

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

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**FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2017**

**OR**

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

**For the transition period from    to**

**Commission File Number: 001-35060**



**PACIRA PHARMACEUTICALS, INC.**

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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   
Non-accelerated filer   
(Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company   
Emerging growth company

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.

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

As of July 27, 2017, 40,341,550 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

**PACIRA PHARMACEUTICALS, INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED JUNE 30, 2017  
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## 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)

	June 30, 2017	December 31, 2016
		(Note 2)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 53,814	\$ 35,944
Short-term investments	328,628	136,653
Accounts receivable, net	27,467	29,937
Inventories, net	33,602	31,278
Prepaid expenses and other current assets	7,480	9,277
Total current assets	450,991	243,089
Fixed assets, net	103,239	101,016
Goodwill	50,943	46,737
Other assets	572	624
Total assets	\$ 605,745	\$ 391,466
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 10,392	\$ 7,511
Accrued expenses	46,755	37,261
Convertible senior notes	319	—
Income taxes payable	44	66
Total current liabilities	57,510	44,838
Convertible senior notes	269,328	108,738
Other liabilities	17,859	18,914
Total liabilities	344,697	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 June 30, 2017 and December 31, 2016	—	—
Common stock, par value \$0.001, 250,000,000 shares authorized; 40,318,129 shares issued and outstanding at June 30, 2017; 37,480,952 shares issued and outstanding at December 31, 2016	40	37
Additional paid-in capital	647,206	565,207
Accumulated deficit	(386,134)	(346,238)
Accumulated other comprehensive loss	(64)	(30)
Total stockholders' equity	261,048	218,976
Total liabilities and stockholders' equity	\$ 605,745	\$ 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Net product sales	\$ 70,139	\$ 67,687	\$ 138,564	\$ 132,189
Collaborative licensing and milestone revenue	130	1,356	336	1,713
Royalty revenue	665	597	1,317	1,212
<b>Total revenues</b>	<b>70,934</b>	<b>69,640</b>	<b>140,217</b>	<b>135,114</b>
<b>Operating expenses:</b>				
Cost of goods sold	23,811	23,053	48,392	43,331
Research and development	18,856	9,362	35,487	18,855
Selling, general and administrative	39,552	43,669	81,672	81,626
Product discontinuation	4,495	—	4,495	—
<b>Total operating expenses</b>	<b>86,714</b>	<b>76,084</b>	<b>170,046</b>	<b>143,812</b>
Loss from operations	(15,780)	(6,444)	(29,829)	(8,698)
<b>Other (expense) income:</b>				
Interest income	1,224	324	1,738	576
Interest expense	(5,226)	(1,733)	(7,815)	(3,601)
Loss on early extinguishment of debt	(11)	—	(3,732)	—
Other, net	80	(47)	89	1
<b>Total other expense, net</b>	<b>(3,933)</b>	<b>(1,456)</b>	<b>(9,720)</b>	<b>(3,024)</b>
Loss before income taxes	(19,713)	(7,900)	(39,549)	(11,722)
Income tax expense	(30)	(58)	(60)	(90)
<b>Net loss</b>	<b>\$ (19,743)</b>	<b>\$ (7,958)</b>	<b>\$ (39,609)</b>	<b>\$ (11,812)</b>
<b>Net loss per share:</b>				
Basic and diluted net loss per common share	\$ (0.49)	\$ (0.21)	\$ (1.01)	\$ (0.32)
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	40,160	37,181	39,079	37,101

*See accompanying condensed notes to consolidated financial statements.*

**PACIRA PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	<b>(In thousands)</b> <b>(Unaudited)</b>			
	<b>Three Months Ended</b> <b>June 30,</b>		<b>Six Months Ended</b> <b>June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net loss	\$ (19,743)	\$ (7,958)	\$ (39,609)	\$ (11,812)
Other comprehensive income (loss):				
Net unrealized gain (loss) on investments	18	89	(34)	190
Total other comprehensive income (loss)	18	89	(34)	190
Comprehensive loss	\$ (19,725)	\$ (7,869)	\$ (39,643)	\$ (11,622)

*See accompanying condensed notes to consolidated financial statements.*

**PACIRA PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2017**

(In thousands)  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
<b>Balance at December 31, 2016</b>	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	214	—	2,613	—	—	2,613
Vested restricted stock units	97	—	—	—	—	—
Shares issued under employee stock purchase plan	36	—	1,056	—	—	1,056
Stock-based compensation	—	—	14,744	—	—	14,744
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	—	—	(126,326)	—	—	(126,326)
Equity component of 2022 convertible senior notes issued, net	—	—	68,668	—	—	68,668
Net unrealized loss on investments	—	—	—	—	(34)	(34)
Net loss	—	—	—	(39,609)	—	(39,609)
<b>Balance at June 30, 2017</b>	<b>40,318</b>	<b>\$ 40</b>	<b>\$ 647,206</b>	<b>\$ (386,134)</b>	<b>\$ (64)</b>	<b>\$ 261,048</b>

