur additional expenses to add operational, financial and management information systems and personnel, including personnel to support our product development efforts and our obligations as a public reporting company. In order to become and remain profitable, we believe that we must succeed in commercializing EXPAREL or other product candidates with significant market potential.

**Results of Operations***Comparison of Three and Six Months Ended June 30, 2013 and 2012**Revenues*

The following table provides information regarding our revenues during the periods indicated (in thousands):

	Three Months Ended		% Increase/Decrease	Six Months Ended		% Increase/Decrease
	2013	June 30, 2012		2013	June 30, 2012	
Net product sales:						
EXPAREL	\$ 15,223	\$ 2,285	566%	\$ 25,664	\$ 2,285	1,023%
DepoCyt(e)	1,055	2,654	(60)%	1,449	3,079	(53)%
DepoDur		42	(100)%		63	(100)%
Total net product sales	16,278	4,981	227%	27,113	5,427	400%
Collaborative licensing and development revenue	243	6,600	(96)%	486	13,090	(96)%
Royalty revenue	620	763	(19)%	1,129	1,631	(31)%
Total revenues	\$ 17,141	\$ 12,344	39%	\$ 28,728	\$ 20,148	43%



## Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

Revenues increased by \$4.8 million, or 39%, to \$17.1 million in the three months ended June 30, 2013, as compared to \$12.3 million in the three months ended June 30, 2012. The increase was driven by EXPAREL net product sales, which for the three months ended June 30, 2013, were \$15.2 million. We sell EXPAREL to wholesalers (including AmerisourceBergen Health Corp., Cardinal Health, Inc. and McKesson Drug Company), but drop-ship the product directly to individual accounts such as hospitals, ambulatory surgery centers and doctors. The wholesalers do not stock EXPAREL and we generate sales through our relationships with the individual accounts. Since the launch of EXPAREL in April of 2012 through the end of the second quarter of 2013, 1,435 accounts have ordered EXPAREL compared to 341 at the end of the second quarter of 2012. During the second quarter of 2013, we added 370 new accounts. The strong demand for EXPAREL has continued due to major hospital system formulary wins and orders from major orthopedic centers. There have also been positive indications of demand growth due to approval for use of EXPAREL at major military institutions, as well as the completion of drug evaluations leading to a reduction of restrictions and thus improved physician access.

Table of Contents

The increase in EXPAREL sales was partially offset by a reduction in collaborative licensing and development revenue of \$6.4 million for the three months ended June 30, 2013 as compared to the same period in 2012, which was primarily driven by the recognition of deferred milestone revenue in connection with the termination of a licensing agreement with EKR Therapeutics, Inc., or EKR.

Revenues increased by \$8.6 million, or 43%, to \$28.7 million in the six months ended June 30, 2013, compared to \$20.1 million in the six months ended June 30, 2012. EXPAREL product sales increased \$23.4 million due to increased market penetration in soft tissue and orthopedics, which facilitated the addition of 616 new accounts during the six months ended June 30, 2013. Collaborative licensing and development revenue decreased \$12.6 million in the six months ended June 30, 2013, compared to the same period in 2012, primarily due to the recognition of deferred revenue during the first and second quarters of 2012, in connection with the termination of the EKR agreement.

*Cost of Revenues*

The following table provides information regarding our cost of revenues during the periods indicated (in thousands):

	Three Months Ended		% Increase/ Decrease	Six Months Ended		% Increase/ Decrease
	June 30, 2013	June 30, 2012		June 30, 2013	June 30, 2012	
Cost of goods sold	\$ 10,214	\$ 6,531	56%	\$ 21,605	\$ 12,785	69%
Cost of collaborative licensing and development		154	(100)%		395	(100)%
Total cost of revenues	\$ 10,214	\$ 6,685	53%	\$ 21,605	\$ 13,180	64%

Cost of revenues increased by \$3.5 million, or 53%, to \$10.2 million in the three months ended June 30, 2013, compared to \$6.7 million for the three months ended June 30, 2012. Cost of goods sold increased primarily due to the cost of product sold for EXPAREL. The improvement in the cost of goods sold as a percentage of net product sales during the second quarter ended June 30, 2013 as compared to 2012 is due to increased utilization of capacity in the facility to manufacture EXPAREL, decrease in consulting costs and the significant increase in EXPAREL sales to offset the substantial level of infrastructure for operating two cGMP facilities. There was no cost of collaborative licensing and development revenue for the three months ended June 30, 2013 due to the termination of services performed under a Novo Nordisk licensing agreement that terminated in June 2012.

