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As filed with the Securities and Exchange Commission on January 20, 2011

Registration No. 333-170245

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4
to
Form S-1
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

PACIRA PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	2834	51-0619477
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code No.)	(I.R.S. Employer Identification No.)

5 Sylvan Way, Suite 125
Parsippany, New Jersey 07054
(973) 254-3560

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

David M. Stack
President and Chief Executive Officer
5 Sylvan Way, Suite 125
Parsippany, New Jersey 07054
(973) 254-3560

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Joseph K. Wyatt, Esq.
Wilmer Cutler Pickering Hale and Dorr LLP
950 Page Mill Road
Palo Alto, California 94304
(650) 858-6000

Marc D. Jaffe, Esq.
Gregory P. Rodgers, Esq.
Latham & Watkins LLP
885 Third Avenue
New York, NY 10022
(212) 906-1200

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement is declared effective.

If any of the securities being registered on this form are offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") please check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated January 20, 2011

PROSPECTUS

4,250,000 Shares

Common Stock

This is the initial public offering of the common stock of Pacira Pharmaceuticals, Inc. We are offering 4,250,000 shares of our common stock. No public market currently exists for our common stock.

We have applied to list our common stock on The NASDAQ Global Market under the symbol “PCRX.”

We anticipate that the initial public offering price will be between $14.00 and $16.00 per share.

Investing in our common stock involves risks. See “Risk Factors” beginning on page 11 of this prospectus.

	Per share	Total
Price to the public	$	$
Underwriting discounts and commissions	$	$
Proceeds to us (before expenses)	$	$

We have granted the underwriters the option to purchase 637,500 additional shares of common stock on the same terms and conditions set forth above if the underwriters sell more than 4,250,000 shares of common stock in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about , 2011.

Barclays Capital **Piper Jaffray**

Wedbush PacGrow Life Sciences **Brean Murray, Carret & Co.**

Prospectus dated , 2011.

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You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on behalf of us or to which we have referred you. We have not authorized anyone to provide you with information that is different. We are offering to sell shares of our common stock, and seeking offers to buy shares of our common stock, only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock.

For investors outside the United States: neither we nor any of the underwriters have taken any action to permit a public offering of the shares of our common stock or the possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

We obtained the industry, market and competitive position data in this prospectus from our own internal estimates and research as well as from industry and general publications and research, surveys and studies conducted by third parties. Industry publications, studies and surveys generally state that they have been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the following summary together with the more detailed information appearing in this prospectus, including our consolidated financial statements and related notes, and the risk factors beginning on page 11, before deciding whether to purchase shares of our common stock. Unless the context otherwise requires, we use the terms "Pacira," "our company," we," "us" and "our" in this prospectus to refer to Pacira Pharmaceuticals, Inc. and its subsidiaries.

Overview

We are an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on our proprietary DepoFoam drug delivery technology, for use in hospitals and ambulatory surgery centers. In September 2010, we filed a New Drug Application, or NDA, for our lead product candidate, EXPAREL, a long-acting bupivacaine (anesthetic/analgesic) product for postsurgical pain management. Our clinical data demonstrates that EXPAREL provides analgesia for up to 72 hours post-surgery, compared with seven hours or less for bupivacaine.

We believe EXPAREL will address a significant unmet medical need for a long-acting non-opioid postsurgical analgesic, resulting in simplified postsurgical pain management and reduced opioid consumption, leading to improved patient outcomes and enhanced hospital economics. We estimate there are approximately 39 million opportunities annually in the United States for EXPAREL to be used. EXPAREL will be launched by certain members of our management team who have successfully launched multiple products in the hospital market.

EXPAREL consists of bupivacaine encapsulated in DepoFoam, both of which are used in FDA-approved products. DepoFoam, our extended release drug delivery technology, is the basis for our two FDA-approved commercial products, DepoCyt(e) and DepoDur, which we manufacture for our commercial partners. DepoFoam-based products have been manufactured for over a decade and have an extensive safety record and history of regulatory approvals in the United States, European countries and other territories. Bupivacaine, a well-characterized, FDA-approved anesthetic/analgesic, has an established safety profile and over 20 years of use in the United States.

