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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2017

OR

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

For the transition period from to

Commission File Number: 001-35060

PACIRA PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**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. x Yes o 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.) x Yes o No

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. o

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

As of November 5, 2017, 40,570,002 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 SEPTEMBER 30, 2017
TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS (Unaudited)***

PACIRA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2017	December 31, 2016
		(Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,216	$ 35,944
Short-term investments	267,864	136,653
Accounts receivable, net	27,021	29,937
Inventories, net	39,112	31,278
Prepaid expenses and other current assets	5,622	9,277
Total current assets	365,835	243,089
Long-term investments	80,807	—
Fixed assets, net	105,947	101,016
Goodwill	52,956	46,737
Other assets	545	624
Total assets	$ 606,090	$ 391,466
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,278	$ 7,511
Accrued expenses	39,701	37,261
Convertible senior notes	320	—
Income taxes payable	38	66
Total current liabilities	52,337	44,838
Convertible senior notes	272,721	108,738
Other liabilities	16,232	18,914
Total liabilities	341,290	172,490
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, par value $0.001; 5,000,000 shares authorized; none issued and outstanding at September 30, 2017 and December 31, 2016	—	—
Common stock, par value $0.001, 250,000,000 shares authorized; 40,564,766 shares issued and outstanding at September 30, 2017; 37,480,952 shares issued and outstanding at December 31, 2016	41	37
Additional paid-in capital	658,557	565,207
Accumulated deficit	(393,731)	(346,238)
Accumulated other comprehensive loss	(67)	(30)
Total stockholders' equity	264,800	218,976
Total liabilities and stockholders' equity	$ 606,090	$ 391,466

See accompanying condensed notes to consolidated financial statements.

PACIRA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenues:				
Net product sales	$ 66,951	$ 66,119	$ 205,515	$ 198,309
Collaborative licensing and milestone revenue	26	1,357	361	3,069
Royalty revenue	358	879	1,676	2,091
Total revenues	67,335	68,355	207,552	203,469
Operating expenses:				
Cost of goods sold	18,228	43,152	66,621	86,483
Research and development	11,775	9,754	47,262	28,609
Selling, general and administrative	40,644	36,314	122,316	117,940
Product discontinuation	260	—	4,754	—
Total operating expenses	70,907	89,220	240,953	233,032
Loss from operations	(3,572)	(20,865)	(33,401)	(29,563)
Other (expense) income:				
Interest income	1,068	346	2,805	923
Interest expense	(5,127)	(1,601)	(12,942)	(5,203)
Loss on early extinguishment of debt	—	—	(3,732)	—
Other, net	79	(8)	169	(8)
Total other expense, net	(3,980)	(1,263)	(13,700)	(4,288)
Loss before income taxes	(7,552)	(22,128)	(47,101)	(33,851)
Income tax expense	(45)	(36)	(105)	(126)
Net loss	$ (7,597)	$ (22,164)	$ (47,206)	$ (33,977)
Net loss per share:				
Basic and diluted net loss per common share	$ (0.19)	$ (0.59)	$ (1.19)	$ (0.91)
Weighted average common shares outstanding:				
Basic and diluted	40,463	37,312	39,540	37,171

See accompanying condensed notes to consolidated financial statements.

PACIRA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net loss	$ (7,597)	$ (22,164)	$ (47,206)	$ (33,977)
Other comprehensive income (loss):				
Net unrealized gain (loss) on investments	(3)	(166)	(37)	24
Total other comprehensive income (loss)	(3)	(166)	(37)	24
Comprehensive loss	$ (7,600)	$ (22,330)	$ (47,243)	$ (33,953)

See accompanying condensed notes to consolidated financial statements.

PACIRA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(In thousands)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at December 31, 2016	37,481	$ 37	$ 565,207	$ (346,238)	$ (30)	$ 218,976
Cumulative effect adjustment of the adoption of Accounting Standards Update 2016-09 (Note 2)	—	—	287	(287)	—	—
Exercise of stock options	459	1	5,303	—	—	5,304
Vested restricted stock units	99	—	—	—	—	—
Shares issued under employee stock purchase plan	36	—	1,056	—	—	1,056
Stock-based compensation	—	—	23,407	—	—	23,407
Issuance of common stock upon conversion of 2019 convertible senior notes	2,490	3	120,957	—	—	120,960
Retirement of equity component of 2019 convertible senior notes	—	—	(126,328)	—	—	(126,328)
Equity component of 2022 convertible senior notes issued, net	—	—	68,668	—	—	68,668
Net unrealized loss on investments	—	—	—	—	(37)	(37)
Net loss	—	—	—	(47,206)	—	(47,206)
Balance at September 30, 2017	40,565	$ 41	$ 658,557	$ (393,731)	$ (67)	$ 264,800

See accompanying condensed notes to consolidated financial statements.

PACIRA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2017	**2016**
		(Note 2)
Operating activities:		
Net loss	$ (47,206)	$ (33,977)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of fixed assets and amortization of intangibles	10,174	9,659
Amortization of unfavorable lease obligation and debt issuance costs	884	359
Amortization of debt discount	7,365	3,066
Loss on early extinguishment of debt	3,732	—
Loss on disposal of fixed assets	2,139	—
Stock-based compensation	23,407	23,516
Changes in operating assets and liabilities:		
Accounts receivable, net	2,916	(910)
Inventories, net	(7,834)	24,169
Prepaid expenses and other assets	3,734	(4,202)
Accounts payable, accrued expenses and income taxes payable	4,542	(5,691)
Other liabilities	(2,999)	115
Net cash provided by operating activities	854	16,104
Investing activities:		
Purchases of fixed assets	(14,190)	(19,827)
Purchases of investments	(436,017)	(158,390)
Sales of investments	223,962	137,170
Payment of contingent consideration	(6,219)	(13,790)
Net cash used in investing activities	(232,464)	(54,837)
Financing activities:		
Proceeds from exercise of stock options	5,304	5,200
Proceeds from shares issued under employee stock purchase plan	1,056	995
Proceeds from 2022 convertible senior notes	345,000	—
Repayment of 2019 convertible senior notes	(118,193)	(4)
Payment of debt issuance and financing costs	(11,000)	—
Costs for conversion of convertible senior notes	(285)	—
Net cash provided by financing activities	221,882	6,191
Net decrease in cash and cash equivalents	(9,728)	(32,542)
Cash and cash equivalents, beginning of period	35,944	56,984
Cash and cash equivalents, end of period	$ 26,216	$ 24,442
Supplemental cash flow information:		
Cash paid for interest	$ 6,896	$ 3,852
Cash paid for income taxes, net of refunds	$ 133	$ 253
Non-cash investing and financing activities:		
Issuance of common stock from conversion of 2019 convertible senior notes	$ 120,960	$ —
Retirement of equity component of 2019 convertible senior notes	$ (126,328)	$ —
Net increase (decrease) in accrued fixed assets	$ 3,054	$ (185)

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, manufacture and commercialization of pharmaceutical products, based on its proprietary DepoFoam® extended release drug delivery technology, for use primarily in hospitals and ambulatory surgery centers. Pacira is committed to driving innovation in postsurgical pain management with opioid-sparing strategies.

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 product, DepoCyt(e), which the Company had manufactured for its commercial partners. The Company also sells its bupivacaine liposome injectable suspension product to a commercial partner to serve animal health indications.

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 one product, 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 condensed 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 condensed 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, 2016.

The condensed consolidated financial statements at September 30, 2017, and for the three and nine month periods ended September 30, 2017 and 2016, 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 condensed consolidated balance sheet at December 31, 2016 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, 2016. The accounts of wholly-owned subsidiaries are included in the condensed 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 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 sales processed by the Company's three largest wholesalers in each period presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Largest wholesaler	34%	31%	35%	32%
Second largest wholesaler	30%	27%	29%	27%
Third largest wholesaler	26%	27%	26%	27%
	90%	85%	90%	86%

Recent Accounting Pronouncements

Recently Adopted

In March 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or 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 and tax deficiencies in the statement of cash flows and accounting for award forfeitures. The update also removes the requirement to delay recognition of an excess tax benefit until it reduces current taxes payable, instead, it is required to be recognized at the time of settlement, subject to normal valuation allowance considerations. This update became effective for the Company beginning January 1, 2017. The Company elected an accounting policy change to record forfeitures as they occur rather than estimating forfeitures during each period and recorded a charge of $0.3 million to retained earnings as of January 1, 2017 related to the reversal of cumulative forfeiture estimates. The adoption of this standard also resulted in the recognition of $29.3 million of previously unrecognized excess tax benefits in deferred tax assets, fully offset by a valuation allowance. The changes have been applied prospectively in accordance with the update and prior periods have not been adjusted. All tax-related cash flows resulting from stock-based compensation, including the excess tax benefits related to the settlement of stock-based awards, will be classified as cash flows from operating activities in the Company's consolidated statements of cash flows.

