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 June 30, 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 Incorporation or Organization)	(I.R.S. Employer 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 (§ 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

As of July 31, 2016, 37,278,231 shares of the registrant's common stock, $0.001 par value per share, were outstanding.

PACIRA PHARMACEUTICALS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 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)

	June 30, 2016	December 31, 2015
		(Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,309	$ 56,984
Short-term investments	137,358	101,981
Accounts receivable, net	28,651	25,855
Inventories, net	60,916	61,645
Prepaid expenses and other current assets	5,755	6,117
Total current assets	257,989	252,582
Long-term investments	—	13,462
Fixed assets, net	99,282	90,324
Goodwill	42,751	30,880
Intangible assets, net	—	81
Other assets	677	406
Total assets	$ 400,699	$ 387,735
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,614	$ 8,739
Accrued expenses	38,330	35,375
Convertible senior notes	106,388	104,040
Current portion of deferred revenue	1,048	1,426
Income taxes payable	58	208
Total current liabilities	150,438	149,788
Deferred revenue	7,747	8,082
Other liabilities	14,163	11,473
Total liabilities	172,348	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 June 30, 2016 and December 31, 2015	—	—
Common stock, par value $0.001, 250,000,000 shares authorized; 37,273,407 shares issued and outstanding at June 30, 2016; 36,848,319 shares issued and outstanding at December 31, 2015	37	37
Additional paid-in capital	548,277	526,696
Accumulated deficit	(320,101)	(308,289)
Accumulated other comprehensive income (loss)	138	(52)
Total stockholders' equity	228,351	218,392
Total liabilities and stockholders' equity	$ 400,699	$ 387,735

See accompanying condensed notes to consolidated financial statements.

PACIRA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Net product sales	$ 67,687	$ 58,062	$ 132,189	$ 115,146
Collaborative licensing and milestone revenue	1,356	356	1,713	713
Royalty revenue	597	730	1,212	1,604
Total revenues	69,640	59,148	135,114	117,463
Operating expenses:				
Cost of goods sold	23,053	18,929	43,331	36,509
Research and development	9,362	3,649	18,855	9,616
Selling, general and administrative	43,669	34,752	81,626	66,180
Total operating expenses	76,084	57,330	143,812	112,305
Income (loss) from operations	(6,444)	1,818	(8,698)	5,158
Other (expense) income:				
Interest income	324	177	576	332
Interest expense	(1,733)	(1,940)	(3,601)	(3,935)
Royalty interest obligation	—	—	—	(71)
Loss on early extinguishment of debt	—	(51)	—	(51)
Other, net	(47)	43	1	(74)
Total other expense, net	(1,456)	(1,771)	(3,024)	(3,799)
Income (loss) before income taxes	(7,900)	47	(11,722)	1,359
Income tax expense	(58)	(39)	(90)	(91)
Net income (loss)	$ (7,958)	$ 8	$ (11,812)	$ 1,268
Net income (loss) per share:				
Basic and diluted net income (loss) per common share	$ (0.21)	$ 0.00	$ (0.32)	$ 0.03
Weighted average common shares outstanding:				
Basic	37,181	36,481	37,101	36,358
Diluted	37,181	41,445	37,101	41,612

See accompanying condensed notes to consolidated financial statements.

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

(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ (7,958)	$ 8	$ (11,812)	$ 1,268
Other comprehensive income:				
Net unrealized gain on investments	89	1	190	53
Total other comprehensive income	89	1	190	53
Comprehensive income (loss)	$ (7,869)	$ 9	$ (11,622)	$ 1,321

See accompanying condensed notes to consolidated financial statements.

PACIRA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2016

(In thousands)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount				
Balances at December 31, 2015	36,848	$ 37	$ 526,696	$ (308,289)	$ (52)	$ 218,392
Exercise of stock options	331	—	4,431	—	—	4,431
Vested restricted stock units	59	—	—	—	—	—
Shares issued under employee stock purchase plan	35	—	995	—	—	995
Stock-based compensation	—	—	16,155	—	—	16,155
Net unrealized gain on investments	—	—	—	—	190	190
Net loss	—	—	—	(11,812)	—	(11,812)
Balances at June 30, 2016	37,273	$ 37	$ 548,277	$ (320,101)	$ 138	$ 228,351

See accompanying condensed notes to consolidated financial statements.

PACIRA PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
		(Note 2)
Operating activities:		
Net income (loss)	$ (11,812)	$ 1,268
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of fixed assets and amortization of intangibles	6,381	5,526
Amortization of unfavorable lease obligation and debt issuance costs, net	240	241
Amortization of debt discount	2,044	2,058
Loss on early extinguishment of debt	—	51
Stock-based compensation	16,155	14,813
Changes in operating assets and liabilities:		
Restricted cash	—	1,509
Accounts receivable, net	(2,796)	(1,915)
Inventories, net	729	(19,506)
Prepaid expenses and other assets	92	1,032
Accounts payable, accrued expenses and income taxes payable	(8,658)	2,182
Royalty interest obligation	—	(276)
Other liabilities	2,758	38
Deferred revenue	(713)	(713)
Net cash provided by operating activities	4,420	6,308
Investing activities:		
Purchases of fixed assets	(15,921)	(19,706)
Purchases of investments	(121,790)	(92,921)
Sales of investments	100,065	98,179
Payment of contingent consideration	(3,871)	(3,362)
Net cash used in investing activities	(41,517)	(17,810)
Financing activities:		
Proceeds from exercise of stock options	4,431	6,975
Proceeds from shares issued under employee stock purchase plan	995	1,195
Conversion of principal and premium paid on convertible senior notes	(4)	(1,466)
Net cash provided by financing activities	5,422	6,704
Net decrease in cash and cash equivalents	(31,675)	(4,798)
Cash and cash equivalents, beginning of period	56,984	37,520
Cash and cash equivalents, end of period	$ 25,309	$ 32,722
Supplemental cash flow information:		
Cash paid for interest, including royalty interest obligation	$ 1,926	$ 2,297
Cash paid for income taxes, net of refunds	$ 241	$ 159
Non-cash investing and financing activities:		
Issuance of stock from conversion of convertible senior notes	$ —	$ 3,930
Net (decrease) increase in accrued fixed assets	$ (662)	$ 4,150
Accrued payment of contingent consideration	$ (8,000)	$ —

See accompanying condensed notes to consolidated financial statements.

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 June 30, 2016, and for the three and six months ended June 30, 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 at December 31, 2015 is 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 Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Largest customer	32%	32%	32%	31%
Second largest customer	27%	28%	28%	29%
Third largest customer	26%	27%	27%	27%
	85%	87%	87%	87%

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 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 June 30, 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*, which deferred the effective date of revenue standard ASU 2014-09 by one year and permits early adoption on a limited basis. Subsequently, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations;* ASU 2016-10, *Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing* and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606) – Narrow Scope Improvements and Practical Expedients*, which provide clarification and additional guidance related to ASU 2014-09. These updates 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 standards 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 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 award 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.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. This update also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of

an entity's portfolio. This ASU is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the impact of ASU 2016-13 on the 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.

NOTE 3—INVENTORIES

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

	June 30, 2016	December 31, 2015
Raw materials	$ 14,436	$ 16,712
Work-in-process	1,965	12,152
Finished goods	44,515	32,781
Total	$ 60,916	$ 61,645

NOTE 4—FIXED ASSETS

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

	June 30, 2016	December 31, 2015
Machinery and laboratory equipment	$ 32,362	$ 29,864
Leasehold improvements	32,665	30,834
Computer equipment and software	5,296	4,007
Office furniture and equipment	1,606	1,439
Construction in progress	58,563	49,097
Total	130,492	115,241
Less: accumulated depreciation	(31,210)	(24,917)
Fixed assets, net	$ 99,282	$ 90,324

For the three months ended June 30, 2016 and 2015, depreciation expense was $3.2 million and $2.7 million, respectively. For the three months ended June 30, 2016 and 2015, capitalized interest on the construction of manufacturing sites was $0.4 million and $0.2 million, respectively.