EXPAREL has demonstrated efficacy and safety in two multicenter, randomized, double-blind, placebo-controlled, pivotal Phase 3 clinical trials in patients undergoing soft tissue surgery (hemorrhoidectomy) and orthopedic surgery (bunionectomy). In our pivotal Phase 3 hemorrhoidectomy clinical trial, EXPAREL achieved its primary endpoint by providing a statistically significant 30% reduction in pain, as measured by the area under the curve, or AUC, of the NRS-R pain scores, a commonly used patient reported measurement of pain, at 72 hours and all additional time points measured up to 72 hours. In addition, EXPAREL achieved its secondary endpoints in reducing the use of opioid rescue medication, including 45% less opioid usage compared to the placebo treatment group at 72 hours. In our pivotal Phase 3 bunionectomy clinical trial, EXPAREL also met its primary endpoint, demonstrating a statistically significant reduction in pain at 24 hours, and this reduction was also statistically significant at 36 hours. The trial also met secondary endpoints related to pain measurement and the use of opioid rescue medication. Overall, EXPAREL has demonstrated safety in over 1,300 subjects.

We are initially seeking FDA approval of EXPAREL for postsurgical analgesia by local administration into the surgical wound, or infiltration, a procedure commonly employing bupivacaine. Under the Prescription Drug User Fee Act, or PDUFA, guidelines, the FDA has a goal of ten months from the date of NDA filing to make a decision regarding the approval of our filing. Our NDA for EXPAREL was accepted by the FDA on December 10, 2010 and the PDUFA goal date for our NDA is July 28, 2011. We are also pursuing several additional indications for EXPAREL and expect to submit a supplemental NDA, or sNDA, for nerve block and epidural administration.

Our current product portfolio and product candidate pipeline is summarized in the table below:

Product(s) / Product Candidate(s)	Primary Indication(s)	Status	Commercialization Rights
EXPAREL	Postsurgical analgesia by infiltration	PDUFA goal date: July 28, 2011	Pacira (worldwide)
	Postsurgical analgesia by nerve block	Phase 2/3 (planning)	Pacira (worldwide)
	Postsurgical analgesia by epidural administration	Phase 1 (completed)	Pacira (worldwide)
DepoCyt(e)	Lymphomatous meningitis	Marketed	Sigma-Tau Pharmaceuticals Mundipharma International
DepoDur	Post-operative pain	Marketed	EKR Therapeutics Flynn Pharmaceuticals
DepoNSAID	Acute pain	Preclinical	Pacira (worldwide)
DepoMethotrexate	Rheumatoid arthritis Oncology	Preclinical Preclinical	Pacira (worldwide) Pacira (worldwide)

Limitations of Current Therapies for Postsurgical Pain

Substantially all surgical patients experience postsurgical pain, with approximately 50% of surgical patients reporting inadequate pain relief according to certain epidemiological studies. Local anesthetics, such as bupivacaine, are usually effective for seven hours or less, and opioids, the mainstay of postsurgical pain management, have a range of potentially severe side effects. The use of opioid-based patient controlled analgesia, or PCA, systems further adds cost and complication to the process of postsurgical pain management.

Non-steroidal anti-inflammatory drugs, or NSAIDS, are commonly used in an attempt to minimize opioid usage, but increase the risk of bleeding and gastrointestinal and renal complications. Elastomeric bags, which are often used to extend the delivery of bupivacaine using a catheter system, are clumsy, difficult to use and may introduce catheter-related issues, including infection.

EXPAREL

Based on our clinical trial data, EXPAREL provides continuous and extended postsurgical analgesia for up to 72 hours and reduces the consumption of supplemental opioid medications. We believe this will simplify postsurgical pain management, minimize breakthrough episodes of pain and result in improved patient outcomes and enhanced hospital economics.

Our EXPAREL strategy has four principal elements:

Replace the use of bupivacaine in postsurgical infiltration. We believe EXPAREL:

- extends postsurgical analgesia for up to 72 hours, from seven hours or less;
- utilizes existing postsurgical infiltration administration techniques;
- dilutes easily with saline to reach desired volume;
- is a ready-to-use formulation; and
- facilitates treatment of both small and large surgical wounds.