*See accompanying condensed notes to consolidated financial statements.*

**PACIRA PHARMACEUTICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)  
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
		(Note 2)
<b>Operating activities:</b>		
Net loss	\$ (39,609)	\$ (11,812)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of fixed assets and amortization of intangibles	6,813	6,381
Amortization of unfavorable lease obligation and debt issuance costs	524	240
Amortization of debt discount	4,362	2,044
Loss on early extinguishment of debt	3,732	—
Loss on disposal of fixed assets	2,030	—
Stock-based compensation	14,744	16,155
Changes in operating assets and liabilities:		
Accounts receivable, net	2,470	(2,796)
Inventories, net	(2,324)	729
Prepaid expenses and other assets	1,849	92
Accounts payable, accrued expenses and income taxes payable	10,551	(8,658)
Other liabilities	(1,480)	2,045
Net cash provided by operating activities	3,662	4,420
<b>Investing activities:</b>		
Purchases of fixed assets	(8,771)	(15,921)
Purchases of investments	(274,791)	(121,790)
Sales of investments	82,782	100,065
Payment of contingent consideration	(4,206)	(3,871)
Net cash used in investing activities	(204,986)	(41,517)
<b>Financing activities:</b>		
Proceeds from exercise of stock options	2,613	4,431
Proceeds from shares issued under employee stock purchase plan	1,056	995
Proceeds from 2022 convertible senior notes	345,000	—
Repayment of debt	(118,191)	(4)
Payment of debt issuance and financing costs	(11,000)	—
Costs for conversion of convertible senior notes	(284)	—
Net cash provided by financing activities	219,194	5,422
Net increase (decrease) in cash and cash equivalents	17,870	(31,675)
Cash and cash equivalents, beginning of period	35,944	56,984
Cash and cash equivalents, end of period	\$ 53,814	\$ 25,309
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 2,384	\$ 1,926
Cash paid for income taxes, net of refunds	\$ 133	\$ 241
<b>Non-cash investing and financing activities:</b>		
Issuance of common stock from conversion of 2019 convertible senior notes	\$ 120,960	\$ —
Retirement of equity component of 2019 convertible senior notes	\$ (126,326)	\$ —
Net increase (decrease) in accrued fixed assets	\$ 2,294	\$ (662)
Accrued payment of contingent consideration	\$ —	\$ (8,000)

*See accompanying condensed notes to consolidated financial statements.*

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

**NOTE 1—DESCRIPTION OF BUSINESS**

Pacira Pharmaceuticals, Inc. and its subsidiaries (collectively, the “Company” or “Pacira”) is a specialty pharmaceutical company focused on the development, 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 few products, reliance on a single manufacturing site, new technological innovations, dependence on key personnel, reliance on third-party service providers and sole source suppliers, protection of proprietary technology and compliance with government regulations.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation and Principles of Consolidation*

These interim 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 June 30, 2017, and for the three and six months ended June 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’s customers are national and regional wholesalers of pharmaceutical products as well as commercial, collaborative and licensing partners. The Company sells EXPAREL through a drop-ship program under which orders are processed through wholesalers (including AmerisourceBergen Health Corporation, Cardinal Health, Inc. and McKesson Drug Company), but shipments of the product are sent directly to individual accounts, such as hospitals, ambulatory surgery centers and individual doctors. The table below includes the percentage of revenue comprised by the Company’s three largest customers (i.e., wholesalers or commercial partners) in each period presented:



	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Largest customer	35%	32%	35%	32%
Second largest customer	29%	27%	29%	28%
Third largest customer	25%	26%	25%	27%
	89%	85%	89%	87%

## 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. The Company does not believe that any of the provisions in ASU 2016-09 will have a significant impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The standard requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the 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 June 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 the implementation of ASU 2014-09 and the subsequently issued related guidance to have a material impact 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 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 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):

	June 30, 2017	December 31, 2016
Raw materials	\$ 13,626	\$ 11,742
Work-in-process	6,213	11,621
Finished goods	13,763	7,915
Total	<u>\$ 33,602</u>	<u>\$ 31,278</u>

### NOTE 4—FIXED ASSETS

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

	June 30, 2017	December 31, 2016
Machinery and laboratory equipment	\$ 35,224	\$ 34,309
Leasehold improvements	34,327	33,787
Computer equipment and software	7,298	5,623
Office furniture and equipment	1,603	1,606
Construction in progress	67,443	63,201
Total	145,895	138,526
Less: accumulated depreciation	(42,656)	(37,510)
Fixed assets, net	<u>\$ 103,239</u>	<u>\$ 101,016</u>

For the three months ended June 30, 2017 and 2016, depreciation expense was \$3.7 million and \$3.2 million, respectively. For the three months ended June 30, 2017 and 2016, capitalized interest on the construction of manufacturing sites was \$0.2 million and \$0.4 million, respectively.

For the six months ended June 30, 2017 and 2016, depreciation expense was \$6.8 million and \$6.3 million, respectively. For the six months ended June 30, 2017 and 2016, capitalized interest on the construction of manufacturing sites was \$0.4 million and \$0.7 million, respectively.

At June 30, 2017 and December 31, 2016, total fixed assets, net, includes leasehold improvements and manufacturing process equipment located in England in the amount of \$52.1 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 June 30, 2017, the Company has recorded an additional \$27.0 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):

	<b>Carrying Value</b>
Balance at December 31, 2016	\$ 46,737
Percentage payments on collections of net sales of DepoBupivacaine products	4,206
Balance at March 31, 2017	<u>\$ 50,943</u>

#### 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, beginning on October 1, 2017. The 2022 Notes mature on April 1, 2022.