For the six months ended June 30, 2016 and 2015, depreciation expense was $6.3 million and $5.4 million, respectively. For the six months ended June 30, 2016 and 2015, capitalized interest on the construction of manufacturing sites was $0.7 million and $0.4 million, respectively.

As of June 30, 2016 and December 31, 2015, total fixed assets, net, includes leasehold improvements and manufacturing process equipment located in England in the amount of $29.9 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, 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 (met June 2016); 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, and in June 2016, the Company recorded an $8.0 million milestone payable for achieving $250.0 million of annual EXPAREL net sales collected, with payment to be made in the third quarter of 2016. For purposes of meeting milestone payments, annual net sales are measured on a rolling quarterly basis. Cumulatively through June 30, 2016, the Company has recorded an additional $18.8 million as goodwill for earn-out payments which are based on a percentage of net sales of 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 Value
Balance at December 31, 2015	$ 30,880
Milestone payments triggered by collections of net sales of EXPAREL	8,000
Percentage payments on collections of net sales of EXPAREL	3,871
Balance at June 30, 2016	$ 42,751

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

	June 30, 2016			December 31, 2015			
Amortizable Intangible Assets:	**Gross Carrying Value**	**Accumulated Amortization**	**Intangible Assets, Net**	**Gross Carrying Value**	**Accumulated Amortization**	**Intangible Assets, Net**	**Estimated Useful Life**
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	

There was no amortization expense for intangible assets for the three months ended June 30, 2016 and $0.1 million for the six months ended June 30, 2016. For the three and six months ended June 30, 2015, amortization expense for intangible assets was $0.1 million and $0.2 million, respectively.

NOTE 6—DEBT

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

	June 30, 2016	December 31, 2015
3.25% convertible senior notes	$ 118,531	$ 118,533
Deferred financing costs	(1,582)	(1,888)
Discount on debt	(10,561)	(12,605)
Total debt, net of debt discount	$ 106,388	$ 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 June 30, 2016, this condition for conversion was met. As a result, the Notes are classified as a current obligation and will be convertible until September 30, 2016. As of June 30, 2016, the Notes had a market price of $1,485 per $1,000 principal amount, compared to an estimated conversion value of $1,359 per $1,000 principal amount. In the event of conversion, holders would forgo all future interest payments, any unpaid 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 $42.6 million of cash or issue approximately 1.3 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 June 30, 2016, causing dilution to the Company's shareholders and/or significant expenditures of the Company's cash and liquid securities. In February 2015, the Company received notice of an election for conversion from one of the holders of the Notes. The principal amount of the conversion request was $1.5 million which was paid in cash pursuant to the terms of the Indenture in April 2015. The Company elected to settle the conversion premium by issuing 44,287 shares of its common stock, calculated based on a daily volume-weighted adjusted price over a 40 trading-day observation period which ended on April 8, 2015. The Company realized a $0.1 million loss on the extinguishment of the converted Notes. The Company has completed other immaterial conversion requests.

While the Notes are classified in the Company's consolidated balance sheets at June 30, 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.

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.

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 Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Contractual interest expense	$ 963	$ 963	$ 1,926	$ 1,930
Amortization of debt issuance costs	153	153	306	308
Amortization of debt discount	1,022	1,024	2,044	2,058
Capitalized interest (Note 4)	(405)	(200)	(675)	(361)
Total	$ 1,733	$ 1,940	$ 3,601	$ 3,935
Effective interest rate on the Notes	7.22%	7.20%	7.22%	7.20%

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.
- 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 June 30, 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		Fair Value Measurements Using		
June 30, 2016	Carrying Value	Level 1	Level 2	Level 3
3.25% convertible senior notes *	$ 106,388	$ —	$ 176,019	$ —

* The fair value of the Notes was based on the closing price of the Company's common stock of $33.73 per share at June 30, 2016 compared to a conversion price of $24.82 per share which, if converted, would result in an approximate conversion premium of 1.3 million shares or $42.6 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 June 30, 2016, all of the Company's short-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 June 30, 2016, the Company's short-term investments were rated A or better by Standard & Poor's.

The following summarizes the Company's investments at June 30, 2016 and December 31, 2015 (in thousands):

June 30, 2016 Debt Securities	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Level 2)
Short-term:				
Asset-backed securities	$ 31,908	$ 9	$ (1)	$ 31,916
Commercial paper	36,839	119	—	36,958
Corporate bonds	68,473	29	(18)	68,484
Total	$ 137,220	$ 157	$ (19)	$ 137,358

December 31, 2015 Debt Securities	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Level 2)
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

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets and liabilities acquired in a business combination and long-lived assets, which would be recognized at fair value if deemed to be impaired or if reclassified as assets held for sale. The fair value in these instances would be determined using Level 3 inputs. At June 30, 2016, the Company had no financial instruments which were measured using Level 3 inputs.

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. The Company performs ongoing credit evaluations of its customers as warranted and generally does not require collateral.

As of June 30, 2016, three customers each accounted for over 10% of the Company's accounts receivable, at 28%, 26% and 26%, 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 June 30, 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 Incentive Plans

In June 2016, the Company's stockholders approved the Amended and Restated 2011 Stock Incentive Plan, or 2011 Plan. The 2011 Plan was amended to, among other things, increase the number of shares of common stock authorized for issuance as equity awards under the plan by 4,000,000 shares.

Stock-Based Compensation

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,	
	2016	2015	2016	2015
Cost of goods sold	$ 1,610	$ 1,586	$ 3,159	$ 2,689
Research and development	1,015	561	1,908	2,070
Selling, general and administrative	5,040	5,149	11,088	10,054
Total	$ 7,665	$ 7,296	$ 16,155	$ 14,813
Stock-based compensation from:				
Stock options (employee awards)	$ 5,789	$ 6,739	$ 12,633	$ 13,049
Stock options (consultant awards)	437	(54)	723	942
Restricted stock units (employee awards)	1,140	369	2,225	369
Employee stock purchase plan	299	242	574	453
Total	$ 7,665	$ 7,296	$ 16,155	$ 14,813

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 closing fair market value of the Company's common stock on either the offering date or the purchase date, whichever is less. During the six months ended June 30, 2016, 34,705 shares were purchased under the ESPP.

Equity Awards

The following tables contain information about the Company's stock option and restricted stock unit, or RSU, activity for the six months ended June 30, 2016:

Stock Options	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2015	4,645,722	$ 44.03
Granted	741,003	44.68
Exercised	(331,272)	13.39
Forfeited	(273,630)	72.50
Expired	(119,848)	81.26
Outstanding at June 30, 2016	4,661,975	43.68

Restricted Stock Units	Number of Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2015	216,198	$ 78.59
Granted	246,281	40.46
Vested	(59,111)	79.33
Forfeited	(24,753)	79.43
Unvested at June 30, 2016	378,615	53.56

The weighted average fair value of stock options granted for the six months ended June 30, 2016 and 2015 was $22.06 and $40.92 per share, respectively. The fair values of stock options granted were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	Six Months Ended June 30,	
	2016	2015
Expected dividend yield	None	None
Risk free interest rate	1.21 - 1.85%	1.40 - 1.85%
Expected volatility	53.02%	53.28%
Expected term of options	5.75 years	5.75 years

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):

	Six Months Ended June 30,	
Net unrealized gains (losses) from available for sale investments:	**2016**	**2015**
Balance at beginning of period	$ (52)	$ (80)
Other comprehensive income before reclassifications	190	53
Amounts reclassified from accumulated other comprehensive income (loss)	—	—
Balance at end of period	$ 138	$ (27)

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 common 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 option. 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 they would be antidilutive. Because the Company reported a net loss for the three and six months ended June 30, 2016, no potentially dilutive securities have been included in the computation of diluted net loss per share for those periods.