Become the foundation of a postsurgical pain management regimen in order to reduce and delay opioid usage. We believe EXPAREL:

- significantly delays and reduces opioid usage while improving postsurgical pain management as demonstrated in our Phase 3 hemorrhoidectomy trial, in which EXPAREL demonstrated the following:
  - delayed first opioid usage to approximately 14 hours post-surgery, compared to approximately one hour for placebo;
  - significantly increased percentage of patients requiring no opioid rescue medication through 72 hours post-surgery, to 28% compared to 10% for placebo;
  - 45% less opioid usage at 72 hours post-surgery compared to placebo; and
  - increased percentage of patients who are pain free at 24 hours post-surgery compared to placebo; and
- may reduce hospital cost and staff monitoring of PCA systems.

Improve patient satisfaction. We believe EXPAREL:

- reduces the need for patients to be constrained by elastomeric bags and PCA systems, which are clumsy, difficult to use and may introduce catheter-related issues, including infection;
- promotes maintenance of early postsurgical pain management, thereby reducing the time spent in the intensive care unit; and
- promotes early ambulation, which potentially reduces the risk of life-threatening blood clots, and allows quicker return of bowel function, thereby leading to a faster switch to oral nutrition and medicine, and thus a faster discharge from the hospital.

Develop and seek approval of EXPAREL for nerve block and epidural administration. We believe these additional indications for EXPAREL:

- present a low-risk, low-cost opportunity for clinical development; and
- will enable us to fully leverage our manufacturing and sales infrastructure.

Manufacturing and Intellectual Property

We manufacture all our DepoFoam-based products, including commercial supplies of DepoCyt(e) and DepoDur for our commercial partners. We currently manufacture clinical supplies of EXPAREL and intend to manufacture and commercialize EXPAREL upon its approval.

We have developed significant know-how regarding our manufacturing process and protect our technology through trade secrets and patents. We have over 15 families of patents and patent applications relating to various aspects of DepoFoam delivery technology. Issued U.S. patents protect the composition of EXPAREL and methods for modifying its rate of drug release. We have also submitted additional patent applications related to the composition of, and manufacturing process for, EXPAREL. Recently, we filed a provisional patent relating to a new process to manufacture EXPAREL and other DepoFoam-based products, which, if granted, could prevent others from using this process until 2031.

Our Strategy

Our goal is to be a leading specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products principally for use in hospitals and ambulatory surgery centers. We plan to achieve this by:

- obtaining FDA approval for EXPAREL in the United States for postsurgical analgesia using local infiltration;
- building a streamlined commercial organization concentrating on major hospitals and ambulatory surgery centers in the United States and targeting surgeons, anesthesiologists, pharmacists and nurses;
- working directly with managed care payers, quality improvement organizations, key opinion leaders, or KOLs, in the field of postsurgical pain management and leading influence hospitals with registry programs to demonstrate the economic benefits of EXPAREL;
- securing commercial partnerships for EXPAREL in regions outside of the United States;
- obtaining FDA approval for nerve block and epidural administration indications for EXPAREL;
- manufacturing all our DepoFoam-based products, including EXPAREL, DepoCyt(e) and DepoDur, in our current Good Manufacturing Practices, or cGMP, compliant facilities; and
- continuing to expand our marketed product portfolio through development of additional DepoFoam-based hospital products utilizing a 505(b)(2) strategy, which permits us to rely upon the FDA's previous findings of safety and effectiveness for an approved product. A 505(b)(2) strategy may not succeed if there are successful challenges to the FDA's interpretation of Section 505(b)(2).