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 previous 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 became effective for the Company prospectively beginning January 1, 2017. The adoption of ASU 2015-11 did not have a material impact on the Company's consolidated financial statements.

Not Adopted as of September 30, 2017

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. During the fiscal third quarter of 2015, the FASB approved a one year deferral to the effective date to be adopted by all public companies for all annual periods and interim reporting periods beginning after December 15, 2017. During 2016, the FASB issued additional guidance and clarification relating to identifying performance obligations, licensing, principal versus agent considerations, assessing collectability, presentation of sales taxes, noncash consideration and contract modifications and completed contracts at transition. These updates will replace existing revenue recognition guidance under GAAP when it becomes effective for the Company beginning January 1, 2018, and permits two methods of adoption: the full retrospective method, which requires the standard to be applied to each prior period presented, or the modified retrospective method, which requires the cumulative effect of adoption to be recognized as an adjustment to opening retained earnings in the period of adoption. While the Company is continuing to evaluate the impact of these updates on its consolidated financial statements, it does not expect that the implementation of ASU 2014-09 and the subsequently issued related guidance will have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 becomes effective for the Company beginning January 1,

2018. Early adoption is not permitted except for certain provisions. The Company currently does not expect that the pending adoption of ASU 2016-01 will have a material effect on its 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. The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment for items such as initial direct costs. For income statement purposes, the new standard retains a dual model similar to Accounting Standards Codification, or ASC, 840, requiring leases to be classified as either operating or financing. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while financing leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). 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 currently evaluating the impact of ASU 2016-02 on its consolidated financial statements. Refer to Note 12, *Commitments and Contingencies*, for further discussion on the Company's leases.

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 currently evaluating the impact of ASU 2016-13 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies existing guidance on how companies present and classify certain cash receipts and cash payments in the statement of cash flows by addressing specific cash flow issues in an effort to reduce diversity in practice, including guidance on debt prepayment or extinguishment costs and contingent consideration payments made after a business combination. This update is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-15 on its consolidated financial statements.

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

NOTE 3—INVENTORIES

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

	September 30, 2017	December 31, 2016
Raw materials	$ 14,113	$ 11,742
Work-in-process	9,013	11,621
Finished goods	15,986	7,915
Total	$ 39,112	$ 31,278

The Company is required to perform ongoing stability testing on select lots of EXPAREL at various time intervals. In October 2016, as part of its ongoing stability testing, the Company identified that a single batch of EXPAREL, which was manufactured in early 2016, did not meet the required specification. An internal investigation tied this unexpected result to a modification in the manufacturing process that existed when this product was made, which has subsequently been corrected. The Company reserved all impacted inventory on hand as of September 30, 2016. As a result, in the third quarter of 2016, the Company recorded a $21.9 million charge to cost of goods sold related to this matter.

NOTE 4—FIXED ASSETS

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

	September 30, 2017	December 31, 2016
Machinery and laboratory equipment	$ 35,496	$ 34,309
Leasehold improvements	34,723	33,787
Computer equipment and software	6,985	5,623
Office furniture and equipment	1,603	1,606
Construction in progress	72,690	63,201
Total	151,497	138,526
Less: accumulated depreciation	(45,550)	(37,510)
Fixed assets, net	$ 105,947	$ 101,016

For the three months ended September 30, 2017 and 2016, depreciation expense was $3.4 million and $3.3 million, respectively. For the three months ended September 30, 2017 and 2016, capitalized interest on the construction of manufacturing sites was $0.3 million and $0.5 million, respectively.

For the nine months ended September 30, 2017 and 2016, depreciation expense was $10.2 million and $9.6 million, respectively. For the nine months ended September 30, 2017 and 2016, capitalized interest on the construction of manufacturing sites was $0.7 million and $1.2 million, respectively.

At September 30, 2017 and December 31, 2016, total fixed assets, net, includes leasehold improvements and manufacturing process equipment located in England in the amount of $57.2 million and $33.7 million, respectively.

NOTE 5—GOODWILL

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 DepoBupivacaine products collected, including EXPAREL, and certain other yet-to-be-developed products, as well as milestone payments for DepoBupivacaine products, including 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 recorded an $8.0 million milestone in connection with achieving $100.0 million of annual EXPAREL net sales collected, and in June 2016, the Company recorded another $8.0 million milestone for achieving $250.0 million of annual EXPAREL net sales collected. For purposes of meeting future potential milestone payments, annual net sales are measured on a rolling quarterly basis. Cumulatively through September 30, 2017, the Company has recorded an additional $29.0 million as goodwill for earn-out payments that are based on a percentage of net sales of DepoBupivacaine products collected, including EXPAREL. 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, 2016	$ 46,737
Percentage payments on collections of net sales of DepoBupivacaine products	6,219
Balance at September 30, 2017	$ 52,956

NOTE 6—DEBT

Convertible Senior Notes Due 2022

On March 13, 2017, the Company completed a private placement of $345.0 million in aggregate principal amount of 2.375% convertible senior notes due 2022, or 2022 Notes, and entered into an indenture agreement, or 2022 Indenture, with respect to the 2022 Notes. The 2022 Notes accrue interest at a fixed rate of 2.375% per year, payable semiannually in arrears on April 1 and October 1 of each year. The 2022 Notes mature on April 1, 2022.

The total debt composition of the 2022 Notes is as follows (in thousands):

	September 30, 2017	December 31, 2016
2.375% convertible senior notes due 2022	$ 345,000	$ —
Deferred financing costs	(7,880)	—
Discount on debt	(64,399)	—
Total debt, net of debt discount and deferred financing costs	$ 272,721	$ —

The net proceeds from the issuance of the 2022 Notes were $334.0 million, after deducting commissions and the offering expenses paid by the Company. A portion of the net proceeds from the 2022 Notes were used by the Company to repurchase the majority of its then-outstanding convertible senior notes due 2019 in privately-negotiated transactions.

Holders may convert the 2022 Notes at any time prior to the close of business on the business day immediately preceding October 1, 2021, only under the following circumstances:

(i) during any calendar quarter commencing after the calendar quarter ended June 30, 2017 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 130% of the conversion price on each applicable trading day;

(ii) during the five business-day period immediately after any five consecutive trading-day period (the ''measurement period'') in which the trading price (as defined in the 2022 Indenture) per $1,000 principal amount of the 2022 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day;

(iii) upon the occurrence of specified corporate events, including a merger or a sale of all or substantially all of the Company's assets; or

(iv) if the Company calls the 2022 Notes for redemption, until the close of business on the business day immediately preceding the redemption date.

On or after October 1, 2021, until the close of business on the second scheduled trading day immediately preceding April 1, 2022, holders may convert their 2022 Notes at any time.

Upon conversion, holders will receive the principal amount of their 2022 Notes and any excess conversion value, calculated based on the per share volume-weighted average price for each of the 40 consecutive trading days during the observation period (as more fully described in the 2022 Indenture). For both the principal and excess conversion value, holders 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 2022 Notes is 14.9491 shares of common stock per $1,000 principal amount, which is equivalent to an initial conversion price of $66.89 per share of the Company's common stock. The

conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. The initial conversion price of the 2022 Notes represents a premium of approximately 37.5% to the closing sale price of $48.65 per share of the Company's common stock on the NASDAQ Global Select Market on March 7, 2017, the date that the Company priced the private offering of the 2022 Notes.