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

	June 30, 2017	December 31, 2016
2.375% convertible senior notes due 2022	\$ 345,000	\$ —
Deferred financing costs	(8,272)	—
Discount on debt	(67,400)	—
Total debt, net of debt discount and deferred financing costs	<u>\$ 269,328</u>	<u>\$ —</u>

The net proceeds from the issuance of the 2022 Notes were approximately \$334.0 million, after deducting commissions and the estimated offering expenses payable 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 ending on 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 June 30, 2017, the 2022 Notes had a market price of \$1,067 per \$1,000 principal amount. In the event of conversion, holders would forgo all future interest payments, any unpaid accrued interest and the possibility of further stock price appreciation. Upon the receipt of conversion requests, the settlement of the 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 June 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 approximately \$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 composition of the 2019 Notes is as follows (in thousands):

	June 30, 2017	December 31, 2016
3.25% convertible senior notes due 2019	\$ 340	\$ 118,531
Deferred financing costs	(3)	(1,276)
Discount on debt	(18)	(8,517)
Total debt, net of debt discount and deferred financing costs	<u>\$ 319</u>	<u>\$ 108,738</u>

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 June 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 June 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 September 30, 2017. As of June 30, 2017, the 2019 Notes had a market price of \$1,923 per \$1,000 principal amount, compared to an estimated conversion value of \$1,922 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 \$0.3 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 June 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Contractual interest expense	\$ 2,053	\$ 963	\$ 3,242	\$ 1,926
Amortization of debt issuance costs	389	153	590	306
Amortization of debt discount	2,951	1,022	4,362	2,044
Capitalized interest (Note 4)	(167)	(405)	(379)	(675)
Total	<u>\$ 5,226</u>	<u>\$ 1,733</u>	<u>\$ 7,815</u>	<u>\$ 3,601</u>
Effective interest rate on convertible senior notes	7.81%	7.22%	7.70%	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 June 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 June 30, 2017	Carrying Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
2.375% convertible senior notes due 2022 <sup>(1)</sup>	\$ 269,238	\$ —	\$ 368,072	\$ —
3.25% convertible senior notes due 2019 <sup>(2)</sup>	\$ 319	\$ —	\$ 654	\$ —

(1) The closing price of the Company's common stock was \$47.70 per share at June 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, which assumes no increases in the conversion rate for certain corporate events.

(2) The closing price of the Company's common stock was \$47.70 per share at June 30, 2017 compared to a conversion price of \$24.82 per share which, if converted, would result in an approximate conversion premium of less than 0.1 million shares or \$0.3 million of cash. The maximum conversion premium that can be due on the 2019 Notes is less than 0.1 million shares, which assumes no increases in the conversion rate for certain corporate events.

Short-term investments consist of asset-backed securities collateralized by credit card receivables, investment grade commercial paper and corporate bonds with maturities less than one year. The net unrealized gains and losses from the Company's short-term investments are reported in other comprehensive income (loss). At June 30, 2017, all of the Company's short-term investments are classified as available for sale investments and are determined to be Level 2 instruments, which are measured at fair value using standard industry models with observable inputs. The fair value of the commercial paper is measured based on a standard industry model that uses the three-month Treasury bill rate as an observable input. The fair value of the asset-backed securities and corporate bonds is principally measured or corroborated by trade data for identical issues in which related trading activity is not sufficiently frequent to be considered a Level 1 input or that of comparable securities. At June 30, 2017, the Company's short-term investments were rated A or better by Standard & Poor's.

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

June 30, 2017 Debt Securities	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value (Level 2)
Short-term:				
Asset-backed securities	\$ 69,984	\$ —	\$ (15)	\$ 69,969
Commercial paper	35,896	3	(1)	35,898
Corporate bonds	222,812	21	(72)	222,761
Total	\$ 328,692	\$ 24	\$ (88)	\$ 328,628

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
<b>Total</b>	<b>\$ 136,683</b>	<b>\$ 19</b>	<b>\$ (49)</b>	<b>\$ 136,653</b>

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets and liabilities acquired in a business combination and long-lived assets, which would be recognized at fair value if deemed to be impaired or if reclassified as assets held for sale. The fair value in these instances would be determined using Level 3 inputs. At June 30, 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 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 June 30, 2017, three customers each accounted for over 10% of the Company's accounts receivable, at 34%, 29% and 27%, respectively. At December 31, 2016, three customers each accounted for over 10% of the Company's accounts receivable, at 36%, 29% and 25%, respectively (for additional information regarding the Company's customers, see Note 2, *Summary of Significant Accounting Policies*). Revenues are primarily derived from major wholesalers and pharmaceutical companies 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 June 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 its condensed consolidated statements of operations as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of goods sold	\$ 1,395	\$ 1,610	\$ 2,770	\$ 3,159
Research and development	647	1,015	1,304	1,908
Selling, general and administrative	5,303	5,040	10,670	11,088
<b>Total</b>	<b>\$ 7,345</b>	<b>\$ 7,665</b>	<b>\$ 14,744</b>	<b>\$ 16,155</b>
Stock-based compensation from:				
Stock options (employee awards)	\$ 5,741	\$ 5,789	\$ 11,658	\$ 12,633
Stock options (consultant awards)	29	437	83	723
Restricted stock units (employee awards)	1,389	1,140	2,611	2,225
Employee stock purchase plan	186	299	392	574
<b>Total</b>	<b>\$ 7,345</b>	<b>\$ 7,665</b>	<b>\$ 14,744</b>	<b>\$ 16,155</b>