Cost of revenues increased by \$8.4 million, or 64%, to \$21.6 million in the six months ended June 30, 2013, as compared to \$13.2 million in the six months ended June 30, 2012. This is mainly attributable to an increase in cost of product sold for EXPAREL due to a higher volume of sales in 2013 since the product was launched in April 2012.

*Research and Development Expense*

The following table provides information regarding our research and development expenses during the periods indicated (in thousands):

Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

	Three Months Ended June 30,		% Increase/ Decrease	Six Months Ended June 30,		% Increase/ Decrease
	2013	2012		2013	2012	
Research and development expense	\$ 4,857	\$ 1,872	159%	\$ 10,762	\$ 3,166	240%

Research and development expenses increased by \$3.0 million, or 159%, to \$4.9 million in the three months ended June 30, 2013, compared to \$1.9 million in the three months ended June 30, 2012. This increase is attributable to a \$2.7 million increase in clinical development primarily relating to our Phase 2/3 pivotal trial of EXPAREL administered as a femoral nerve block for total knee arthroplasty surgery and our Phase 3 pivotal trial of EXPAREL as an intercostal nerve block for thoracotomy.

Research and development expenses increased by \$7.6 million, or 240%, to \$10.8 million in the six months ended June 30, 2013, as compared to \$3.2 million in the six months ended June 30, 2012. Our clinical development spending increased \$5.9 million for the six months ended June 30, 2013 compared to 2012 due to the two nerve block trials. There was also an increase of \$1.0 million in expenses related to a potential new manufacturing process for EXPAREL, and we incurred \$0.7 million for a toxicity study in animals.

Table of Contents*Selling, General and Administrative Expense*

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

	Three Months Ended		% Increase/Decrease	Six Months Ended		% Increase/Decrease
	2013	2012		2013	2012	
General and administrative	\$ 4,655	\$ 3,216	45%	\$ 9,331	\$ 6,861	36%
Sales and marketing	9,425	7,197	31%	17,686	14,704	20%
Total selling, general and administrative expenses	\$ 14,080	\$ 10,413	35%	\$ 27,017	\$ 21,565	25%

Selling, general and administrative expenses increased by \$3.7 million, or 35%, to \$14.1 million in the three months ended June 30, 2013, as compared to \$10.4 million in the three months ended June 30, 2012 due to the following:

- General and administrative expenses increased by \$1.4 million primarily due to increases in salaries and benefits associated with our increased headcount and infrastructure costs to support the commercial and manufacturing growth of EXPAREL; and
- Sales and marketing expenses increased by \$2.2 million primarily due to a \$1.4 million increase in project-related spend for EXPAREL, which included educational initiatives and programs to create product awareness in the orthopedic market, along with a \$0.8 million increase in salaries and benefits driven by an increase in the number of our field-based medical health science team.

Selling, general and administrative expenses increased by \$5.4 million, or 25%, to \$27.0 million in the six months ended June 30, 2013 as compared to \$21.6 million in the six months ended June 30, 2012 due to the following:

- General and administrative expenses increased by \$2.5 million primarily due to increases in salaries and benefits associated with our increased headcount and infrastructure costs to support the commercial and manufacturing growth of EXPAREL; and
- Sales and marketing expenses increased by \$3.0 million primarily due to a \$1.9 million increase in project-related spend for EXPAREL, which included educational initiatives and programs to create product awareness in the orthopedic market, along with a \$1.1 million increase in salaries and benefits driven by an increase in the number of our field-based medical health science team.

*Other Income (Expense)*

## Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

The following table provides information regarding our other income (expense) during the periods indicated (in thousands):

	Three Months Ended			% Increase/Decrease	Six Months Ended			% Increase/Decrease
	June 30,				June 30,			
	2013	2012		2013	2012			
Interest income	\$ 72	\$ 68	6%	\$ 145	\$ 131	11%		
Interest expense	(1,914)	(494)	287%	(3,433)	(1,008)	241%		
Loss on early extinguishment of debt		(1,062)	(100)%	(3,398)	(1,062)	220%		
Royalty interest obligation	(161)	(143)	13%	(247)	(425)	(42)%		
Other, net	(18)	(39)	(54)%	(22)	(63)	(65)%		
Total other expense, net	\$ (2,021)	\$ (1,670)	21%	\$ (6,955)	\$ (2,427)	187%		

Total other expense, net increased by \$0.3 million, or 21%, to \$2.0 million in the three months ended June 30, 2013, as compared to \$1.7 million in the three months ended June 30, 2012, primarily due to a \$1.4 million increase in interest expense driven by the amortization of the debt discount related to the equity component of the \$120.0 million in aggregate principal amount of 3.25% convertible senior notes due 2019, or Notes. This amount was partially offset by a decrease of \$1.1 million related to the loss on extinguishment of the Hercules Credit Facility in May 2012.