As of September 30, 2017, the 2022 Notes had a market price of $973 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 stock price appreciation. Upon the receipt of conversion requests, the settlement of the 2022 Notes will be paid pursuant to the terms of the 2022 Indenture. In the event that all of the 2022 Notes are converted, the Company would be required to repay the $345.0 million in principal value and any conversion premium in any combination of cash and shares of its common stock (at the Company's option).

Prior to April 1, 2020, the Company may not redeem the 2022 Notes. On or after April 1, 2020, the Company may redeem for cash all or part of the 2022 Notes if the last reported sale price (as defined in the 2022 Indenture) of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading-day period ending within five trading days prior to the date on which the Company provides notice of redemption. The redemption price will equal the sum of (i) 100% of the principal amount of the 2022 Notes being redeemed, plus (ii) accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date. In addition, calling the 2022 Notes for redemption will constitute a "make whole fundamental change " (as defined in the 2022 Indenture) and will, in certain circumstances, increase the conversion rate applicable to the conversion of such notes if it is converted in connection with the redemption. No sinking fund is provided for the 2022 Notes.

If the Company undergoes a fundamental change, as defined in the 2022 Indenture, subject to certain conditions, holders of the 2022 Notes may require the Company to repurchase for cash all or part of their 2022 Notes at a repurchase price equal to 100% of the principal amount of the 2022 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if a ''make-whole fundamental change'' (as defined in the 2022 Indenture) occurs prior to April 1, 2022, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its notes in connection with the make-whole fundamental change.

The 2022 Notes are the Company's general unsecured obligations that rank senior in right of payment to all of its indebtedness that is expressly subordinated in right of payment to the 2022 Notes, and equal in right of payment to the Company's unsecured indebtedness. The 2022 Notes are also effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness, and are structurally subordinated to any debt or other liabilities (including trade payables) of the Company's subsidiaries.

While the 2022 Notes are currently classified on the Company's consolidated balance sheet at September 30, 2017 as long-term debt, the future convertibility and resulting balance sheet classification of this liability will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of the Company's common stock during the prescribed measurement periods. In the event that the holders of the 2022 Notes have the election to convert the 2022 Notes at any time during the prescribed measurement period, the 2022 Notes would then be considered a current obligation and classified as such.

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 2022 Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The liability component of the instrument is valued in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. The initial carrying value of the liability component of $274.1 million was calculated using a 7.45% assumed borrowing rate. The equity component of $70.9 million, representing the conversion option, was determined by deducting the fair value of the liability component from the par value of the 2022 Notes and is recorded in additional paid-in capital on the consolidated balance sheet at the issuance date. That equity component is treated as a discount on the liability component of the 2022 Notes, which is amortized over the five year term of the 2022 Notes using the effective interest rate method. 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 $11.0 million related to the issuance of the 2022 Notes to the liability and equity components of the 2022 Notes based on their relative values. Transaction costs attributable to the liability component are amortized to interest expense over the five-year term of the 2022 Notes, and transaction costs attributable to the equity component are netted with the equity component in stockholders' equity.

The 2022 Notes do not contain any financial or operating covenants or any restrictions on the payment of dividends, the issuance of other indebtedness or the issuance or repurchase of securities by the Company. The 2022 Indenture contains customary events of default with respect to the 2022 Notes, including that upon certain events of default, 100% of the principal and accrued and unpaid interest on the 2022 Notes will automatically become due and payable.

Convertible Senior Notes Due 2019

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 2019 Notes, and entered into an indenture agreement, or 2019 Indenture, with respect to the 2019 Notes. The 2019 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 2019 Notes mature on February 1, 2019.

The total debt composition of the 2019 Notes is as follows (in thousands):

	September 30, 2017	December 31, 2016
3.25% convertible senior notes due 2019	$ 338	$ 118,531
Deferred financing costs	(2)	(1,276)
Discount on debt	(16)	(8,517)
Total debt, net of debt discount and deferred financing costs	$ 320	$ 108,738

In March 2017, the Company used part of the net proceeds from the issuance of the 2022 Notes discussed above to repurchase $117.7 million aggregate principal of the 2019 Notes in privately-negotiated transactions for an aggregate of approximately $118.2 million in cash and the issuance of an aggregate of approximately 2.5 million shares of common stock. The partial repurchase of the 2019 Notes resulted in a $3.7 million loss on early debt extinguishment. In May 2017, the Company repurchased $0.5 million aggregate principal of the 2019 Notes in a privately-negotiated transaction for an aggregate of approximately $0.5 million in cash and the issuance of an aggregate of approximately 10 thousand shares of common stock. At September 30, 2017, approximately $0.3 million of principal remains outstanding on the 2019 Notes.

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 2019 Notes at any time. Upon conversion, holders will receive cash up to the principal amount of the 2019 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 2019 Notes was 40.2945 shares of common stock per $1,000 principal amount, which is equivalent to an initial conversion price of $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 2019 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 September 30, 2017, this condition for conversion was met. As a result, the 2019 Notes are classified as a current obligation and will be convertible until December 31, 2017. As of September 30, 2017, the 2019 Notes had a market price of $1,505 per $1,000 principal amount, compared to an estimated conversion value of $1,513 per $1,000 principal amount. In the event that the remaining 2019 Notes are converted, the Company would be required to repay the $0.3 million of principal value in cash and settle approximately $0.2 million of the conversion premium in cash, common stock or a combination of cash and shares of its common stock at the Company’s option as of September 30, 2017.

As of February 1, 2017, the Company may redeem for cash all or part of the 2019 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. If the 2019 Notes are called for redemption, the holder has the right to submit these notes for conversion at any time prior to the redemption date, and the Company will, in addition to paying the principal and conversion premium, pay a make-whole premium equal to the sum of the present value of the remaining scheduled payments of interest that would have been made on the Notes to be converted had such notes remained outstanding from the applicable conversion date to the maturity date.

Interest Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Contractual interest expense	$ 2,051	$ 963	$ 5,293	$ 2,890
Amortization of debt issuance costs	393	153	984	459
Amortization of debt discount	3,003	1,022	7,365	3,066
Capitalized interest and other (Note 4)	(320)	(537)	(700)	(1,212)
Total	$ 5,127	$ 1,601	$ 12,942	$ 5,203
Effective interest rate on convertible senior notes	7.81%	7.22%	7.75%	7.22%

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 Company's convertible senior notes at September 30, 2017 are calculated utilizing market quotations from an over-the-counter trading market for these instruments (Level 2). The carrying amount and fair value of the 2019 Notes and 2022 Notes are as follows (in thousands):

Financial Liabilities Carried at Historical Cost		Fair Value Measurements Using		
September 30, 2017	Carrying Value	Level 1	Level 2	Level 3
2.375% convertible senior notes due 2022 [1]	$ 272,721	$ —	$ 335,513	$ —
3.25% convertible senior notes due 2019 [2]	$ 320	$ —	$ 509	$ —

(1) The closing price of the Company's common stock was $37.55 per share at September 30, 2017 compared to a conversion price of $66.89 per share. Currently, the conversion price is above the stock price. The maximum conversion premium that can be due on the 2022 Notes is approximately 5.2 million shares of the Company's common stock, which assumes no increases in the conversion rate for certain corporate events.

(2) The closing price of the Company's common stock was $37.55 per share at September 30, 2017 compared to a conversion price of $24.82 per share which, if converted, would result in a conversion premium of less than ten thousand shares of the Company's common stock or $0.2 million of cash. The maximum conversion premium that can be due on the 2019 Notes is approximately ten thousand shares of the Company's common stock, 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 asset-backed securities collateralized by credit card receivables and 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 (loss). At September 30, 2017, all of the Company's short-term and long-term investments are classified as available for sale investments and are determined to be Level 2 instruments, which are measured at fair value using standard industry models with observable inputs. The fair value of the commercial paper is measured based on a standard industry model that uses the

three-month Treasury bill rate as an observable input. The fair value of the asset-backed securities and corporate bonds is principally measured or corroborated by trade data for identical issues in which related trading activity is not sufficiently frequent to be considered a Level 1 input or that of comparable securities. At September 30, 2017, the Company's short-term and long-term investments were rated A or better by Standard & Poor's.