##### Employee Stock Purchase Plan

The Company's 2014 Employee Stock Purchase Plan, or ESPP, features two six-month offering periods per year, running from January 1 to June 30 and July 1 to December 31. Under the ESPP, employees may elect to contribute after-tax earnings to



purchase shares at 85% of the closing fair market value of the Company's common stock on either the offering date or the purchase date, whichever is less. During the six months ended June 30, 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 six months ended June 30, 2017:

Stock Options	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2016	5,207,743	\$ 42.16
Granted	933,000	44.41
Exercised	(214,474)	12.19
Forfeited	(286,978)	52.05
Expired	(83,589)	80.43
Outstanding at June 30, 2017	<u>5,555,702</u>	42.61

  

Restricted Stock Units	Number of Units	Weighted Average Grant Date Fair Value
Unvested at December 31, 2016	364,403	\$ 52.85
Granted	338,083	44.22
Vested	(96,928)	54.22
Forfeited	(44,127)	52.48
Unvested at June 30, 2017	<u>561,431</u>	47.41

The weighted average fair value of stock options granted during the six months ended June 30, 2017 was \$20.98 per share. The fair values of stock options granted were estimated using the Black-Scholes option valuation model with the following weighted average assumptions:

	Six Months Ended June 30, 2017
Expected dividend yield	None
Risk free interest rate	1.79%
Expected volatility	51.5%
Expected term of options	5.28

### NOTE 9—STOCKHOLDERS' EQUITY

#### Accumulated Other Comprehensive Income (Loss)

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

	Six Months Ended June 30,	
	2017	2016
<b>Net unrealized gains (losses) from available for sale investments:</b>		
Balance at beginning of period	\$ (30)	\$ (52)
Other comprehensive income (loss) before reclassifications	(34)	190
Amounts reclassified from accumulated other comprehensive income (loss)	—	—
Balance at end of period	<u>\$ (64)</u>	<u>\$ 138</u>

**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 six months ended June 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 six months ended June 30, 2017 and 2016 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Numerator:</b>				
Net loss	\$ (19,743)	\$ (7,958)	\$ (39,609)	\$ (11,812)
<b>Denominator:</b>				
Weighted average common shares outstanding	40,160	37,181	39,079	37,101
<b>Net loss per share:</b>				
Basic and diluted net loss per common share	\$ (0.49)	\$ (0.21)	\$ (1.01)	\$ (0.32)

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted average number of stock options	5,092	4,254	5,102	4,288
Weighted average number of RSUs	375	218	364	212
Conversion premium on the 2019 Notes	9	2,364	817	2,557
Weighted average number of warrants	—	—	—	1
Weighted average ESPP purchase options	36	—	37	12
Total	5,512	6,836	6,320	7,070

**NOTE 11—INCOME TAXES**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Loss before income taxes:</b>				
Domestic	\$ (18,950)	\$ (7,526)	\$ (38,269)	\$ (11,025)
Foreign	(763)	(374)	(1,280)	(697)
Total loss before income taxes	\$ (19,713)	\$ (7,900)	\$ (39,549)	\$ (11,722)

The Company recorded income tax expense of less than \$0.1 million in both the three and six months ended June 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 six months ended June 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 June 30, 2017, aggregate annual minimum payments due under the Company's lease obligations are as follows (in thousands):

Year	Aggregate Minimum Payments
2017 (remaining six months)	\$ 3,937
2018	8,063
2019	8,272
2020	6,389
2021	1,207
2022 through 2028	7,545
Total	<u>\$ 35,413</u>

### *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 DepoCyt® (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 has ceased all production of DepoCyt(e).

In the second quarter of 2017, the Company recorded a non-recurring charge of \$5.0 million related to the discontinuation of its DepoCyt(e) manufacturing activities, including \$0.5 million for DepoCyt(e) related inventory, which is recorded in cost of

goods sold, and \$4.5 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. All cash payments related to the charge are expected to be completed by December 31, 2017, except for the ongoing lease payments on the DepoCyt(e) manufacturing facility which will continue through the end of the lease in August 2020.

As of June 30, 2017, the Company's costs 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 January 1, 2017	\$ —	\$ —	\$ —	\$ —	\$ —
Charges incurred	365	1,865	2,397	375	5,002
Cash payments made	—	—	—	—	—
Disposal of property, plant & equipment and inventory	—	—	(2,397)	—	(2,397)
Adjustments	—	—	—	—	—
Balance at June 30, 2017	<u>\$ 365</u>	<u>\$ 1,865</u>	<u>\$ —</u>	<u>\$ 375</u>	<u>\$ 2,605</u>

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 six month periods ended June 30, 2016. At June 30, 2017, \$2.9 million is classified in accrued expenses and \$0.6 million is classified in other liabilities, consistent with the contractual timing of payments.