Total other expense, net increased by \$4.6 million, or 187% to \$7.0 million for the six months ended June 30, 2013 as compared to \$2.4 million in the six months ended June 30, 2012, primarily due to a \$3.4 million loss on the extinguishment of debt from the termination of the Oxford Credit Facility in January 2013 and a \$2.4 million increase in interest expense driven by the amortization of the debt discount related to the equity component of the Notes. These increases were partially offset by a decrease of \$1.1 million related to the loss on extinguishment of the Hercules Credit Facility in May 2012.

Table of Contents*Income Tax Benefit*

The following table provides information regarding our income tax benefit during the periods indicated (in thousands):

	Three Months Ended		% Increase/ Decrease	Six Months Ended		% Increase/ Decrease
	June 30,			June 30,		
	2013	2012		2013	2012	
Income tax benefit	\$	\$	N/A	\$ 442	\$	N/A

In February 2013, we received \$0.4 million from the sale of our unused net operating losses through the State of New Jersey's Economic Development Authority Technology Business Tax Certificate Transfer Program.

**Liquidity and Capital Resources**

Since our inception in 2007, we have devoted most of our cash resources to manufacturing, research and development and selling, general and administrative activities primarily related to the development of EXPAREL. We have financed our operations primarily with the proceeds from the sale of convertible senior notes, convertible preferred stock and common stock, secured and unsecured notes and borrowings under debt facilities, product sales, collaborative licensing and development revenue and royalty revenue. In January 2013, we received net proceeds from the sale of the Notes of \$115.3 million.

We have generated limited revenue, and we are highly dependent on the commercial success of EXPAREL, which we launched in April 2012. We have incurred losses and generated negative cash flows from operations since inception. As of June 30, 2013, we had an accumulated deficit of \$269.7 million, cash and cash equivalents, restricted cash and short-term investments of \$97.0 million and working capital of \$105.7 million.

*Summary of Cash Flows*

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

	Six Months Ended	
	June 30,	
	2013	2012
Net cash provided by (used in):		
Operating activities	\$ (27,099)	\$ (37,774)
Investing activities	(61,774)	(50,072)
Financing activities	87,373	63,123
Net decrease in cash and cash equivalents	\$ (1,500)	\$ (24,723)

*Operating Activities*

During the six months ended June 30, 2013 and 2012, our net cash used in operating activities was \$27.1 million and \$37.8 million, respectively. The \$10.7 million decrease in net cash used in operating activities was driven primarily by an increase in collections of \$21.6 million from sales of EXPAREL partially offset by costs incurred for the ongoing pivotal trials of EXPAREL, increase in our scientific affairs headcount, and various commercial programs to support EXPAREL.

*Investing Activities*

During the six months ended June 30, 2013 and 2012, our net cash used in investing activities was \$61.8 million and \$50.1 million, respectively. The \$11.7 million increase in cash used in investing activities was primarily due to the \$23.6 million net increase in investment of the net proceeds from our Notes in short-term investments, partially offset by a \$9.3 million decrease in the amount of contingent consideration payments due Skyepharma and a \$2.6 million decrease in purchases of fixed assets.

*Financing Activities*

During the six months ended June 30, 2013 and 2012, our net cash provided by financing activities was \$87.4 million and \$63.1 million, respectively. During the six months ended June 30, 2013, our net cash provided by financing activities of \$87.4 million was primarily attributable to our private offering of the Notes which had an aggregate principal amount of \$120.0 million. We used \$30.1 million of the proceeds from the offering of the Notes to repay in full the \$27.5 million outstanding balance on our credit facility

Table of Contents

and incurred an additional \$4.7 million of financing costs on the Notes issuance. During the six months ended June 30, 2012, our net cash provided by financing activities of \$63.1 million was primarily attributable to a secondary offering of 6,900,000 shares of common stock.