The following summarizes the Company's investments at September 30, 2017 and December 31, 2016 (in thousands):

September 30, 2017 Debt Securities	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Level 2)
Short-term:				
Asset-backed securities	$ 35,281	$ —	$ (4)	$ 35,277
Commercial paper	34,350	5	(1)	34,354
Corporate bonds	198,222	35	(24)	198,233
Subtotal	267,853	40	(29)	267,864
Long-term:				
Asset-backed securities	24,192	—	(16)	24,176
Corporate bonds	56,693	—	(62)	56,631
Subtotal	80,885	—	(78)	80,807
Total	$ 348,738	$ 40	$ (107)	$ 348,671

December 31, 2016 Debt Securities	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Level 2)
Short-term:				
Asset-backed securities	$ 9,012	$ —	$ (2)	$ 9,010
Commercial paper	39,530	8	(15)	39,523
Corporate bonds	88,141	11	(32)	88,120
Total	$ 136,683	$ 19	$ (49)	$ 136,653

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 September 30, 2017, the Company had no financial instruments that were measured using Level 3 inputs.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, long-term investments and accounts receivable. The Company maintains its cash and cash equivalents with high-credit quality financial institutions. Such amounts may exceed federally-insured limits.

As of September 30, 2017, three wholesalers each accounted for over 10% of the Company's accounts receivable, at 33%, 31% and 28%, respectively. At December 31, 2016, three wholesalers each accounted for over 10% of the Company's accounts receivable, at 36%, 29% and 25%, respectively (for additional information regarding the Company's wholesalers, see Note 2, *Summary of Significant Accounting Policies*). Revenues are primarily derived from major wholesalers and pharmaceutical companies that generally have significant cash resources. The Company performs ongoing credit evaluations of its customers as warranted and generally does not require collateral. 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 September 30, 2017 and December 31, 2016, no allowances for doubtful accounts were deemed necessary by the Company on its accounts receivable.

NOTE 8—STOCK PLANS

Stock-Based Compensation

The Company recognized stock-based compensation expense in the periods presented as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of goods sold	$ 1,502	$ 1,627	$ 4,272	$ 4,786
Research and development	824	690	2,128	2,598
Selling, general and administrative	6,337	5,044	17,007	16,132
Total	$ 8,663	$ 7,361	$ 23,407	$ 23,516
Stock-based compensation from:				
Stock options (employee awards)	$ 6,310	$ 5,684	$ 17,968	$ 18,318
Stock options (consultant awards)	36	150	118	872
Restricted stock units (employee awards)	2,161	1,425	4,772	3,650
Employee stock purchase plan	156	102	549	676
Total	$ 8,663	$ 7,361	$ 23,407	$ 23,516

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 nine months ended September 30, 2017, 35,745 shares were purchased and issued 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 nine months ended September 30, 2017:

Stock Options	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2016	5,207,743	$ 42.16
Granted	1,009,650	44.29
Exercised	(458,535)	11.57
Forfeited	(389,720)	49.76
Expired	(198,038)	75.49
Outstanding at September 30, 2017	5,171,100	43.43

Restricted Stock Units	Number of Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2016	364,403	$ 52.85
Granted	338,583	44.22
Vested	(99,504)	54.15
Forfeited	(63,731)	51.17
Unvested at September 30, 2017	539,751	47.38

The weighted average fair value of stock options granted during the nine months ended September 30, 2017 was $20.89 per share. The fair values of stock options granted were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	Nine Months Ended September 30, 2017
Expected dividend yield	None
Risk free interest rate	1.80%
Expected volatility	51.4%
Expected term of options	5.32 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):

	Nine Months Ended September 30,	
Net unrealized gains (losses) from available for sale investments:	**2017**	**2016**
Balance at beginning of period	$ (30)	$ (52)
Other comprehensive income (loss) before reclassifications	(37)	24
Amounts reclassified from accumulated other comprehensive income (loss)	—	—
Balance at end of period	$ (67)	$ (28)

NOTE 10—NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common shares by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share is calculated by dividing the net income (loss) attributable to common shares by the weighted average number of common shares outstanding plus dilutive potential common shares 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 2019 Notes and 2022 Notes. As discussed in Note 6, *Debt*, the Company has either the obligation or the option to pay cash for the aggregate principal amount due upon the conversion of its convertible senior notes. Since it is the Company's intent to settle the principal amount of its convertible senior notes in cash, the potentially dilutive effect of such notes on net income (loss) per share is computed under the treasury stock method.

Potential common shares are excluded from the diluted net loss per share computation to the extent they would be antidilutive. Because the Company reported a net loss for the three and nine months ended September 30, 2017 and 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 nine months ended September 30, 2017 and 2016 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Numerator:				
Net loss	$ (7,597)	$ (22,164)	$ (47,206)	$ (33,977)
Denominator:				
Weighted average common shares outstanding	40,463	37,312	39,540	37,171
Net loss per share:				
Basic and diluted net loss per common share	$ (0.19)	$ (0.59)	$ (1.19)	$ (0.91)

The following outstanding stock options, RSUs, conversion premiums on the Company's convertible senior notes, warrants and ESPP purchase options are antidilutive in the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted average number of stock options	5,405	4,632	5,203	4,403
Weighted average number of RSUs	549	372	426	265
Conversion premium on the 2019 Notes	5	1,750	546	2,288
Weighted average number of warrants	—	—	—	1
Weighted average ESPP purchase options	22	20	32	22
Total	5,981	6,774	6,207	6,979

NOTE 11—INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Loss before income taxes:				
Domestic	$ (6,867)	$ (21,780)	$ (45,136)	$ (32,806)
Foreign	(685)	(348)	(1,965)	(1,045)
Total loss before income taxes	$ (7,552)	$ (22,128)	$ (47,101)	$ (33,851)

The Company recorded income tax expense of less than $0.1 million in the three months ended September 30, 2017 and 2016. The Company recorded income tax expense of $0.1 million in the nine months ended September 30, 2017 and 2016. The tax provisions reflect current state income taxes. Due to net losses in both periods presented, no current federal income tax expense was recorded. 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.

During the nine months ended September 30, 2017, the Company established a deferred tax liability of $26.5 million with an offset to additional paid-in capital resulting from the conversion feature of the 2022 Notes. The initial difference between the book value of convertible debt issued with a beneficial conversion feature and its tax basis is a temporary difference. The net effect of the deferred tax liability recorded to additional paid-in capital was zero because the Company has a full valuation allowance against its net deferred tax assets.

NOTE 12—COMMITMENTS AND CONTINGENCIES

Leases

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

As of September 30, 2017, aggregate annual minimum payments due under the Company's lease obligations are as follows (in thousands):

Year	Aggregate Minimum Payments
2017 (remaining three months)	$ 2,004
2018	8,063
2019	8,272
2020	6,389
2021	1,207
2022 through 2028	7,545
Total	$ 33,480

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

DepoCyt(e) Discontinuation

In June 2017, the Company's board of directors approved a decision to discontinue all future production of DepoCyt® (U.S. and Canada) and DepoCyte® (European Union) due to persistent technical issues specific to the DepoCyt(e) manufacturing process. DepoCyt(e) accounted for 2.6% of the Company's 2016 total full-year revenues of $276.4 million. As of June 30, 2017, the Company had ceased all production of DepoCyt(e).

In the three months ended September 30, 2017, the Company recorded a non-recurring charge of $0.3 million related to the discontinuation of its DepoCyt(e) manufacturing activities, including $0.1 million for DepoCyt(e) related inventory, which is recorded in cost of goods sold, and $0.2 million for asset retirement obligations and other estimated exit costs.

In the nine months ended September 30, 2017, the Company recorded a non-recurring charge of $5.3 million related to the discontinuation of its DepoCyt(e) manufacturing activities, including $0.6 million for DepoCyt(e) related inventory, which is recorded in cost of goods sold, and $4.7 million for the remaining lease costs less an estimate of potential sublease income for the facility where DepoCyt(e) was manufactured, the write-off of property, plant and equipment, employee severance, asset retirement obligations and other estimated exit costs.