**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 Europe.

**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. Our commercial-stage products are EXPAREL and DepoCyt(e):

- EXPAREL is a liposome injection of bupivacaine, an amide-type local anesthetic indicated for single-dose administration into the surgical site to produce postsurgical analgesia. 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.
- DepoCyt(e) is a sustained release liposomal formulation of the chemotherapeutic agent cytarabine and is indicated for the intrathecal treatment of lymphomatous meningitis. DepoCyt(e) was granted accelerated approval by the FDA in 1999 and full approval in 2007. In June 2017, we discontinued all future production of DepoCyt(e). See Recent Highlights and Developments for a discussion on discontinuing the production of DepoCyt(e).

We expect to continue to incur significant expenses as we pursue the expanded use of EXPAREL in additional indications and opportunities; advance the development of DepoFoam-based product candidates, such as DepoTranexamic Acid and DepoMeloxicam; 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

- Total revenues increased \$1.3 million, or 2%, in the three months ended June 30, 2017, compared to the same period in 2016, primarily driven by EXPAREL net product sales of \$69.8 million, which were up \$4.0 million, or 6%, versus the same period in 2016. For the six months ended June 30, 2017, total revenues increased \$5.1 million, or 4%, primarily driven by EXPAREL net product sales of \$137.5 million, which were up \$8.0 million, or 6%, versus the same period in 2016.
- In July 2017, we reported topline results from two Phase 3 studies evaluating EXPAREL as a single-dose nerve block for prolonged regional analgesia. In the first study, EXPAREL was administered as a brachial plexus block for patients undergoing one of two upper extremity surgeries (total shoulder arthroplasty or rotator cuff repair). The upper extremity study showed that EXPAREL significantly reduces pain scores ( $p < 0.0001$ ) and opioid use ( $p < 0.01$ ) over 48 hours. In the second study, EXPAREL was administered as a femoral nerve block for patients undergoing a lower extremity surgical procedure (total knee arthroplasty, or TKA). The lower extremity study defined the safety and pharmacokinetic profile of EXPAREL as single-dose nerve block through 120 hours; however it did not demonstrate statistical significance ( $p > 0.05$ ) due to a significant deviation from protocol identified at a single center. When these patients were excluded from the analyses, patients receiving 266 mg EXPAREL achieved statistical significance versus placebo for the study's primary endpoint of cumulative pain scores over 72 hours ( $p < 0.03$ ). We believe these two studies, as well as other EXPAREL studies, including a previously completed Phase 3 study of EXPAREL that demonstrated statistical significance in femoral nerve block, will support the resubmission of our sNDA to the FDA later this year.
- 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 (18.7 mg versus 84.9 mg in the bupivacaine group;  $p = 0.0048$ ) and a reduction in pain scores from 12 to 48 hours after surgery (180.8 versus 209.3 in the bupivacaine group;  $p = 0.0381$ ). 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 (20.9 mg versus 93.6 mg, respectively;  $p = 0.0108$ ), 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 ( $p = 0.0230$ ).
- In June 2017, we discontinued all future production of DepoCyt® (U.S. and Canada) and DepoCyt® (European Union) due to persistent technical issues specific to the DepoCyt(e) manufacturing process. This decision does not affect any product that has already been distributed to customers or administered to patients. In the second quarter of 2017, we recorded a charge of approximately \$5.0 million related to the discontinuation of its DepoCyt(e) manufacturing activities. DepoCyt(e) accounted for approximately 2.6% of our total revenues in 2016.

## EXPAREL

As a result of the topline results discussed previously in the Overview, we intend to file an sNDA for nerve block in the second half of 2017 for a six-month Prescription Drug User Fee Act, or PDUFA, review. We believe that this new indication will 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) will allow us to further leverage our manufacturing and commercial infrastructure.

We are investing in a series of blinded, randomized, bupivacaine-comparator Phase 4 trials in key surgical procedures. These trials are designed to assess the differences in postsurgical pain and opioid use between patients receiving EXPAREL as the foundation of a multimodal analgesic regimen versus a bupivacaine-based multimodal analgesic regimen. Our Phase 4 trials are also designed to support clinician education on procedure-specific best-practice care.

As noted above, we recently announced top-line data from a Phase 4 trial in TKA. We are also advancing a Phase 4 trial of EXPAREL for postsurgical pain management in patients undergoing spinal fusion surgery, and we expect to report top-line data around the end of 2017.

In 2017, we plan to initiate a series of Phase 4 trials with EXPAREL added to the standard of care for soft tissue procedures. We are currently selecting sites for a clinical trial evaluating EXPAREL plus bupivacaine infiltration into the

transversus abdominis plane, or TAP, versus bupivacaine alone for patients undergoing a cesarean section. We are also planning to initiate a 4-point TAP trial in colorectal surgery and a PEC1/PEC2 infiltration block for patients undergoing unilateral breast reconstruction. These trials will evaluate opioid use and postsurgical pain control, as well as a number of additional efficacy, safety and health economic outcomes.

### **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 products as 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 Six Months Ended June 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. We also earn royalties based on sales by commercial partners of DepoCyt(e) and license fees and milestone payments from third parties.