The following table sets forth the computation of basic and diluted net income (loss) per share for the three and six months ended June 30, 2016 and 2015 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net income (loss)	$ (7,958)	$ 8	$ (11,812)	$ 1,268
Denominator:				
Weighted average shares of common stock outstanding—basic	37,181	36,481	37,101	36,358
Computation of diluted securities:				
Dilutive effect of stock options	—	1,680	—	1,782
Dilutive effect of conversion premium on the Notes	—	3,277	—	3,465
Dilutive effect of warrants	—	6	—	6
Dilutive effect of ESPP	—	1	—	1
Weighted average shares of common stock outstanding—diluted	37,181	41,445	37,101	41,612
Net income (loss) per share:				
Basic and diluted net income (loss) per share of common stock	$ (0.21)	$ 0.00	$ (0.32)	$ 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 Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average number of stock options	4,254	1,738	4,288	1,530
Weighted average number of RSUs	218	—	212	—
Conversion premium on the Notes	2,364	—	2,557	—
Weighted average number of warrants	—	—	1	—
Weighted average ESPP purchase options	—	—	12	—
Total	6,836	1,738	7,070	1,530

NOTE 11—TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Income (loss) before income taxes:				
Domestic	$ (7,526)	$ 352	$ (11,025)	$ 2,238
Foreign	(374)	(305)	(697)	(879)
Total income (loss) before income taxes	$ (7,900)	$ 47	$ (11,722)	$ 1,359

The Company recorded tax provisions of less than $0.1 million in both of the three and six month periods ended June 30, 2016 and 2015, respectively. 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 and six months ended June 30, 2016, the Company determined that its actual year-to-date rate was the best estimate of its AETR. For the three and six months ended June 30, 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.

NOTE 12—COMMITMENTS AND CONTINGENCIES

Leases

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

As of June 30, 2016, annual aggregate minimum payments due under the Company's lease obligations are as follows (in thousands):

Year	Aggregate Minimum Payments
2016 (remaining six months)	$ 3,818
2017	7,878
2018	8,081
2019	8,303
2020	6,420
2021 through 2028	8,731
Total	$ 43,231

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.

NOTE 13—COMMERCIAL PARTNERS AND OTHER AGREEMENTS

Aratana Therapeutics, Inc.

On December 5, 2012, the Company entered into a worldwide license, development and commercialization agreement with Aratana Therapeutics, Inc., or Aratana. Under the agreement, the Company granted Aratana an exclusive royalty-bearing license, including the limited right to grant sublicenses, for the development and commercialization of the Company's bupivacaine liposome injectable suspension product for animal health indications. Under the agreement, Aratana will develop and seek approval for the use of the product in veterinary surgery to manage postsurgical pain, focusing initially on developing the product for cats and dogs. In connection with its entry into the license agreement, the Company received a one-time payment of $1.0 million. In December 2013, the Company received a $0.5 million milestone payment under the agreement. In June 2016, the Company recorded milestone revenue for two additional milestones totaling $1.0 million. The Company is eligible to receive up to an additional aggregate $41.0 million upon the achievement of development and commercial milestones. Once the product has been approved by the FDA for sale in the United States, Aratana will be required to pay the Company a tiered double digit royalty on net sales made in the United States. If the product is approved by foreign regulatory agencies for sale outside of the United States, Aratana will be required to pay the Company a tiered double digit royalty on such net sales. Royalty rates will be reduced by a certain percentage upon the entry of a generic competitor for animal health indications into a jurisdiction or if Aratana must pay royalties to third parties under certain circumstances.

The Company's Chief Executive Officer and Chairman is a managing director at MPM Asset Management, LLC, which holds capital stock of Aratana and one of the Company's directors is also a director of Aratana.

CrossLink BioScience, LLC

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 (as amended, the "Agreement"). On June 30, 2016, the Company provided notice to CrossLink electing to terminate the Agreement effective as of September 30, 2016. In connection with the termination of the Agreement, a termination fee based on a percentage of earned performance-based fees will be due to CrossLink. This fee, estimated to be approximately $7.2 million, is payable to CrossLink quarterly over two years beginning in the fourth quarter of 2016 and was recorded in selling, general and administrative expense in the consolidated statements of operations. At June 30, 2016, $3.6 million is classified in accrued expenses and $3.6 million is classified in other liabilities.

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 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 trials 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 June 30, 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.

Recent Highlights and Developments

- Total revenues increased $10.5 million, or 18%, in the three months ended June 30, 2016, compared to the same period in 2015, primarily driven by EXPAREL net product sales of $65.8 million, which were up $8.8 million, or 15%. For the six months ended June 30, 2016, total revenues increased $17.7 million, or 15% compared to the same period in 2015, again driven by EXPAREL net product sales of $129.5 million, up $16.6 million, or 15%.

- In June 2016, we enrolled the first patients in both of our EXPAREL Phase 3 studies for upper and lower extremity nerve blocks, specifically a femoral nerve block for patients undergoing total knee arthroplasty, or TKA, and a brachial plexus nerve block for patients undergoing either total shoulder arthroplasty or rotator cuff repairs. We expect to complete enrollment for both of these trials by early 2017.

- In June 2016, we recorded an $8.0 million milestone payable to SkyePharma Holding, Inc., or Skyepharma, in connection with achieving $250.0 million of EXPAREL net sales collected on an annual basis, which will be paid in the third quarter of 2016.

- In June 2016, we provided notice to CrossLink BioScience LLC, or CrossLink, of our election to terminate our Master Distributor Agreement for the promotion and sale of EXPAREL effective as of September 30, 2016. A termination fee based on a percentage of earned performance-based fees will be due to CrossLink. This fee, estimated to be approximately $7.2 million, is payable to CrossLink quarterly over two years beginning in the fourth quarter of 2016.

- In April 2016, we enrolled the first patient in our EXPAREL infiltration TKA randomized controlled trial, or RCT. We expect to complete enrollment for this trial by early 2017.

- 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 is responsible for all financial and capital market activities, including accounting, financial reporting, financial planning and analysis and investor relations. Our former Chief Financial Officer, James Scibetta, continues to serve as President. Our new Chief Commercial Officer, Robert Weiland, was appointed effective April 11, 2016 and oversees commercial activities for EXPAREL, which include marketing, sales, national accounts, training and commercial operations and analytics.

- In February 2016, we announced topline results of an RCT using EXPAREL in third molar, or “wisdom teeth” extractions, 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 anticipate a late third quarter 2016 launch for EXPAREL in the oral maxillofacial market segment.

EXPAREL

We continue to invest in the clinical development of EXPAREL to both support its current label and expand into additional indications. In April 2016, we initiated an RCT using EXPAREL infiltration in TKA. We are currently conducting Phase 3 trials for both upper and lower extremity nerve blocks, specifically a femoral nerve block for patients undergoing TKA and a brachial plexus nerve block for patients undergoing total shoulder arthroplasty or rotator cuff repairs. 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-dose administration to continuously deliver bupivacaine, and will allow us to fully leverage our manufacturing and commercial infrastructure. Additionally, we will be initiating a multicenter RCT in the second half of 2016 in subjects undergoing spine surgery. 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 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 launched a national patient education campaign on August 1, 2016, 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 undergoing 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 to initiate a Phase 1 clinical trial under an investigational new drug application, or IND, in the second half of 2016.