As of September 30, 2017, a summary of the Company's costs and reserves related to the DepoCyt(e) discontinuation are as follows (in thousands):

	Severance and Related Costs	Lease Costs	Write-Off of Property, Plant & Equipment and Inventory	Asset Retirement Obligations and Other Discontinuation Costs	Total
Balance at December 31, 2016	$ —	$ —	$ —	$ —	$ —
Charges incurred	309	1,902	2,470	653	5,334
Cash payments made	(178)	(437)	—	(330)	(945)
Disposal of property, plant & equipment and inventory	—	—	(2,470)	—	(2,470)
Adjustments	—	—	—	—	—
Balance at September 30, 2017	$ 131	$ 1,465	$ —	$ 323	$ 1,919

The Company may be required to make additional payments or incur additional costs relating to the DepoCyt(e) discontinuation which could be material to the Company's results of operations and/or cash flows in a given period.

DePuy Synthes Sales, Inc.

In January 2017, the Company announced the initiation of a Co-Promotion Agreement, or the Agreement, with DePuy Synthes Sales, Inc., or DePuy Synthes, part of the Johnson & Johnson family of companies, to market and promote the use of EXPAREL for orthopedic procedures in the United States. DePuy Synthes field representatives, specializing in joint reconstruction, spine, sports medicine and trauma, will collaborate with, and supplement, the Company's field teams by expanding the reach and frequency of EXPAREL education in the hospital surgical suite and ambulatory surgery center settings.

Under the five-year arrangement, DePuy Synthes will be the exclusive third-party distributor during the term of the Agreement to promote and sell EXPAREL for operating room use for orthopedic and spine surgeries (including knee, hip, shoulder, sports and trauma surgeries) in the United States. DePuy Synthes is entitled to a tiered commission ranging from low single-digits to double-digits on sales of EXPAREL under the Agreement, subject to conditions, limitations and adjustments. The initial term of the Agreement commenced on January 24, 2017 and ends on December 31, 2021, with the option to extend the Agreement in additional 12 month increments upon mutual agreement of the parties, subject to certain conditions.

The Company and DePuy Synthes have mutual termination rights under the Agreement, subject to certain terms, conditions and advance notice requirements, provided that the Company or DePuy Synthes generally may not terminate the Agreement, without cause, within three years of the effective date of the Agreement. The Company also has additional unilateral termination rights under certain circumstances. The Agreement contains customary representations, warranties, covenants and confidentiality provisions, and also contains mutual indemnification obligations. DePuy Synthes is also subject to certain obligations and restrictions, including required compliance with certain laws and regulations and the Company's policies, in connection with fulfilling their obligations under the Agreement.

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 "CrossLink Agreement"). On June 30, 2016, the Company provided notice to CrossLink electing to terminate the CrossLink Agreement effective as of September 30, 2016. In connection with the termination of the CrossLink Agreement, a termination fee based on a percentage of earned performance-based fees is due to CrossLink. This fee of $7.1 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 condensed consolidated statements of operations for the three and nine month periods ended September 30, 2016. At September 30, 2017, $2.4 million is classified in accrued expenses.

NOTE 14—SUBSEQUENT EVENTS

TELA Bio

In October 2017, the Company made an initial cash investment of $15 million in TELA Bio, Inc., or TELA Bio, a privately-held surgical reconstruction company that markets its proprietary OviTex™ portfolio of products for ventral hernia repair and abdominal wall reconstruction. The Company may be required to invest up to an additional $10 million in TELA Bio under certain performance scenarios or upon its own election.

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) and our other products; the rate and degree of market acceptance of EXPAREL; the size and growth of the potential markets for EXPAREL and our ability to serve those markets; our plans to expand the 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; 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 our 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, 2016 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 the European Union, or E.U.

Overview

We are a specialty pharmaceutical company committed to driving innovation in postsurgical pain management with opioid-sparing strategies. Our product pipeline is based on our proprietary DepoFoam extended release drug delivery technology, for use primarily in hospitals and ambulatory surgery centers. We are currently commercializing EXPAREL, an amide-type local anesthetic indicated for single-dose administration into the surgical site to produce postsurgical analgesia. EXPAREL was approved by the FDA in October 2011 and commercially launched 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. Our earlier-stage pipeline includes two DepoFoam-based product candidates, DepoTranexamic Acid and DepoMeloxicam.

We expect to continue to incur significant expenses as we pursue the expanded use of EXPAREL in additional indications and opportunities; advance our earlier-stage pipeline; seek FDA approvals for our product candidates; develop our sales 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

- In October 2017, we made an initial cash investment of $15 million in TELA Bio, Inc., or TELA Bio, a privately-held surgical reconstruction company that markets its proprietary OviTex™ portfolio of products for ventral hernia repair and abdominal wall reconstruction. OviTex Reinforced BioScaffolds (RBSs) are intended for use as a surgical mesh to reinforce and/or repair soft tissue where weakness exists. We may be required to invest up to an additional $10 million in TELA Bio under certain performance scenarios or at our own election.

- In October 2017, we announced that the FDA accepted the resubmission of our sNDA seeking expansion of the EXPAREL label to include administration via nerve block for prolonged regional analgesia. The expected action

date by the FDA under the Prescription Drug User Fee Act, or PDUFA, is April 6, 2018. The sNDA is based on the positive data from a Phase 3 study of EXPAREL in femoral nerve block for total knee arthroplasty, or TKA, (lower extremity) and a Phase 3 study of EXPAREL in brachial plexus block for shoulder surgeries (upper extremity). It also includes safety and pharmacokinetic data through 120 hours.

- In September 2017, we announced a collaboration with Aetna, one of the nation's leading diversified health care benefits companies, with the support of the American Association of Oral and Maxillofacial Surgeons, on a national program aimed at reducing the number of opioid tablets dispensed to patients undergoing impacted third molar (wisdom tooth) extractions by at least 50 percent through the utilization of EXPAREL to provide prolonged non-opioid postsurgical pain control. Aetna will reimburse oral surgeons enrolled in the program for their use of EXPAREL in impacted third molar extraction cases performed once the surgeons have completed training on use of the product.

EXPAREL

Expanded Indication

The FDA is currently reviewing our sNDA seeking an expansion of the EXPAREL label to include administration via nerve block for prolonged regional analgesia. We believe that this new indication would a) present an alternative long-term method of pain control with a single injection, replacing the costly and cumbersome standard of care requiring a perineural catheter, drug reservoir and pump needed to continuously deliver bupivacaine and b) allow us to further leverage our manufacturing and commercial infrastructure. The expected action date by the FDA is April 6, 2018.

The sNDA is based on the positive data from a Phase 3 study of EXPAREL in femoral nerve block for TKA (lower extremity) and a Phase 3 study of EXPAREL in brachial plexus block for shoulder surgeries (upper extremity). It also includes safety and pharmacokinetic data through 120 hours. Eight Pacira-sponsored studies support this expanded indication. In total, 570 subjects received a dose of EXPAREL ranging from 2 mg to 310 mg. In addition, the sNDA includes data from two investigator-initiated studies that provide additional experience in smaller, peripheral nerve block settings.

Phase 4 Trials

We are investing in a series of blinded, randomized Phase 4 trials in key surgical procedures with EXPAREL as the foundation of a multimodal analgesic regimen. Our Phase 4 trials are also designed to support clinician education on procedure-specific best-practice care.

In July 2017, results from our Phase 4 study of EXPAREL in patients undergoing total knee replacement were published in *The Journal of Arthroplasty*. The study compared EXPAREL admixed with bupivacaine HCl versus bupivacaine HCl alone. EXPAREL achieved statistical significance for its co-primary endpoints of opioid reduction and postsurgical pain. The EXPAREL group demonstrated a 78 percent reduction in opioid consumption from zero to 48 hours after surgery and a reduction in pain scores from 12 to 48 hours after surgery. EXPAREL also achieved statistical significance for the study's key secondary endpoints related to opioid reduction. Patients in the EXPAREL arm required 77.6 percent fewer opioids through 72 hours than those in the bupivacaine arm with 10 percent remaining opioid-free through 48 and 72 hours (compared to zero patients in the bupivacaine arm; $P<0.01$). Time to first opioid rescue was analyzed using logistic regression and Kaplan-Meier methods, with a significant difference between the EXPAREL group versus the bupivacaine group; $P=0.0230$.