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

	Three Months Ended			Six Months Ended		
	June 30,		% Increase / (Decrease)	June 30,		% Increase / (Decrease)
	2017	2016		2017	2016	
Net product sales:						
EXPAREL	\$ 69,773	\$ 65,753	6%	\$ 137,474	\$ 129,505	6%
DepoCyt(e) and other product sales	366	1,934	(81)%	1,090	2,684	(59)%
Total net product sales	70,139	67,687	4%	138,564	132,189	5%
Collaborative licensing and milestone revenue	130	1,356	(90)%	336	1,713	(80)%
Royalty revenue	665	597	11%	1,317	1,212	9%
Total revenues	\$ 70,934	\$ 69,640	2%	\$ 140,217	\$ 135,114	4%

EXPAREL revenue grew 6% in each of the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016, primarily due to a 7% increase in sales volume partially offset by an increase in volume rebates. The demand for EXPAREL has continued to increase as a result of new accounts and growth within existing accounts, which has been driven by continued adoption of EXPAREL use in soft tissue and orthopedic procedures.

DepoCyt(e) and other product sales decreased 81% and 59% in the three and six months ended June 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 in the second quarter of 2017 compared to the same period in 2016. Persistent technical issues specifically related to the DepoCyt(e) manufacturing process negatively impacted product availability and sales. We discontinued the manufacture of DepoCyt(e) in June 2017.

Collaborative licensing and milestone revenue decreased 90% and 80% in the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016, due to milestones earned under our agreement with Aratana Therapeutics, Inc. for the development and commercialization of our products in animal health indications in the three months ended June 30, 2016 and the cessation of recognizing deferred revenue from a development and licensing agreement with Amylin Pharmaceuticals, Inc. which expired in January 2017.

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

#### Cost of Goods Sold

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

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

	Three Months Ended			Six Months Ended		
	June 30,		% Increase / (Decrease)	June 30,		% Increase / (Decrease)
	2017	2016		2017	2016	
Cost of goods sold	\$ 23,811	\$ 23,053	3%	\$ 48,392	\$ 43,331	12%
Gross margin	66%	67%		65%	68%	

The 1% and 3% decreases in gross margins for the three and six months ended June 30, 2017 versus 2016, respectively, were largely due to scrapped lots, primarily those relating to DepoCyt(e) manufactured in the first and second quarters of 2017. These scrapped lots impacted gross margins by 4% in each of the three and six months ended June 30, 2017. In addition, gross margins decreased by 2% as a result of higher manufacturing costs per vial in the three and six months ended June 30, 2017. These decreases were partially offset by approximately \$4.9 million of unplanned manufacturing shutdown and other charges in the three and six months ended June 30, 2016, which did not occur in 2017. This offset the overall decrease in gross margins by 5% and 3% for the three and six months ended June 30, 2017, respectively. Inventory sold in 2016 had a lower manufacturing cost per vial due to increased utilization of our facilities to manufacture EXPAREL at the time of production.



*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 both new process development and new product candidates, toxicology studies and facility costs for our research space. Stock-based compensation expense relates to the costs of stock option grants to employees and non-employees, awards of restricted stock units, or RSUs, and our employee stock purchase plan, or ESPP.

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

	Three Months Ended		% Increase / (Decrease)	Six Months Ended		% Increase / (Decrease)
	June 30,			June 30,		
	2017	2016		2017	2016	
Clinical development	\$ 12,674	\$ 4,577	177%	\$ 23,437	\$ 8,911	163%
Product development and other	5,535	3,770	47%	10,746	8,036	34%
Stock-based compensation	647	1,015	(36)%	1,304	1,908	(32)%
Total research and development expense	\$ 18,856	\$ 9,362	101%	\$ 35,487	\$ 18,855	88%
% of total revenues	27%	13%		25%	14%	

Research and development expense increased 101% and 88% in the three and six months ended June 30, 2017 compared to the same periods in 2016.

The increase in clinical development expense in both periods reflects costs for 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. Clinical expenses also included our ongoing Phase 4 EXPAREL infiltration trials, including the spine trial, which began enrollment in February 2017. We also incurred start-up expenses related to our EXPAREL colorectal and cesarean section trials, as well as an increase in research grants. The increase in clinical development expense was partially offset by the completion of the Phase 4 EXPAREL infiltration trial in TKA, which concluded enrollment in January 2017.

Product development and other expenses increased primarily due to expenses for investigational runs and the development of a new analytical test for an EXPAREL stability testing attribute. These increases were partially offset by a reduction in spend for preclinical DepoFoam toxicology trials.

In the three and six months ended June 30, 2017 versus 2016, stock-based compensation decreased as additional expense 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.

*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 June 30,			Six Months Ended June 30,		
	2017	2016	% Increase / (Decrease)	2017	2016	% Increase / (Decrease)
Sales and marketing	\$ 22,613	\$ 27,607	(18)%	\$ 47,788	\$ 47,946	—%
General and administrative	11,636	11,022	6%	23,214	22,592	3%
Stock-based compensation	5,303	5,040	5%	10,670	11,088	(4)%
Total selling, general and administrative expenses	\$ 39,552	\$ 43,669	(9)%	\$ 81,672	\$ 81,626	—%
% of total revenues	56%	63%		58%	60%	

Selling, general and administrative expenses decreased 9% for the three months ended June 30, 2017 and remained flat in the six months ended June 30, 2017, compared to the same periods in 2016.