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 TXA, 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 vigor in patients while decreasing overall costs to the hospital system. DepoTXA recently transitioned from preclinical to clinical development, and the IND was opened in June 2016, allowing the initiation of a Phase 2 clinical trial in the second half of 2016.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 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 Ended June 30,		% Increase / (Decrease)	Six Months Ended June 30,		% Increase / (Decrease)
	2016	2015		2016	2015	
Net product sales:						
EXPAREL	$ 65,753	$ 56,977	15%	$ 129,505	$ 112,927	15%
DepoCyt(e)	1,934	1,085	78%	2,684	2,219	21%
Total net product sales	67,687	58,062	17%	132,189	115,146	15%
Collaborative licensing and milestone revenue	1,356	356	281%	1,713	713	140%
Royalty revenue	597	730	(18)%	1,212	1,604	(24)%
Total revenues	$ 69,640	$ 59,148	18%	$ 135,114	$ 117,463	15%

EXPAREL revenue grew 15% in both the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, primarily due to increases in sales volume of 16% and 12% in those corresponding periods. 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 the six month revenue was due to a 5% price increase effective April 2015, partially offset by lower pricing on government sales from our participation in the Federal Supply Schedule beginning in the third quarter of 2015.

DepoCyt(e) product sales increased 78% and 21% in the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, primarily due to a greater number of DepoCyt(e) lots sold to our commercial partners.

Collaborative licensing and milestone revenue increased $1.0 million in the three and six months ended June 30, 2016 compared to the sames periods in 2015 as a result of milestones earned under our agreement with Aratana Therapeutics, Inc. for the development and commercialization of our products in animal health indications.

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.

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 June 30,		% Increase / (Decrease)	Six Months Ended June 30,		% Increase / (Decrease)
	2016	2015		2016	2015	
Cost of goods sold	$ 23,053	$ 18,929	22%	$ 43,331	$ 36,509	19%
Gross margin *	66%	68%		68%	69%	

* The gross margin calculation excludes collaborative licensing and milestone revenue.

The increase in cost of goods sold in the three and six months ended June 30, 2016 versus 2015 was primarily due to increases in sales volume of EXPAREL during the respective periods.

Gross margin decreased slightly in the three and six months ended June 30, 2016 versus 2015 due to higher costs in preparation of commercial production at our new manufacturing site in Swindon, England. Also included in cost of goods sold in both the three and six months ended June 30, 2016 are approximately $4.9 million of unplanned manufacturing shutdown and other charges, compared to $4.2 million in the same periods in 2015.

Research and Development Expenses

Research and development expenses consist primarily of costs related to clinical trials and related outside services, product development and other research and development costs and stock-based compensation expenses. Clinical development expenses include costs for clinical personnel, clinical trials performed by third-party contract research organizations, materials and supplies, database management and other third-party fees. Product development and other research and development 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 June 30,		% Increase / (Decrease)	Six Months Ended June 30,		% Increase / (Decrease)
	2016	2015		2016	2015	
Clinical development	$ 4,577	$ 1,205	280%	$ 8,911	$ 3,162	182%
Product development and other	3,770	1,883	100%	8,036	4,384	83%
Stock-based compensation	1,015	561	81%	1,908	2,070	(8)%
Total research and development expense	$ 9,362	$ 3,649	157%	$ 18,855	$ 9,616	96%
% of total revenues	13%	6%		14%	8%	

Research and development expense increased 157% and 96% in the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015. In the three months ended June 30, 2016, clinical development increased $3.4 million, product development and other increased $1.9 million and stock-based compensation increased $0.5 million versus the three months ended June 30, 2015. The six months ended June 30, 2016 featured an increase of $5.7 million in clinical development, $3.7 million in product development and other and a decrease in stock-based compensation of $0.2 million versus the six months ended June 30, 2015.

The increase in clinical development expense in both periods reflects costs for our EXPAREL infiltration TKA trial, which commenced enrollment in April 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 commenced enrollment in June 2016. We also incurred close out costs for the EXPAREL infiltration oral surgery trial which completed enrollment in late 2015. Increased costs also include a larger clinical workforce, which is managing 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 expenses increased due to increased investment in our pipeline drug candidates, including DepoMLX and DepoTXA, the latter of which is now in the clinical development stage, coupled with increased depreciation due to placing our new research and development facility into service in August 2015.

In the three months ended June 30, 2016 versus the same period in 2015, stock-based compensation increased $0.5 million due to additional stock option and RSU awards granted in June 2016 and increased expense on mark-to-market non-employee awards. In the six months ended June 30, 2016 versus 2015, stock-based compensation fell slightly. The increased expense from newly granted awards was more than offset by decreased expense on mark-to-market non-employee awards in the six month time frame.

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 for the promotion and sale of EXPAREL, expenses related to communicating the 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 June 30,		% Increase / (Decrease)	Six Months Ended June 30,		% Increase / (Decrease)
	2016	2015		2016	2015	
Sales and marketing	$ 27,607	$ 19,816	39%	$ 47,946	$ 37,988	26%
General and administrative	11,022	9,787	13%	22,592	18,138	25%
Stock-based compensation	5,040	5,149	(2)%	11,088	10,054	10%
Total selling, general and administrative expenses	$ 43,669	$ 34,752	26%	$ 81,626	$ 66,180	23%
% of total revenues	63%	59%		60%	56%	

Selling, general and administrative expenses increased 26% and 23% in the three and six months ended June 30, 2016, compared to the same periods in 2015.

Sales and marketing expenses increased by 39% and 26% in the three and six months ended June 30, 2016, compared to the same periods in 2015, primarily due to an estimated $7.2 million contract termination payment due to CrossLink, which was recognized in June 2016. Additionally, an increase in the number of our field-based sales personnel to better support and educate our customers resulted in a $0.5 million and $1.5 million increase in salaries, benefits and other employee related costs, respectively, in these periods. We also increased our promotional spending for EXPAREL, which included educational initiatives and programs to create product awareness in key orthopedic and soft tissue surgical markets along with preparing for our oral maxillofacial market launch in the fall.

General and administrative expenses increased 13% and 25% in the three and six months ended June 30, 2016, compared to the same periods in 2015. Regulatory expenses increased by $0.6 million to support both the current commercial business and pipeline initiatives for the three months ended June 30, 2016. Additionally, there were increases of $0.5 million in costs primarily to support business development and human resource initiatives, as well as the facility expansion of our New Jersey headquarters. Compensation-related expenses increased $0.7 million and $1.2 million in the three months and six months ended June 30, 2016, respectively, partly due to an increase in personnel. In the six months ended June 30, 2016 compared to the same period in 2015, there was a $1.1 million increase in costs largely to support regulatory and business development initiatives, and a $1.6 million increase in legal expenses attributable to FDA and DOJ related activities, as well as patent costs supporting our EXPAREL intellectual property strategy.

Stock-based compensation remained at a consistent level in the three month period ended June 30, 2016, compared to the same period in 2015. In the six month period ended June 30, 2016, compared to the same period in 2015 there was a $1.0 million increase in stock-based compensation cost primarily due to increases in headcount and higher grant date fair values of equity awards granted.