Product Pipeline

DepoFoam is used to extend the release of active drug substances. With this technology, we are currently developing two new DepoFoam-based product candidates—DepoTranexamic Acid, or DepoTXA, an antifibrinolytic, and DepoMeloxicam, or DepoMLX, a non-steroidal anti-inflammatory drug, or NSAID. 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 compounds and formulation work is underway for a number of pipeline candidates.

DepoTranexamic Acid

Tranexamic Acid, or TXA, is currently used off-label as a systemic injection or as a topical application, and is used to treat or prevent excessive blood loss during surgery by preventing the breakdown of a clot. However, the current formulation of TXA 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 and improved safety and tolerability for patients over the systemic use of TXA by reducing bleeding, the need for blood transfusions, swelling, soft tissue hematomas and the need for post-operative drains, thereby increasing vigor in patients while decreasing overall costs to the hospital system.

DepoTXA is currently in Phase 2 clinical development.

DepoMeloxicam

Our preclinical product candidate, DepoMLX, is a long-acting NSAID, designed to treat moderate to severe acute postsurgical pain as part of a non-opioid multimodal regimen. 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. Meloxicam, which is currently available as an oral formulation, is a commonly used NSAID on the market today. We expect our customer audience for this drug to be similar to the target for EXPAREL infiltration.

We expect to submit an Investigational New Drug application for DepoMLX in 2017 and subsequently initiate a Phase 1 clinical trial.

Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2017 and 2016

Revenues

Our net product sales include sales of EXPAREL in the United States and DepoCyt(e) in the United States and Europe through June 2017. We also earn royalties on sales by commercial partners of our bupivacaine liposome injectable suspension product for use in animal health indications and 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 September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2017	2016		2017	2016	
Net product sales:						
EXPAREL	$ 66,780	$ 64,869	3%	$ 204,254	$ 194,374	5%
DepoCyt(e) and other product sales	171	1,250	(86)%	1,261	3,935	(68)%
Total net product sales	66,951	66,119	1%	205,515	198,309	4%
Collaborative licensing and milestone revenue	26	1,357	(98)%	361	3,069	(88)%
Royalty revenue	358	879	(59)%	1,676	2,091	(20)%
Total revenues	$ 67,335	$ 68,355	(1)%	$ 207,552	$ 203,469	2%

EXPAREL revenue grew 3% and 5% in the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016, primarily due to respective increased sales volumes of 4% and 6%, partially offset by an increase in volume rebates and chargebacks of 1%. The demand for EXPAREL has continued to increase as a result of new accounts and growth within existing accounts due to the continued adoption of EXPAREL in soft tissue and orthopedic procedures.

DepoCyt(e) and other product sales decreased 86% and 68% in the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016. The decrease in both periods was primarily due to fewer DepoCyt(e) lots sold to our commercial partners as a result of persistent technical issues specifically related to the DepoCyt(e) manufacturing process and the discontinuation of our DepoCyt(e) manufacturing activities in June 2017.

Collaborative licensing and milestone revenue decreased 98% and 88% in the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016, primarily due to milestones earned in 2016 under our agreement with Aratana Therapeutics, Inc. for the development and commercialization of our products in animal health indications in the three and nine months ended September 30, 2016.

Royalty revenue primarily reflects royalties earned on collections of end-user sales of DepoCyt(e) by our commercial partners. Royalty revenue decreased 59% and 20% in the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016, due to the discontinuation of our DepoCyt(e) manufacturing activities in June 2017.

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 during the periods indicated, including percent changes (dollar amounts in thousands):

	Three Months Ended September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2017	2016		2017	2016	
Cost of goods sold	$ 18,228	$ 43,152	(58)%	$ 66,621	$ 86,483	(23)%
Gross margin	73%	37%		68%	57%	

The decreases in cost of goods sold and the corresponding 36 and 11 percentage-point improvements in gross margins for the three and nine months ended September 30, 2017 versus 2016, respectively, were largely due to a $21.9 million charge for inventory and related reserves in the third quarter of 2016 related to a single stability batch for EXPAREL which had fallen out of specification for one of 21 acceptance criteria. The manufacturing issue that existed when this batch was made was subsequently corrected. Gross margins improved by 32 and 11 percentage-points for the three and nine months ended September 30, 2017, respectively, as a result of this 2016 event. In addition, gross margins increased by 2 and 3 percentage-points as a result of lower unplanned manufacturing shutdown and other charges in the three and nine months ended September 30, 2017, respectively. There were no scrapped lots related to DepoCyt(e) in the three months ended September 30, 2017, improving gross margins by 2 percentage points versus the same period in 2016. The nine months ended September 30, 2017 versus 2016 included scrapped lots for DepoCyt(e) in the first half of 2017 before the manufacture of the product was discontinued, decreasing gross margins by 3 percentage points.

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 products and medical information expenses, which include personnel, equipment, materials and contractor costs for process development and product candidates, toxicology studies, expenses related to a significant scale-up of our manufacturing capacity 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 September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2017	2016		2017	2016	
Clinical development	$ 6,301	$ 5,665	11%	$ 29,738	$ 14,576	104%
Product development and other	4,650	3,399	37%	15,396	11,435	35%
Stock-based compensation	824	690	19%	2,128	2,598	(18)%
Total research and development expense	$ 11,775	$ 9,754	21%	$ 47,262	$ 28,609	65%
% of total revenues	17%	14%		23%	14%	

Research and development expense increased 21% and 65% in the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016.

The increase in clinical development expense in the three months ended September 30, 2017 reflects costs for our ongoing Phase 4 EXPAREL infiltration trials and increased research grants. These increases were partially offset by the completion of our two Phase 3 trials evaluating EXPAREL as a single-dose nerve block for prolonged regional analgesia. Enrollment in these studies began in the second quarter of 2016 and concluded in June 2017.

In the nine months ended September 30, 2017, the increase in clinical development expense includes costs for our two Phase 3 EXPAREL nerve block trials which concluded in June 2017, as well as our ongoing Phase 4 EXPAREL infiltration trials and increased research grants. These increases were partially offset by the completion of our Phase 4 EXPAREL infiltration trial in TKA, which concluded enrollment in January 2017.

Product development and other expenses increased in both the three and nine months ended September 30, 2017 versus 2016, respectively, primarily due to expenses related to a significant scale-up of our manufacturing capacity in Swindon, England, in partnership with Patheon, running test batches for DepoMLX and developing a new EXPAREL DepoFoam spray manufacturing process. These increases were partially offset by a reduction in spend for preclinical DepoFoam toxicology trials.

In the nine months ended September 30, 2017 versus 2016, stock-based compensation decreased 18% as expenses from new awards were more than offset by the decreased expense on mark-to-market non-employee awards that became fully vested in mid-2016. The 19% increase in the three months ended September 30, 2017 versus 2016 is due to new awards granted in mid- to-late 2016 and 2017.

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, and medical and scientific affairs operations, commission payments to our commercial partners for the promotion and sale of EXPAREL, expenses related to communicating the health outcome benefits of EXPAREL 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 September 30,			Nine Months Ended September 30,		
	2017	2016	% Increase / (Decrease)	2017	2016	% Increase / (Decrease)
Sales and marketing	$ 24,557	$ 21,490	14%	$ 72,344	$ 69,437	4%
General and administrative	9,750	9,780	0%	32,965	32,371	2%
Stock-based compensation	6,337	5,044	26%	17,007	16,132	5%
Total selling, general and administrative expenses	$ 40,644	$ 36,314	12%	$ 122,316	$ 117,940	4%
% of total revenues	60%	53%		59%	58%	

Selling, general and administrative expenses increased 12% for the three months ended September 30, 2017 and 4% for the nine months ended September 30, 2017, compared to the same periods in 2016.