Sales and marketing expenses decreased by 18% for the three months ended June 30, 2017 and remained flat in the six months ended June 30, 2017 versus the same periods in 2016. Expenses decreased in both periods due to a \$7.2 million termination payment to CrossLink BioScience, LLC, or CrossLink, recognized in 2016, which was partially offset by \$1.6 million and \$3.6 million increases in salaries, benefits and other personnel-related costs during the three and six month periods ended June 30, 2017, respectively, resulting from an increase in the number of field-based medical and sales professionals to better support and educate our customers and \$0.5 million and \$3.3 million increases in marketing spending for EXPAREL in these respective periods, which included educational initiatives and programs to create product awareness within key surgical markets, along with other selling and promotional activities to support the growth of EXPAREL. Included in the increased spending for EXPAREL was support for multiple educational programs on the impact of opioids and postsurgical pain management and the development of a virtual reality educational program to demonstrate proper EXPAREL infiltration technique. Increased costs related to our co-promotion agreement with DePuy Synthes Sales, Inc., or DePuy Synthes, in 2017 were mostly offset by reduced costs from our master distribution agreement with CrossLink, which was terminated in June 2016.

General and administrative expenses increased 6% and 3% in the three and six months ended June 30, 2017, respectively, versus the same periods in 2016. Compensation-related expenses increased \$1.2 million and \$2.2 million in the three and six months ended June 30, 2017, respectively, due to an increase in personnel to support our business development, investor relations and information technology functions. Business development spending increased an additional \$0.5 million and \$0.9 million in the three and six months ended June 30, 2017, respectively, to support various initiatives, including our recently executed co-promotion agreement with DePuy Synthes, advisory board meetings and worldwide expansion plans for EXPAREL. In the six months ended June 30, 2017 compared to the same period in 2016, there was a \$0.4 million increase in regulatory expenses in preparation for a European Medicines Agency Marketing Authorization Application for EXPAREL for commercialization in the European Union. These increases in both periods were partially offset by lower legal and compliance expenses, primarily related to a DOJ subpoena received in April 2015 with related costs into 2016.

Stock-based compensation increased \$0.3 million in the three month period ended June 30, 2017, compared to the same period in 2016, primarily due to new awards granted in mid-to-late 2016 and 2017. In the six months ended June 30, 2017 versus 2016, there was a \$0.4 million decrease in stock-based compensation primarily due to accelerated stock-based compensation expense in the six months ended June 30, 2016.

#### *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 second quarter of 2017, we recorded a charge of approximately \$5.0 million related to the discontinuation of our DepoCyt(e) manufacturing activities, including \$0.5 million for related inventory which was recorded in cost of goods sold. The remaining \$4.5 million included costs of approximately \$1.9 million for lease costs less an estimate of potential sub-lease income for the facility where DepoCyt(e) was manufactured, \$1.9 million for the write-off of fixed assets and \$0.7 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 June 30,			% Increase / (Decrease)	Six Months Ended June 30,			% Increase / (Decrease)
	2017	2016			2017	2016		
Interest income	\$ 1,224	\$ 324		278%	\$ 1,738	\$ 576		202%
Interest expense	(5,226)	(1,733)		202%	(7,815)	(3,601)		117%
Loss on early extinguishment of debt	(11)	—		N/A	(3,732)	—		N/A
Other, net	80	(47)		N/A	89	1		N/A
Total other expense, net	\$ (3,933)	\$ (1,456)		170%	\$ (9,720)	\$ (3,024)		221%

Total other expense, net increased by 170% and 221% in the three and six months ended June 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 concurrent repurchase 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 \$4.2 million in the three and six months ended June 30, 2017, respectively. There was also an increase in interest income of \$0.9 million and \$1.2 million, respectively, 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 June 30,			% Increase / (Decrease)	Six Months Ended June 30,			% Increase / (Decrease)
	2017	2016			2017	2016		
Income tax expense	\$ 30	\$ 58		(48)%	\$ 60	\$ 90		(33)%
Effective tax rate	(0)%	(1)%			(0)%	(1)%		

Income tax expense was less than \$0.1 million in both the three and six months ended June 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, no deferred taxes are reflected.

#### 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 June 30, 2017, we had an accumulated deficit of \$386.1 million, cash and cash equivalents and short-term investments of \$382.4 million and working capital of \$393.5 million.

#### Summary of Cash Flows

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

Condensed Consolidated Statement of Cash Flows Data:	Six Months Ended June 30,	
	2017	2016
Net cash provided by (used in):		
Operating activities	\$ 3,662	\$ 4,420
Investing activities	(204,986)	(41,517)
Financing activities	219,194	5,422
Net increase (decrease) in cash and cash equivalents	\$ 17,870	\$ (31,675)

### *Operating Activities*

During the six months ended June 30, 2017, our net cash provided by operating activities was \$3.7 million compared to \$4.4 million during the six months ended June 30, 2016. The decrease of \$0.7 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 and our Phase 4 EXPAREL infiltration trials, partially offset by higher collections from EXPAREL net product sales.