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 June 30,		% Increase / (Decrease)	Six Months Ended June 30,		% Increase / (Decrease)
	2016	2015		2016	2015	
Interest income	$ 324	$ 177	83%	$ 576	$ 332	73%
Interest expense	(1,733)	(1,940)	(11)%	(3,601)	(3,935)	(8)%
Royalty interest obligation	—	—	N/A	—	(71)	(100)%
Loss on extinguishment of debt	—	(51)	(100)%	—	(51)	(100)%
Other, net	(47)	43	N/A	1	(74)	N/A
Total other expense, net	(1,456)	(1,771)	(18)%	(3,024)	(3,799)	(20)%

Total other expense, net decreased by 18% and 20% in the three and six months ended June 30, 2016, compared to the same periods in 2015, largely due to a decrease in interest expense arising from higher capitalized interest and an increase in interest income as a result of higher average investment returns. In addition, expenses for our DepoCyt(e) royalty obligation which expired and the loss on extinguishment of debt in 2015 did not exist in 2016.

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 Ended June 30,		% Increase / (Decrease)	Six Months Ended June 30,		% Increase / (Decrease)
	2016	2015		2016	2015	
Income tax expense	$ 58	$ 39	49%	$ 90	$ 91	(1)%
Effective tax rate	(1)%	83%		(1)%	7%	

Since our deferred tax assets are fully offset by a valuation allowance, our total tax expense includes only current tax expense. Our current tax expense consists solely of state taxes, and because we are in a loss position, the effective tax rates for the three and six months ended June 30, 2016 is -1%. The effective tax rates of 83% and 7% for the three and six months ended June 30, 2015, respectively, reflect 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 June 30, 2016, we had an accumulated deficit of $320.1 million, cash and cash equivalents and short-term investments of $162.7 million and working capital of $107.6 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,	
Consolidated Statement of Cash Flows Data:	**2016**	**2015**
Net cash provided by (used in):		
Operating activities	$ 4,420	$ 6,308
Investing activities	(41,517)	(17,810)
Financing activities	5,422	6,704
Net decrease in cash and cash equivalents	$ (31,675)	$ (4,798)

Operating Activities

During the six months ended June 30, 2016, our net cash provided by operating activities was $4.4 million. Our operating loss of $11.8 million and a net $8.6 million use of funds for operating assets and liabilities were more than offset by non-cash expenses of $24.8 million, including $16.2 million of stock-based compensation and $8.6 million of depreciation and amortization expenses.

During the six months ended June 30, 2015, our net cash provided by operating activities was $6.3 million. We had $1.3 million of net income due to the significant increase in EXPAREL product sales coupled with improved gross margins and $22.7 million in add backs of non-cash expenses, including $14.8 million of stock-based compensation and $7.8 million of depreciation and amortization, which were partially offset by an investment in inventory of $19.5 million.

Investing Activities

During the six months ended June 30, 2016, our net cash used in investing activities was $41.5 million, which reflected $21.7 million of short-term investment purchases (net of maturities), purchases of fixed assets of $15.9 million and contingent consideration payments of $3.9 million related to the March 2007 acquisition of 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 six months ended June 30, 2015, our net cash used in investing activities was $17.8 million, which reflected net sales of short-term investments of $5.3 million, partially offset by purchases of fixed assets of $19.7 million and contingent consideration payments to Skyepharma of $3.4 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 $4.4 million and $1.0 million from the issuance of shares under our employee stock purchase plan in the six months ended June 30, 2016. In the six months ended June 30, 2015, proceeds from the exercise of stock options were $7.0 million, and $1.2 million came from the issuance of shares under our employee stock purchase plan, which was partially offset by $1.5 million of cash used to settle a conversion of our senior notes.

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 and entered into an indenture agreement, or Indenture, with respect to the 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 June 30, 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 June 30, 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 September 30, 2016. The future convertibility and resulting balance sheet classification of the Notes will be monitored on a quarterly basis. Prior to August 1, 2017, 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 $42.6 million of cash or issue approximately 1.3 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 June 30, 2016, causing dilution to our current shareholders and/or significant expenditures of our cash and liquid securities.

In February 2015, we received notice of an election for conversion from one of the holders of the Notes. The principal amount of the conversion request was $1.5 million which was paid in cash in April 2015 pursuant to the terms of an indenture agreement with respect to the Notes. We elected to settle the conversion premium by issuing 44,287 shares of our common stock, calculated based on a daily volume-weighted average price over a 40 trading-day observation period which ended on April 8, 2015. We have completed other immaterial conversion requests.

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.

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 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, England 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 $36.0 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 DepoMLX and DepoTXA and 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 June 30, 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) to our commercial partners within 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.

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 six months ended June 30, 2016 and 2015 (in thousands):

June 30, 2016	Returns Allowances	Prompt Payment Discounts	Wholesaler Service Fees	Volume Rebates and Chargebacks	Total
Balance at December 31, 2015	$ 1,733	$ 625	$ 745	$ 797	$ 3,900
Provision	337	2,650	2,000	1,026	6,013
Payments/Credits	(534)	(2,762)	(2,175)	(1,043)	(6,514)
Balance at June 30, 2016	$ 1,536	$ 513	$ 570	$ 780	$ 3,399

June 30, 2015	Returns Allowances	Prompt Payment Discounts	Wholesaler Service Fees	Volume Rebates and Chargebacks	Total
Balance at December 31, 2014	$ 1,559	$ 575	$ 588	$ 321	$ 3,043
Provision	178	2,306	1,665	695	4,844
Payments/Credits	(43)	(2,307)	(1,676)	(666)	(4,692)
Balance at June 30, 2015	$ 1,694	$ 574	$ 577	$ 350	$ 3,195

Total reductions of gross product sales from sales-related allowances and accruals were $6.0 million and $4.8 million, or 4.4% and 4.0% of gross product sales for the six months ended June 30, 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 six months ended June 30, 2016 was primarily related to an increase in volume related rebates and a slight increase in wholesaler fees as a result of higher services rates.

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 (as amended, the "Agreement"). On June 30, 2016, we provided notice to CrossLink electing to terminate the Agreement effective as of September 30, 2016. In connection with the termination of the Agreement, a termination fee based on a percentage of earned performance-based fees will be due to CrossLink. This fee, estimated to be approximately $7.2 million, is payable to CrossLink quarterly over two years beginning in the fourth quarter of 2016 and was recorded in selling, general and administrative expense in the consolidated statement of operations in June 2016.

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 $36.0 million if certain milestones pertaining to net sales of EXPAREL are met, including $32.0 million when annual net sales of EXPAREL collected reach $500.0 million (measured on a rolling quarterly basis) and $4.0 million upon the first commercial sale in a major European Union country. An $8.0 million milestone payment for achieving $250.0 million of annual EXPAREL net sales collected will be made in the third quarter of 2016. 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 June 30, 2016 by approximately $0.5 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 June 30, 2016, the estimated fair value of the Notes was $1,485 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 June 30, 2016, we had approximately $2.3 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 $0.2 million for the quarter ended June 30, 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 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, including our Chief Executive Officer and Chairman and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on that evaluation, our Chief Executive Officer and Chairman and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 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 June 30, 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 management, including the Chief Executive Officer and Chairman and our 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 or legal proceedings 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 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.

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 No.	Description
10.1 +	Executive Employment Agreement, dated May 2, 2016, between Pacira Pharmaceuticals, Inc. and Charles A. Reinhart, III.*
10.2 +	Amended and Restated 2011 Stock Incentive Plan. (1)
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 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 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, 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.

(1) Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 17, 2016.

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 4, 2016

/s/ DAVID STACK

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

Dated: August 4, 2016

/s/ CHARLES A. REINHART, III

Charles A. Reinhart, III
Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.1

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (the "Agreement"), is entered into as of May 2, 2016 (the "Effective Date"), by and between Pacira Pharmaceuticals, Inc., a California corporation (the "Company"), and Charles A. Reinhart, III (the "Executive").