Sales and marketing expenses increased by 14% for the three months ended September 30, 2017 and 4% in the nine months ended September 30, 2017 versus the same periods in 2016. Increases in these respective periods were driven by higher costs for salaries, benefits and other personnel related costs resulting from an increase in the number of field-based medical and sales professionals to better support and educate our customers. We spent more money on marketing for EXPAREL in both the three and nine month periods ended September 30, 2017 versus 2016 on educational initiatives and programs to create product awareness within key surgical markets. This spending increase also included other selling and promotional activities to the support the growth of EXPAREL, including initiatives related to our co-promotion agreement with DePuy Synthes Sales, Inc.,

or DePuy Synthes. We also supported multiple educational programs related to the impact of opioids and postsurgical pain management along with our "Choices Matter" campaign, which educates patients on non-opioid treatment options.

General and administrative expenses remained consistent in the three months and increased 2% in the nine months ended September 30, 2017, respectively, versus the same periods in 2016. In the three months ended September 2017 versus 2016, legal expenditures increased, offset by a decrease in compliance related activities. In the nine months ended September 30, 2017 versus 2016, there was an increase in regulatory expenses in preparation for a European Medicines Agency Marketing Authorization Application for EXPAREL commercialization in the E.U. We also increased spending to support our investor relations and information technology functions. These increases were partially offset by lower legal and compliance expenses, primarily related to a DOJ subpoena received in April 2015.

Stock-based compensation increased $1.3 million in the three month period ended September 30, 2017, compared to the same period in 2016, primarily due to new awards granted in mid-to-late 2016 and 2017 and accelerated stock-based compensation expense. In the nine months ended September 30, 2017 versus 2016, there was a $0.9 million increase in stock-based compensation primarily due to new awards granted in mid-to-late 2016 and 2017.

Product Discontinuation Expenses

In June 2017, we discontinued all future production of DepoCyt(e) due to persistent technical issues specific to the DepoCyt(e) manufacturing process. In the three months ended September 30, 2017, we recorded a charge of $0.3 million related to the discontinuation of our DepoCyt(e) manufacturing activities, including $0.1 million for related inventory which was recorded in cost of goods sold. The remaining $0.2 million related to asset retirement obligations and other estimated exit costs.

In the nine months ended September 30, 2017, the total charge was $5.3 million, of which $0.6 million was for related inventory recorded in cost of goods sold, $1.9 million for lease costs less an estimate of potential sub-lease income, $1.9 million for the write-off of fixed assets and $0.9 million relating to employee severance, asset retirement obligations and other product discontinuation costs.

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 September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2017	2016		2017	2016	
Interest income	$ 1,068	$ 346	209%	$ 2,805	$ 923	204%
Interest expense	(5,127)	(1,601)	220%	(12,942)	(5,203)	149%
Loss on early extinguishment of debt	—	—	N/A	(3,732)	—	N/A
Other, net	79	(8)	N/A	169	(8)	N/A
Total other expense, net	$ (3,980)	$ (1,263)	215%	$ (13,700)	$ (4,288)	219%

Total other expense, net increased by 215% and 219% in the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016, almost entirely due to the March 2017 issuance of $345.0 million of 2.375% convertible senior notes due 2022, or 2022 Notes, and the repurchase of $118.2 million of our 3.25% convertible senior notes due 2019, or 2019 Notes, which resulted in a $3.7 million loss on early extinguishment of debt and an increase in interest expense of $3.5 million and $7.7 million in the three and nine months ended September 30, 2017 versus 2016, respectively. There was also an increase in interest income of $0.7 million and $1.9 million in the same respective periods as a result of additional investments from the net proceeds of the 2022 Notes.

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 September 30,		% Increase / (Decrease)	Nine Months Ended September 30,		% Increase / (Decrease)
	2017	2016		2017	2016	
Income tax expense	$ 45	$ 36	25%	$ 105	$ 126	(17)%
Effective tax rate	0%	0%		0%	0%	

Income tax expense was less than $0.1 million in the three months ended September 30, 2017 and 2016. Income tax expense was $0.1 million in the nine months ended September 30, 2017 and 2016. The tax expense reflects current state income taxes. Due to net losses in both periods, no current federal income tax expense was recorded. Since our deferred tax assets are fully offset by a valuation allowance, income tax expense does not reflect deferred tax expenses.

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 cash generated from product sales, the proceeds from the sale of equity and debt securities, borrowings under debt facilities and collaborative licensing and milestone revenue. As of September 30, 2017, we had an accumulated deficit of $393.7 million, cash and cash equivalents, short-term investments and long-term investments of $374.9 million and working capital of $313.5 million.

Summary of Cash Flows

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

	Nine Months Ended September 30,	
Condensed Consolidated Statement of Cash Flows Data:	**2017**	**2016**
Net cash provided by (used in):		
Operating activities	$ 854	$ 16,104
Investing activities	(232,464)	(54,837)
Financing activities	221,882	6,191
Net decrease in cash and cash equivalents	$ (9,728)	$ (32,542)

Operating Activities

During the nine months ended September 30, 2017, our net cash provided by operating activities was $0.9 million compared to $16.1 million during the nine months ended September 30, 2016. The decrease of $15.3 million was driven by an increase in our net loss, primarily from higher clinical trial expenses related to our two Phase 3 EXPAREL nerve block trials, our Phase 4 EXPAREL infiltration trials, payments related to a termination fee related to a master distribution agreement with CrossLink BioScience, LLC and additional investments in inventory, partially offset by higher collections from EXPAREL net product sales.

Investing Activities

During the nine months ended September 30, 2017, our net cash used in investing activities was $232.5 million, which reflected $212.1 million of short-term and long-term investment purchases (net of maturities) primarily from the net proceeds of the 2022 Notes, purchases of fixed assets of $14.2 million and contingent consideration payments of $6.2 million related to the March 2007 acquisition of Skyepharma Holding, Inc., or Skyepharma. Major fixed asset purchases included continuing expenditures for expanding our EXPAREL manufacturing capacity in Swindon, England in partnership with Patheon and facility upgrades at our Science Center Campus in San Diego, California.

During the nine months ended September 30, 2016, our net cash used in investing activities was $54.8 million, which reflected $21.2 million of short-term investment purchases (net of maturities), purchases of fixed assets of $19.8 million and contingent consideration payments of $13.8 million related to the March 2007 acquisition of Skyepharma, including an $8.0 million milestone payment in connection with achieving $250.0 million of EXPAREL net sales collected on an annual basis.

Major fixed asset purchases included continuing expenditures for expanding our manufacturing capacity in Swindon, England in partnership with Patheon.

Financing Activities

During the nine months ended September 30, 2017, our net cash provided by financing activities was $221.9 million, which consisted of proceeds from the issuance of the 2022 Notes of $345.0 million, partially offset by $11.0 million of debt issuance and financing costs. In addition, a portion of the net proceeds from the 2022 Notes was used to retire $118.2 million in principal of the 2019 Notes and for $0.3 million in related costs. Proceeds from the exercise of stock options were $5.3 million and proceeds from the issuance of shares under our ESPP were $1.1 million.

In the nine months ended September 30, 2016, net cash provided by financing activities consisted of proceeds from the exercise of stock options of $5.2 million and $1.0 million from the issuance of shares under our ESPP.

2022 Convertible Senior Notes

On March 13, 2017, we completed a private placement of $345.0 million in aggregate principal amount of our 2022 Notes, and entered into an indenture agreement, or 2022 Indenture, with respect to the 2022 Notes. The 2022 Notes accrue interest at a fixed rate of 2.375% per annum, payable semiannually in arrears on April 1 and October 1 of each year. The 2022 Notes mature on April 1, 2022. At September 30, 2017, the outstanding principal on the 2022 Notes was $345.0 million.

On or after October 1, 2021, until the close of business on the second scheduled trading day immediately preceding April 1, 2022, holders may convert their 2022 Notes at any time. Upon conversion, holders will receive the principal amount of their 2022 Notes and any excess conversion value. For both the principal and excess conversion value, holders may receive cash, shares of our common stock or a combination of cash and shares of our common stock, at our option. The initial conversion rate for the 2022 Notes is 14.9491 shares of common stock per $1,000 principal amount, which is equivalent to an initial conversion price of approximately $66.89 per share of our common stock. The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest.

Prior to the close of business on the business day immediately preceding October 1, 2021, holders may convert the 2022 Notes under certain circumstances, including if during any given calendar quarter, our stock price closes at or above 130% of the conversion price then applicable during a period of at least 20 out of the last 30 consecutive trading days of the previous quarter.