### *Investing Activities*

During the six months ended June 30, 2017, our net cash used in investing activities was \$205.0 million, which reflected \$192.0 million of short-term investment purchases (net of maturities) primarily from the net proceeds of the 2022 Notes, purchases of fixed assets of \$8.8 million and contingent consideration payments of \$4.2 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 six months ended June 30, 2016, our net cash used in investing activities was \$41.5 million, which reflected \$21.7 million of short-term investment purchases (net of maturities), purchases of fixed assets of \$15.9 million and contingent consideration payments of \$3.9 million related to the March 2007 acquisition of Skyepharma. Major fixed asset purchases included continuing expenditures for expanding our manufacturing capacity in Swindon, England in partnership with Patheon and the completion of our new research facility at our Science Center Campus in San Diego, California.

### *Financing Activities*

During the six months ended June 30, 2017, our net cash provided by financing activities was \$219.2 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 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 \$2.6 million and proceeds from the issuance of shares under our employee stock purchase plan were \$1.1 million.

In the six months ended June 30, 2016, net cash provided by financing activities consisted of proceeds from the exercise of stock options of \$4.4 million and \$1.0 million from the issuance of shares under our employee stock purchase plan.

### **2022 Convertible Senior Notes**

On March 13, 2017, we completed a private placement of \$345.0 million in aggregate principal amount, 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 annum, payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2017. The 2022 Notes mature on April 1, 2022. At June 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 June 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, 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 June 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 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 August 2, 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, and costs of development for our 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 June 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, (iii) royalties based on sales by commercial partners of DepoCyt(e) 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 six months ended June 30, 2017 and 2016 (in thousands):

June 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	361	2,829	2,134	2,040	7,364
Payments/Credits	(612)	(2,861)	(2,258)	(1,857)	(7,588)
Balance at June 30, 2017	\$ 1,095	\$ 563	\$ 611	\$ 1,307	\$ 3,576

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

Total reductions of gross product sales from sales-related allowances and accruals were \$7.4 million and \$6.0 million, or 5.1% and 4.4% of gross product sales for the six months ended June 30, 2017 and 2016, respectively. The overall increase in sales-related allowances and accruals was directly related to the increase in EXPAREL sales and an increase in volume related rebates.

### 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 European Union country. This contingency is described further in Note 5, *Goodwill*, to our condensed consolidated financial statements included herein.

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

The primary objective of our cash equivalent and investment activities is to preserve principal while at the same time maximizing the income that we receive from our investments without significantly increasing risk. We invest in corporate bonds, commercial paper and asset-backed securities, which are reported at fair value. These securities are subject to interest rate risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the interest rate later rises, we expect that the fair value of our investment will decline. A hypothetical 100 basis point increase in interest rates would have reduced the fair value of our available-for-sale securities at June 30, 2017 by approximately \$1.2 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 June 30, 2017, the estimated fair value of the 2019 Notes was \$1,923 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 June 30, 2017, \$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 June 30, 2017, the estimated fair value of the 2022 Notes was \$1,067 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 June 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 June 30, 2017, we had approximately \$0.3 million in receivables from customers denominated in Euros. A hypothetical 10% decrease in the value of the Euro relative to the United States dollar would have decreased our revenue by less than \$0.1 million for the quarter ended June 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 flow.

#### **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 June 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 June 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**

On May 4, 2017, the Company entered into a privately negotiated agreement with a holder of its outstanding 2019 Notes to exchange such notes for shares of its common stock and cash in a private placement transaction pursuant to Section 4(a)(2) of the Securities Act (the "Exchange Transaction"). In exchange for an aggregate of \$479,000 in principal amount of 2019 Notes, the Company paid an aggregate of \$483,169 in cash in respect of the principal amount and accrued interest, together with an aggregate of 10,106 shares of common stock. The holder of the 2019 Notes that participated in the Exchange Transaction represented to the Company that it was either an institutional "accredited investor" within the meaning of Rule 501 of Regulation D promulgated under the Securities Act or a "qualified institutional buyer" within the meaning of Rule 144A promulgated under the Securities Act. The Exchange Transaction closed on May 5, 2017.

### **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.

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
31.1	Certification of Chief Executive Officer and Chairman pursuant to Rule 13a-14(a) and 15d-14(a), as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as amended.*
32.1	Certification of Chief Executive Officer and Chairman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101	The following materials from the Quarterly Report on Form 10-Q of Pacira Pharmaceuticals, Inc. for the quarter ended June 30, 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: August 2, 2017

**/s/ DAVID STACK**

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

Dated: August 2, 2017

**/s/ CHARLES A. REINHART, III**

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

## CERTIFICATION

I, David Stack, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pacira Pharmaceuticals, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 2, 2017

/s/ David Stack

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

## CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Pacira Pharmaceuticals, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 2, 2017

/s/ Charles A. Reinhart, III

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

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

Pursuant to 18 U.S.C. §1350, the undersigned certifies that this Quarterly Report on Form 10-Q of Pacira Pharmaceuticals, Inc. for the quarter ended June 30, 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: August 2, 2017

/s/ David Stack

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

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

Pursuant to 18 U.S.C. §1350, the undersigned certifies that this Quarterly Report on Form 10-Q of Pacira Pharmaceuticals, Inc. for the quarter ended June 30, 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: August 2, 2017

/s/ Charles A. Reinhart, III

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