RECITALS

WHEREAS, the Company wishes to employ the Executive, and the Executive desires to be employed by the Company, for such purpose and upon the terms and conditions hereinafter provided; and

WHEREAS, the parties wish to establish the terms of the Executive's future employment with the Company and set out fully their respective rights, obligations and duties.

AGREEMENT

In consideration of the promises and the terms and conditions set forth in this Agreement, the parties agree as follows:

1. Title and Capacity. The Company hereby agrees to continue to employ the Executive, and the Executive hereby accepts continued employment with the Company, under the terms set forth in this Agreement. The Executive will serve as the Chief Financial Officer and shall perform such duties as are ordinary, customary and necessary in such role. The Executive will report directly to the CEO, Chairman. The Executive shall devote his full business time, skill and attention to the performance of his duties on behalf of the Company.

2. Compensation and Benefits.

(a) Salary. The Company agrees to pay the Executive an annual base salary of Four Hundred Thousand Dollars ($400,000.00) payable in accordance with Company's customary payroll practice (the "Base Salary"). The Executive's Base Salary shall be reviewed periodically by the Board of Directors of the Company (the "Board"); *provided*, *however*, that any such review will not necessarily result in an adjustment to the Executive's Base Salary. Any change in the Executive's Base Salary must be approved by the Board.

(b) Bonus. The Executive is eligible to receive, in addition to the Base Salary and subject to the terms hereof and at the full discretion of the Board, a targeted incentive bonus of Forty percent (40%) of Base Salary (the "Targeted Incentive Bonus"). The Targeted Incentive Bonus shall be based on the Executive's and the Company's performance during the applicable fiscal year, as determined by the Board. The Targeted Incentive Bonus criteria or "goals" will be determined by agreement between the Board and the Executive at beginning of each fiscal year. The award of the Target Incentive Bonus may be in an amount either above or below the amount specified by the Board at the beginning of each fiscal year based on the ultimate performance assessed by the Board.

Targeted Incentive Bonuses shall be determined and approved by the Board in its sole discretion.

All salary and bonuses shall be subject to all applicable withholdings and deductions.

(c) Stock Options. Company will grant to the Executive a stock option ("Option") to purchase an aggregate of Seventy Thousand (70,000) shares of the Company's common stock, $0.001 par value per share (along with any subsequent grants, the "Option Shares"), pursuant to the Company's Amended and Restated 2011 Stock Option/Stock Issuance (the "Plan"). The exercise price, vesting schedule and other terms for the Option will be set forth in the notice of grant and option agreement for such Option and the Option is subject to accelerated vesting as set forth in Section 3 hereof. Additional equity incentives, if any, shall be determined by the Board (or a committee thereof) in its sole discretion. All share figures set forth herein shall be subject to adjustment for stock splits, stock dividends, stock combinations, recapitalizations and similar events.

(d) Benefits. The Executive (and, where applicable, the Executive's qualified dependents) will be eligible to participate in health insurance and other employee benefit plans and policies established by the Company for its executive team from time to time on substantially the same terms as are made available to other such employees of the Company generally. The Executive's participation (and the participation of the Executive's qualified dependents) in the Company's benefit plans and policies will be subject to the terms of the applicable plan documents and the Company's generally applied policies, and the Company in its sole discretion may from time to time adopt, modify, interpret or discontinue such plans or policies.

(e) Expenses. The Company will reimburse the Executive for all reasonable and necessary expenses incurred by the Executive in connection with the Company's business, in accordance with the applicable Company policy as may be amended from time to time.

(f) Vacation and Holidays. The Executive shall be eligible for thirty (30) days' paid vacation/flexible time off per calendar year subject to the applicable terms and conditions of the Company's vacation policy and applicable law.

(g) Termination of Benefits. Except as set forth in Section 3 or as otherwise specified herein or in any other agreement between the Executive and the Company, if the Executive's employment is terminated by the Company for any reason, with or without Cause (as defined below), or if the Executive resigns the Executive's employment voluntarily, with or without Good Reason (as defined below), no compensation or other payments will be paid or provided to the Executive for periods following the date when such a termination of employment is effective, provided that any rights the Executive may have under the Company's benefit plans shall be determined under the provisions of such plans. If the Executive's employment terminates as a result of the Executive's death or disability, no compensation or payments will be made to the Executive other than those to which the Executive may otherwise be entitled under the benefit plans of the Company.

3 . Compensation and Benefits Upon Termination of Employment. Upon termination of the Executive's employment (such date of termination being referred to as the "Termination Date"), the Company will pay the Executive the compensation and benefits as described in this Section 3.

(a) General Benefits Upon Termination. The Company will pay the Executive on or about the Termination Date all salary and vacation/personal time off pay, if any, that has been earned or accrued through the Termination Date and that has not been previously paid.

(b) Termination without "Cause" or for "Good Reason". In the event that the Company terminates the Executive's employment without Cause (as defined below) or, in the event the Executive terminates his employment for Good Reason (as defined below), in each case, (i) the Executive shall be entitled to receive (A) continuing payments of the then effective Base Salary for a period of nine (9) months beginning on the Payment Commencement Date and payable in accordance with the Company's payroll policies and (B) the benefits set forth in Section 3(e), and (ii) the Executive shall be entitled to acceleration of vesting of such number of Option Shares and time based restricted stock unit grants then held by Executive as would have vested in the nine (9)month period following the Termination Date had the Executive continued to be employed by the Company for such period, provided, however that in each case the receipt of such payments and benefits is expressly contingent upon the Executive's execution and delivery of a severance and release of claims agreement drafted by and satisfactory to counsel for the Company (the "Release") which Release must be executed and become effective within sixty (60) days following the Termination Date. The payments and benefits shall be paid or commence on the first payroll period following the date the Release becomes effective (the "Payment Commencement Date"). Notwithstanding the foregoing, if the 60th day following the Termination Date occurs in the calendar year following the termination, then the Payment Commencement Date shall be no earlier than January 1st of such subsequent calendar year. The provision of payments and benefits pursuant to this Section shall be subject to the terms and conditions set forth on Exhibit A.

(c) Termination without "Cause" or for "Good Reason" Prior to or Following a Change of Control. In the event that the Company terminates the Executive's employment without Cause (as defined below) or, in the event the Executive terminates his employment for Good Reason (as defined below), in each case, within thirty (30) days prior to, or twelve (12) months following, the consummation of a Change of Control, then (i) the Executive shall be entitled to receive (A) continuing payments of the then effective Base Salary for a period of twelve (12) months beginning on the Payment Commencement Date and payable in accordance with the Company's payroll policies, (B) in lieu of the Targeted Incentive Bonus, a bonus payment in the amount of Forty percent (40%) of Executive's then current Base Salary payable in one lump sum on the Payment Commencement Date and (C) the benefits set forth in Section 3(e), and (ii) acceleration of vesting of one hundred percent (100%) of the then unvested Option Shares and time-based restricted stock unit grants then held by Executive, provided, however that in each case: (x), the receipt of such payments and benefits is expressly contingent upon the Executive's execution and delivery of a Release as described above drafted by and satisfactory to counsel for the Company, which Release must be executed and become effective within sixty (60) days following the Termination Date. The provision of payments and benefits pursuant to this Section shall be subject to the terms and conditions set forth in Exhibit A.

(d) Definitions.