While the 2022 Notes are currently classified on our consolidated balance sheet at September 30, 2017 as long-term debt, the future convertibility and resulting balance sheet classification of this liability will be monitored at each quarterly reporting date and will be analyzed dependent upon market prices of our common stock during the prescribed measurement periods. In the event that the holders of the 2022 Notes have the election to convert the 2022 Notes at any time during the prescribed measurement period, the 2022 Notes would then be considered a current obligation and classified as such.

Prior to April 1, 2020, we may not redeem the 2022 Notes. On or after April 1, 2020, we may redeem for cash all or part of the 2022 Notes if the last reported sale price (as defined in the 2022 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.

See Note 6, *Debt*, to our condensed consolidated financial statements included herein for further discussion of the 2022 Notes.

2019 Convertible Senior Notes

On January 23, 2013, we completed a private offering of $120.0 million in aggregate principal of 3.25% convertible senior notes due 2019, or 2019 Notes, and entered into an indenture agreement, or 2019 Indenture, with respect to the 2019 Notes. The 2019 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 September 30, 2017, the outstanding principal on the 2019 Notes was approximately $0.3 million.

See Note 6, *Debt*, to our condensed consolidated financial statements included herein for further discussion of the 2019 Notes.

Future Capital Requirements

We believe that our existing cash and cash equivalents, short-term investments, long-term investments and cash received from product sales will be sufficient to enable us to fund our operating expenses, capital expenditure requirements, payment of the principal on any conversions of our outstanding convertible senior notes and to service our indebtedness through at least November 8, 2018. Our future use of operating cash and capital requirements 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 2022 Notes elect to convert their 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 DepoBupivacaine products, including EXPAREL, are met;
- costs related to legal and regulatory issues;
- the costs of performing additional clinical trials for EXPAREL, including the pediatric trials required by the FDA as a condition of approval;
- the costs for the development and commercialization of other product candidates; and
- the extent to which we acquire or invest in 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 September 30, 2017, except for operating leases, nor do we have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities. None of our operating leases have, or are reasonably likely to have, a current or future material effect on our financial condition or changes in financial condition.

Critical Accounting Policies and Use of Estimates

See Note 2, *Summary of Significant Accounting Policies*, to our condensed 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, 2016.

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 and sales of our bupivacaine liposome injectable suspension product for use in animal health indications in the United States, (iii) royalties based on sales by commercial partners of DepoCyt(e) and sales of our bupivacaine liposome injectable suspension product for use in animal health indications and (iv) license fees and milestone payments. 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 products manufactured and supplied to commercial partners, such as DepoCyt(e), upon shipment. Prior to the shipment of manufactured products, we conduct initial product release and stability testing in accordance with the FDA's 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 that 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 our historical return 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 DepoCyt(e) 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, hospitals and hospital systems. 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 nine months ended September 30, 2017 and 2016 (in thousands):

September 30, 2017	**Returns Allowances**	**Prompt Payment Discounts**	**Wholesaler Service Fees**	**Volume Rebates and Chargebacks**	**Total**
Balance at December 31, 2016	$ 1,346	$ 595	$ 735	$ 1,124	$ 3,800
Provision	536	4,200	3,182	3,015	10,933
Payments/Credits	(923)	(4,229)	(3,314)	(3,265)	(11,731)
Balance at September 30, 2017	$ 959	$ 566	$ 603	$ 874	$ 3,002

September 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	506	3,978	3,016	1,587	9,087
Payments/Credits	(1,022)	(4,073)	(3,202)	(1,657)	(9,954)
Balance at September 30, 2016	$ 1,217	$ 530	$ 559	$ 727	$ 3,033

Total reductions of gross product sales from sales-related allowances and accruals were $10.9 million and $9.1 million, or 5.1% and 4.4% of gross product sales for the nine months ended September 30, 2017 and 2016, respectively. The overall increase in sales-related allowances and accruals as a percentage of gross product sales was directly related to the increase in EXPAREL sales and an increase in volume related rebates and chargebacks.

Contractual Obligations

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.

In January 2017, we announced the initiation of a Co-Promotion Agreement with DePuy Synthes to market and promote the use of EXPAREL for orthopedic procedures in the United States. Under the five-year arrangement, DePuy Synthes will be the exclusive third-party distributor to promote and sell EXPAREL for operating room use for orthopedic and spine surgeries (including knee, hip, shoulder, sports and trauma surgeries) in the United States. DePuy Synthes is entitled to a tiered commission ranging from low single-digits to double-digits on sales of EXPAREL, subject to conditions, limitations and adjustments. The initial term of the agreement ends on December 31, 2021, with the option to extend the agreement an additional 12 month increments upon mutual agreement of the parties, subject to certain conditions. We and DePuy Synthes have mutual termination rights under the agreement, subject to certain terms, conditions and advance notice requirements; provided that we or DePuy Synthes generally may not terminate the agreement, without cause, within three years of the effective date of the agreement. We also have additional unilateral termination rights under certain circumstances.

Potential future milestone payments to Skyepharma could be up to an aggregate of $36.0 million if certain milestones pertaining to net sales of DepoBupivacaine products collected, including EXPAREL, are met, including $32.0 million when annual net sales collected reach $500.0 million (measured on a rolling quarterly basis) and $4.0 million upon the first commercial sale in a major E.U. country. This contingency is described further in Note 5, *Goodwill*, to our condensed consolidated financial statements included herein.

In October 2017, we made an initial cash investment of $15 million in TELA Bio, a privately-held surgical reconstruction company that markets its proprietary OviTex™ portfolio of products for ventral hernia repair and abdominal wall reconstruction. We may be required to invest up to an additional $10 million in TELA Bio under certain performance scenarios or upon our own election.

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

The primary objective of our cash, 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 September 30, 2017 by approximately $1.9 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 2019 Notes prior to maturity under certain circumstances. Upon conversion, holders will receive cash up to the principal amount of the 2019 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 2019 Notes is impacted by both the fair value of our common stock and interest rate fluctuations. As of September 30, 2017, the estimated fair value of the 2019 Notes was $1,505 per $1,000 principal amount. See Note 6, *Debt*, to our condensed consolidated financial statements included herein for further discussion of the 2019 Notes. At September 30, 2017, approximately $0.3 million of principal remains outstanding on the 2019 Notes.

In March 2017, we issued $345.0 million in aggregate principal amount of 2.375% convertible senior notes, which mature in April 2022. Holders may convert their 2022 Notes prior to maturity under certain circumstances. Upon conversion, holders will receive the principal amount of the 2022 Notes and any excess conversion value in cash, shares of our common stock or a combination of cash and shares, at our option. The fair value of the 2022 Notes is impacted by both the fair value of our common stock and interest rate fluctuations. As of September 30, 2017, the estimated fair value of the 2022 Notes was $973 per $1,000 principal amount. See Note 6, *Debt*, to our condensed consolidated financial statements included herein for further discussion of the 2022 Notes. At September 30, 2017, $345.0 million of principal remains outstanding on the 2022 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 September 30, 2017, we did not have any 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 $10 thousand for the quarter ended September 30, 2017.

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 flows.

Item 4. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, 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 September 30, 2017.

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 September 30, 2017 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, 2016, 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, 2016. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2016 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.

Item 6. *EXHIBITS*

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

Exhibit No.	Description
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 September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Operations; (iii) the Condensed Consolidated Statements of Comprehensive Loss; (iv) the Condensed Consolidated Statement of Stockholders' Equity; (v) the Condensed Consolidated Statements of Cash Flows; and (vi) the Condensed Notes to Consolidated Financial Statements.*

* Filed herewith.

** Furnished herewith.

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: November 8, 2017

/s/ DAVID STACK

David Stack

Chief Executive Officer and Chairman

(Principal Executive Officer)

Dated: November 8, 2017

/s/ CHARLES A. REINHART, III

Charles A. Reinhart, III

Chief Financial Officer

(Principal Financial Officer)

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: November 8, 2017

/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: November 8, 2017

/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 September 30, 2017, 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: November 8, 2017

/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 September 30, 2017, 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: November 8, 2017

/s/ Charles A. Reinhart, III

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