***Debt Facilities***

On January 23, 2013, we completed a private placement of \$120.0 million in aggregate principal amount of 3.25% convertible senior notes due 2019. The net proceeds from the offering were \$115.3 million, after deducting the initial purchasers' discounts and commissions and the offering expenses. The Notes accrue interest at a rate of 3.25% per year, payable semiannually in arrears on February 1 and August 1 of each year, beginning on August 1, 2013 and will mature on February 1, 2019. As of June 30, 2013, we had \$120.0 million in outstanding principal under the Notes.

We used \$30.1 million of the net proceeds from the offering of the Notes to repay in full the \$27.5 million outstanding balance on our credit facility with Oxford Finance LLC. In connection with such termination, we paid the remaining principal amount of \$27.5 million as well as accrued interest, certain prepayment fees and an end of term charge in the aggregate amount of \$2.6 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, 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. Additionally, during any calendar quarter commencing after the calendar quarter ending June 30, 2013, the holders have the right to convert when our stock price closes at or above \$32.36 (representing 130% of the conversion price) during a period of at least 20 (whether or not consecutive) out of 30 consecutive trading days. See Note 7, *Debt and Financing Obligations*, to our consolidated financial statements included herein for additional details.

While the Notes are currently classified in the consolidated balance sheet at June 30, 2013 as a non-current portion of long-term debt, 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 our common stock during the prescribed measurement periods. In the event that the holders of the Notes have the election to convert the Notes at any time during the prescribed measurement period, the Notes would then be considered a current obligation and classified as such.

The Notes do not contain any financial or operating covenants or any restrictions on the payment of dividends, the incurrence of other indebtedness or the issuance or repurchase of securities. The Indenture contains customary events of default with respect to the Notes, including that upon certain events of default, 100% of the principal and accrued and unpaid interest on the Notes will automatically become due and payable.

***Future Capital Requirements***



## Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

We believe that our existing cash and cash equivalents, restricted cash, short-term investments and revenue from product sales will be sufficient to enable us to fund our operating expenses and capital expenditure requirements and to service our indebtedness for at least the next 12 months. However, no assurance can be given that this will be the case, and we may require additional debt or equity financing to meet our working capital requirements. Our need for additional external sources of funds will depend significantly on the level and timing of our sales of EXPAREL. We expect to continue to incur substantial additional operating losses as we commercialize EXPAREL and develop and seek regulatory approval for our other product candidates. In addition, we expect to incur additional expenses to add operational, financial and information systems and personnel, including personnel to support our planned product commercialization efforts. We also expect to incur significant costs to comply with corporate governance, internal controls and similar requirements applicable to us as a public company.

Our future use of operating cash and capital requirements will depend on many factors, including the following:

- our ability to successfully continue our commercialization of EXPAREL;
- the costs of our commercialization activities for EXPAREL;
- the cost and timing of expanding our manufacturing facilities and purchasing manufacturing and other capital equipment for EXPAREL and our other product candidates;
- the costs of performing additional clinical trials for EXPAREL, including the pediatric trials required by the FDA as a condition of approval and the two pivotal nerve block trials;

Table of Contents

- the scope, progress, results and costs of development for additional indications for EXPAREL and for our other product candidates;
- the cost, timing and outcome of regulatory review of our other product candidates;
- the extent to which we acquire or invest in products, businesses and technologies;
- the extent to which we choose to establish collaboration, co-promotion, distribution or other similar agreements for our product candidates; and
- the costs of preparing, submitting and prosecuting patent applications and maintaining, enforcing and defending intellectual property claims.

To the extent that our capital resources are insufficient to meet our future operating and capital requirements, we will need to finance our cash needs through public or private equity offerings, debt financings, corporate collaboration and licensing arrangements or other financing alternatives. The covenants under the Amended and Restated Royalty Interests Assignment Agreement with Paul Capital may limit our ability to obtain additional debt financing. We have no committed external sources of funds. Additional equity or debt financing or corporate collaboration and licensing arrangements may not be available on acceptable terms, if at all.

If we raise additional funds by issuing equity securities, our stockholders will experience dilution. Debt financing, if available, would result in increased fixed payment obligations and may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. Any debt financing or additional equity that we raise may contain terms, such as liquidation and other preferences that are not favorable to us or our stockholders. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish valuable rights to our technologies, future revenue streams or product candidates or to grant licenses on terms that may not be favorable to us.

**Off-Balance Sheet Arrangements**

We do not have any material off-balance sheet arrangements as of June 30, 2013, 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. None of our operating leases have, or are reasonably likely to have, a current or future material effect on our financial condition or changes in financial condition.