(i) "Change of Control" means (A) a merger or consolidation of either the Company or Pacira, Inc., a Delaware corporation ("Parent") into another entity in which the stockholders of the Company or Parent (as applicable) do not control fifty percent (50%) or more of the total voting power of the surviving entity (other than a reincorporation merger); (B)

the sale, transfer or other disposition of all or substantially all of the Company's assets in liquidation or dissolution of the Company; or (C) the sale or transfer of more than fifty percent (50%) of the outstanding voting stock of the Company. In the case of each of the foregoing clauses (A), (B) and (C), a Change of Control as a result of a financing transaction of the Company or Parent shall not constitute a Change of Control for purposes of this Agreement

(ii) "Cause" means (A) the Executive's failure to substantially perform his duties to the Company after there has been delivered to the Executive written notice setting forth in detail the specific respects in which the Board believes that the Executive has not substantially performed his duties and, if the Company reasonably considers the situation to be correctable, a demand for substantial performance and opportunity to cure, giving the Executive thirty (30) calendar days after he receives such notice to correct the situation; (B) the Executive's having engaged in fraud, misconduct, dishonesty, gross negligence or having otherwise acted in a manner injurious to the Company or in intentional disregard for the Company's best interests; (C) the Executive's failure to follow reasonable and lawful instructions from the Board and the Executive's failure to cure such failure after receiving twenty (20) days advance written notice; (D) the Executive's material breach of the terms of this Agreement or the Employee Proprietary Information and Inventions Assignment Agreement or any other similar agreement that may be in effect from time to time; or (E) the Executive's conviction of, or pleading guilty or nolo contendere to, any misdemeanor involving dishonesty or moral turpitude or related to the Company's business, or any felony.

(iii) "Good Reason" means the occurrence of any one or more of the following events without the prior written consent of the Executive: (A) any material reduction of the then effective Base Salary other than in accordance with this Agreement or which reduction is not related to a cross-executive team salary reduction; (B) any material breach by the Company of this Agreement; or (C) a material reduction in the Executive's responsibilities or duties, provided that in the case of clause (C), a mere reassignment following a Change of Control to a position that is substantially similar to the position held prior to the Change of Control transaction shall not constitute a material reduction in job responsibilities or duties; provided, however, that no such event or condition shall constitute Good Reason unless (x) the Executive gives the Company a written notice of termination for Good Reason not more than ninety (90) days after the initial existence of the condition, (y) the grounds for termination (if susceptible to correction) are not corrected by the Company within thirty (30) days of its receipt of such notice and (z) the Termination Date occurs within one (1) year following the Company's receipt of such notice.

(e) Benefits Continuation. If the Executive's employment is terminated pursuant to Section 3(b) or Section 3(c) and provided that the Executive is eligible for and elects to continue receiving group health and dental insurance pursuant to the federal "COBRA" law, 29 U.S.C. § 1161 et seq., the Company will, for a twelve (12) month period following the Payment Commencement Date (the "Benefits Continuation Period"), continue to pay the share of the premium for such coverage that is paid by the Company for active and similarly-situated employees who receive the same type of coverage. The remaining balance of any premium costs shall be paid by the Executive on a monthly basis for as long as, and to the extent that, the Executive remains eligible for COBRA continuation. Notwithstanding the above, in the event the Executive becomes eligible for health insurance benefits from a new employer during the Benefits Continuation Period, the Company's obligations under this Section 3(e) shall immediately cease and the Executive shall not be entitled to any additional monthly premium payments for health insurance coverage. Similarly, in the event the Executive becomes eligible for dental insurance benefits from a new employer during the Benefits Continuation Period, the Company's obligations under this Section 3(e) shall immediately cease and the Executive shall not be entitled to any additional monthly premium payments for dental insurance. The Executive hereby represents that he will notify the Company in writing within three (3) days of becoming eligible for health or dental insurance benefits from a new employer during the Benefits Continuation Period

(f) Death. This Agreement shall automatically terminate upon the death of the Executive and all monetary obligations of Company under Section 2 of this Agreement shall be prorated to the date of death and paid to the Executive's estate.

(g) Disability. The Company may terminate the Executive's employment if the Executive is unable to perform any of the duties required under this Agreement for a period of three (3) consecutive months due to a "Total and Permanent Disability". The term "Total and Permanent Disability" shall mean the existence of a permanent physical or mental illness or injury, which renders the Executive incapable of performing any material obligations or terms of this Agreement. Any dispute regarding the existence of a Total and Permanent Disability shall be resolved by a panel of three (3) physicians, one selected by Company, one selected by the Executive, and the third selected by the other two physicians. A termination of employment pursuant to this Section 3(f) shall constitute a termination for Cause.

4 . At-Will Employment. The Executive will be an "at-will" employee of the Company, which means the employment relationship can be terminated by either the Executive or the Company for any reason, at any time, with or without prior notice and with or without cause. The Company makes no promise that the Executive's employment will continue for any particular period of time, nor is there any promise that it will be terminated only under particular circumstances. No raise or bonus, if any, shall alter the Executive's status as an "at-will" employee or create any implied contract of employment. Discussion of

possible or potential benefits in future years is not an express or implied promise of continued employment. No manager, supervisor or officer of the Company has the authority to change the Executive's status as an "at-will" employee. The "at-will" nature of the employment relationship with the Executive can only be altered by a written resolution approved by the Board.

5. Non-Solicitation.

(a) Non-Solicit. The Executive agrees that during the term of the Executive's employment with the Company, and for a period of twelve (12) months immediately following the termination of the Executive's employment with the Company for any reason, whether with or without Cause or Good Reason, the Executive shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's or its affiliates' employees or consultants to terminate such employee's or consultant's relationship with the Company or its affiliates, or attempt to solicit, induce, recruit, encourage or take away employees or consultants of the Company or any of its affiliates, either for the Executive or for any other person or entity. Further, during the Executive's employment with the Company or any of its affiliates and at any time following termination of the Executive's employment with the Company or any of its affiliates for any reason, with or without Cause or Good Reason, the Executive shall not use any confidential information of the Company or any of its affiliates to attempt to negatively influence any of the Company's or any of its affiliates' clients or customers from purchasing Company products or services or to solicit or influence or attempt to influence any client, customer or other person either directly or indirectly, to direct such person's or entity's purchase of products and/or services to any person, firm, corporation, institution or other entity in competition with the business of the Company or any of its affiliates.

(b) Specific Performance. In the event of the breach or threatened breach by the Executive of this Section 5, the Company, in addition to all other remedies available to it at law or in equity, will be entitled to seek injunctive relief and/or specific performance to enforce this Section 5.

6. Director and Officer Liability Insurance; Indemnification. During the term of the Executive's employment hereunder, the Executive shall be entitled to the same indemnification and director and officer liability insurance as the Company and its affiliates maintain for other corporate officers.

7. Proprietary Information and Inventions Assignment Agreement. The Executive has executed and delivered the Company's standard Employee Proprietary Information and Inventions Assignment Agreement or similar agreement and the Executive represents and warrants that the Executive shall continue to be bound and abide by such Employee Proprietary Information and Inventions Assignment Agreement or similar agreement.

8. Attention to Duties; Conflict of Interest. While employed by the Company, the Executive shall devote the Executive's full business time, energy and abilities exclusively to the business and interests of the Company, and shall perform all duties and services in a faithful and diligent manner and to the best of the Executive's abilities. The Executive shall not, without the Company's prior written consent, render to others services of any kind for compensation, or engage in any other business activity that would materially interfere with the performance of the Executive's duties under this Agreement. The Executive represents that the Executive has no other outstanding commitments inconsistent with any of the terms of this Agreement or the services to be rendered to the Company. While employed by the Company, the Executive shall not, directly or indirectly, whether as a partner, employee, creditor, shareholder, or otherwise, promote, participate or engage in any activity or other business competitive with the Company's business. The Executive shall not invest in any company or business which competes in any manner with the Company, except those companies whose securities are listed on reputable securities exchanges in the United States or European Union.