**Critical Accounting Policies and Estimates**

There have been no significant changes to our critical accounting policies since December 31, 2012. For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of our consolidated financial statements, please refer to our most recent Annual Report on Form 10-K for the year ended December 31, 2012.

### **Contractual Obligations**

We currently lease research and development and manufacturing facilities in San Diego, California, in two buildings referred to as the Science Center campus. Collectively, these facilities occupy approximately 106,000 square feet. On March 13, 2013, we entered into amendments with HCP TPSP, LLC and LASDK Limited Partnership to extend the lease terms on the Science Center campus. Pursuant to the amended lease agreement, the leases of both buildings were extended through August 31, 2020 at a monthly blended rate of \$3.25 per square foot effective January 1, 2013. This rate will escalate by 3% on an annual basis for the remainder of the lease terms. We also have an option to extend the lease terms for an additional five years.

In May 2013, we entered into an agreement with Sorrento Montaña, L.P. ( the Landlord ) to lease approximately 21,000 square feet of warehouse space in San Diego, California to be used primarily for storage of inventory (the warehouse lease agreement ). We intend to make certain tenant improvements to the space, including (but not limited to) the repair or replacement of any existing HVAC units and the repair of roof systems, electrical systems, and plumbing systems. The lease term expires on August 31, 2020.

In accordance with the warehouse lease agreement, we will pay monthly rent to the Landlord at a rate of approximately \$0.54 per square foot for the first six months after the commencement date. The rent for the period beginning with the seventh month of the sublease term through the twelfth month after the commencement date will be paid to the Landlord at a monthly rate of approximately \$0.75 per square foot. The monthly rent shall then be increased on each annual anniversary of the commencement date during the lease term by 3.75% of the monthly rent in effect for the immediately preceding calendar month.

Table of Contents

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

The primary objective of our cash investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we invest in may be subject to market 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 the fair value of our investment will decline. A hypothetical 100 basis point increase in interest rates reduces the fair value of our available-for-sale securities at June 30, 2013 by \$0.3 million. To minimize this risk, we maintain our portfolio of cash equivalents and marketable securities in a variety of securities, including commercial paper, government and non-government debt securities and/or money market funds that invest in such securities. At June 30, 2013, all cash, cash equivalents and available for sale securities mature within one year.

Most of our transactions are conducted in U.S. dollars. We do have certain agreements with commercial partners located outside the United States, which have transactions conducted in Euros. As of June 30, 2013, we had no receivables from customers denominated in currencies other than the U.S. dollar. A hypothetical 10% change in these foreign exchange rates would not have a material impact on our revenue for the quarter ended June 30, 2013.

Our Notes carry a fixed interest rate and, thus, we are not subject to interest rate risk with respect to the Notes.

**Item 4. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to our management, including our President, Chief Executive Officer, and Chairman and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on their evaluation with the participation of the Company's management, our President, Chief Executive Officer, and Chairman and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2013. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of the disclosure controls and procedures are met. The design of any disclosure control and procedure also is based in part upon 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.

**(b) Changes in Internal Control over Financial Reporting**

## Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **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. We are not presently a party to any material litigation and we are not aware of any pending or threatened litigation against us that could have a material adverse effect on our business, operating results, financial condition or cash flows.

#### **Item 1A. RISK FACTORS**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, 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, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2012 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. There have been no material changes in the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Unregistered Sales of Equity Securities**

None.

**Use of Proceeds**

Not applicable.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

The exhibits listed in the Exhibit Index are incorporated herein by reference.

## Edgar Filing: Pacira Pharmaceuticals, Inc. - Form 10-Q

- 31.1 Certification of President, Chief Executive Officer, and Chairman pursuant to Rule 13a-14(a) and 15d-14(a), as amended.\*
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as amended.\*
- 32.1 Certification of President, 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 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 June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Loss, (iv) the Consolidated Statement of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Condensed Notes to Consolidated Financial Statements, tagged as blocks of text.

---

\* Filed herewith.

\*\* Furnished herewith.

Table of Contents

**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: August 6, 2013

/s/ DAVID STACK  
David Stack  
*President, Chief Executive Officer, and Chairman*  
*(Principal Executive Officer)*

Dated: August 6, 2013

/s/ JAMES SCIBETTA  
James Scibetta  
*Chief Financial Officer*  
*(Principal Financial Officer)*