9. Miscellaneous.

(a) Severability. If any provision of this Agreement shall be found by any arbitrator or court of competent jurisdiction to be invalid or unenforceable, then the parties hereby waive such provision to the extent that it is found to be invalid or unenforceable and to the extent that to do so would not deprive one of the parties of the substantial benefit of its bargain. Such provision shall, to the extent allowable by law and the preceding sentence, be modified by such arbitrator or court so that it becomes enforceable and, as modified, shall be enforced as any other provision hereof, all the other provisions continuing in full force and effect.

(b) No Waiver. The failure by either party at any time to require performance or compliance by the other of any of its obligations or agreements shall in no way affect the right to require such performance or compliance at any time thereafter. The waiver by either party of a breach of any provision hereof shall not be taken or held to be a waiver of any preceding or succeeding breach of such provision or as a waiver of the provision itself. No waiver of any kind shall be effective or binding, unless it is in writing and is signed by the party against whom such waiver is sought to be enforced.

(c) Assignment. This Agreement and all rights hereunder are personal to the Executive and may not be transferred or assigned by the Executive at any time. The Company may assign its rights, together with its obligations hereunder, to any parent, subsidiary, affiliate or successor, or in connection with any sale, transfer or other disposition of all or substantially all of its business and assets; *provided*, *however*, that any such assignee assumes the Company's obligations hereunder.

(d) Withholding. All sums payable to the Executive hereunder shall be reduced by all federal, state, local and other withholding and similar taxes and payments required by applicable law.

(e) Entire Agreement. This Agreement, including the agreements referred to herein (which are deemed incorporated by reference herein) constitute the entire and only agreement and understanding between the parties governing the terms and conditions of employment of the Executive with the Company and this Agreement supersedes and cancels any and all previous contracts, arrangements or understandings with governing the terms and conditions of the Executive's employment by the Company. In the event of any conflict between the terms of any other agreement between the Executive and the Company entered into prior to the Effective Date, the terms of this Agreement shall control.

(f) Amendment. This Agreement may be amended, modified, superseded, cancelled, renewed or extended only by an agreement in writing executed by both parties hereto.

(g) Headings. The headings contained in this Agreement are for reference purposes only and shall in no way affect the meaning or interpretation of this Agreement. In this Agreement, the singular includes the plural, the plural included the singular, the masculine gender includes both male and female referents, and the word "or" is used in the inclusive sense.

(h) Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including, personal delivery by facsimile transmission or the third day after mailing by first class mail) to the Company at its primary office location and to the Executive at his address as listed on the Company payroll (which address may be changed by written notice).

(i) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which, taken together, constitute one and the same agreement.

(j) Governing Law, Forum Selection, Jury Waiver. This Agreement and the rights and obligations of the parties hereto shall be construed in accordance with the laws of the State of California without giving effect to the principles of conflict of laws. Any action, suit or other legal proceeding that is commenced to resolve any matter arising under or relating to any provision of this Agreement shall be commenced only in a court of the State of New Jersey (or, if appropriate, a federal court located within Southern District of Jersey), and the Company and the Executive each consents to the jurisdiction of such a court. *Both the Company and the Executive expressly waive any right that any party either has or may have to a jury trial of any dispute arising out of or in any way related to the Executive's employment with or termination from the Company*.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Company and the Executive have executed this Executive Employment Agreement as of the date first above written.

PACIRA PHARMACEUTICALS, INC.:

By: /s/ Richard Kahr
Richard Kahr
VP, Human Resources

EXECUTIVE:

/s/ Charles A. Reinhart, III
Charles A. Reinhart, III

EXHIBIT A

Payments Subject to Section 409A

1. Subject to this Exhibit A, any severance payments and benefits that may be due under the Agreement shall begin only upon the date of the Executive's "separation from service" (determined as set forth below) which occurs on or after the termination of the Executive's employment. The following rules shall apply with respect to distribution of the severance payments and benefits, if any, to be provided to the Executive under the Agreement, as applicable:

(a) It is intended that each installment of the severance payments and benefits under the Agreement provided under shall be treated as a separate "payment" for purposes of Section 409A. Neither the Company nor the Executive shall have the right to accelerate or defer the delivery of any such payments or benefits except to the extent specifically permitted or required by Section 409A.

(b) If, as of the date of the Executive's "separation from service" from the Company, the Executive is not a "specified employee" (within the meaning of Section 409A), then each installment of the severance payments or benefits shall be made on the dates and terms set forth in the Agreement.

(c) If, as of the date of the Executive's "separation from service" from the Company, the Executive is a "specified employee" (within the meaning of Section 409A), then:

(i) Each installment of the severance payments and benefits due under the Agreement that, in accordance with the dates and terms set forth herein, will in all circumstances, regardless of when the Executive's separation from service occurs, be paid within the short-term deferral period (as defined under Section 409A) shall be treated as a short-term deferral within the meaning of Treasury Regulation Section 1.409A-1(b)(4) to the maximum extent permissible under Section 409A and shall be paid at the time set forth in the Agreement; and

(ii) Each installment of the severance payments and benefits due under the Agreement that is not described in this Exhibit A, Section 1(c)(i) and that would, absent this subsection, be paid within the six-month period following the Executive's "separation from service" from the Company shall not be paid until the date that is six months and one day after such separation from service (or, if earlier, the Executive's death), with any such installments that are required to be delayed being accumulated during the six-month period and paid in a lump sum on the date that is six months and one day following the Executive's separation from service and any subsequent installments, if any, being paid in accordance with the dates and terms set forth herein; provided, however, that the preceding provisions of this sentence shall not apply to any installment of payments and benefits if and to the maximum extent that that such installment is deemed to be paid under a separation pay plan that does not provide for a deferral of compensation by reason of the application of Treasury Regulation 1.409A-1(b)(9)(iii) (relating to separation pay upon an involuntary separation from service). Any installments that qualify for the exception under Treasury Regulation Section 1.409A-1(b)(9)(iii) must be paid no later than the last day of the Executive's second taxable year following the taxable year in which the separation from service occurs.

2. The determination of whether and when the Executive's separation from service from the Company has occurred shall be made and in a manner consistent with, and based on the presumptions set forth in, Treasury Regulation Section 1.409A-1(h). Solely for purposes of this Exhibit A, Section 2, "Company" shall include all persons with whom the Company would be considered a single employer under Section 414(b) and 414(c) of the Code.

3. The Company makes no representation or warranty and shall have no liability to the Executive or to any other person if any of the provisions of the Agreement (including this Exhibit) are determined to constitute deferred compensation subject to Section 409A but that do not satisfy an exemption from, or the conditions of, that section.

Exhibit 31.1

CERTIFICATION

I, David Stack, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pacira Pharmaceuticals, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 4, 2016

/s/ David Stack

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

Exhibit 31.2

CERTIFICATION

I, Charles A. Reinhart, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pacira Pharmaceuticals, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 4, 2016

/s/ Charles A. Reinhart, III

Charles A. Reinhart, III

Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. §1350

Pursuant to 18 U.S.C. §1350, the undersigned certifies that this Quarterly Report on Form 10-Q of Pacira Pharmaceuticals, Inc. for the quarter ended June 30, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Pacira Pharmaceuticals, Inc.

Date: August 4, 2016

/s/ David Stack

David Stack

Chief Executive Officer and Chairman

(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. §1350

Pursuant to 18 U.S.C. §1350, the undersigned certifies that this Quarterly Report on Form 10-Q of Pacira Pharmaceuticals, Inc. for the quarter ended June 30, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Pacira Pharmaceuticals, Inc.

Date: August 4, 2016

/s/ Charles A. Reinhart, III

Charles A. Reinhart, III

Chief Financial Officer

(Principal Financial Officer)