Recent Developments

Hercules Credit Facility

On November 24, 2010, we entered into a $26.25 million credit facility with Hercules Technology Growth Capital, Inc. and Hercules Technology III, L.P., as lenders, or the Hercules Credit Facility. At the closing of the Hercules Credit Facility, we entered into a term loan in the aggregate principal amount of $26.25 million, which was the full amount available under the Hercules Credit Facility. As of December 31, 2010, the entire term loan of $26.25 million was outstanding. As further consideration to the lenders to provide the term loan under the Hercules Credit Facility, we issued to the lenders a warrant to purchase 178,986 shares of our Series A convertible preferred stock with an exercise price of $13.44 per share. If after the closing date of the Hercules Credit Facility and prior to the completion of this offering, we issue equity securities in a private placement then the lenders may, at their option, exercise the warrant for the same class and type of equity securities that we issue in such private placement in lieu of Series A convertible preferred stock. On November 24, 2010, all borrowings under our credit facility with General Electric Capital Corporation, or the GECC Credit Facility, were repaid in full from proceeds of the Hercules Credit Facility, and the GECC Credit Facility was terminated and any and all liens in favor of the lenders under the GECC Credit Facility were released.

December 2010 Convertible Notes

On December 29, 2010, we sold $15.0 million in aggregate principal amount of convertible promissory notes, or the December 2010 Convertible Notes, in a private placement to certain of our existing investors. 50% of the principal amount was funded on December 29, 2010. The remaining 50% of the principal amount will be funded in a second closing to occur upon written request of holders of at least 75% of the outstanding principal amount of the December 2010 Convertible Notes. In connection with the issuance and sale of the December 2010 Convertible Notes, we issued warrants to the holders of the December 2010 Convertible Notes to purchase an

aggregate of 167,361 shares of our common stock with an exercise price of $13.44 per share. Pursuant to the terms of the agreement for the issuance and sale of the December 2010 Convertible Notes, in the event a second closing of the issuance and sale of the December 2010 Convertible Notes occurs, we will issue warrants to the holders of the December 2010 Convertible Notes to purchase an additional 167,361 shares of our common stock with an exercise price of $13.44 per share. The December 2010 Convertible Notes will have an interest rate of 5% per year from and after March 31, 2011 and all principal and accrued and unpaid interest on the December 2010 Convertible Notes is due and payable upon the earliest of: (1) a sale of us, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated.

Upon completion of this offering, all principal and interest due under the December 2010 Convertible Notes will be converted into shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering. Purchasers of the December 2010 Convertible Notes included certain holders of more than 5% of our capital stock, or entities affiliated with them.

Amendment of 2007 Plan and Option Grant

In December 2010, our 2007 Stock Option/Stock Issuance Plan, or the 2007 Plan, was amended to increase the number of shares of common stock authorized for issuance under the 2007 Plan from 1,729,498 shares to 2,546,657 shares. On December 29, 2010, our board of directors granted options for an aggregate of 571,300 shares of our common stock to our employees, executive officers and directors. The options have an exercise price of $5.49 which was the per share value of our common stock on the date of grant. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Stock Based Compensation—Options Granted on December 29, 2010."

Novo Nordisk Development and License Agreement

In January 2011, we entered into an agreement with Novo Nordisk A/S, or Novo, pursuant to which we granted non-exclusive rights to Novo under certain of our patents and know-how to develop, manufacture and commercialize formulations of a Novo proprietary drug using our DepoFoam drug delivery technology. See "Business—Commercial Partners and Agreements—Novo Nordisk" for more information.

Risk Factors

Our business is subject to a number of risks of which you should be aware before making an investment decision. These risks are discussed more fully in the "Risk Factors" section of this prospectus immediately following this prospectus summary. These risks include the following:

- We are dependent on the success of our lead product candidate, EXPAREL, and cannot guarantee that this product candidate will receive regulatory approval or be successfully commercialized.
- If we are unable to establish effective marketing and sales capabilities or enter into agreements with third parties to market and sell our product candidates, if they are approved, we may be unable to generate product revenues.
- If EXPAREL is approved and we fail to manufacture the product in sufficient quantities and at acceptable quality and pricing levels, or to fully comply with cGMP regulations, we may face delays in the commercialization of this product candidate or be unable to meet market demand, and may lose potential revenues.
- We may not be able to manage our business effectively if we are unable to attract and retain key personnel.

- Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.
- We may not receive regulatory approval for EXPAREL or any of our other product candidates, or the approval may be delayed for various reasons, including successful challenges to the FDA's interpretation of Section 505(b)(2), which would have a material adverse effect on our business and financial condition.

Corporate History and Information

We were incorporated in Delaware under the name Blue Acquisition Corp. in December 2006 and changed our name to Pacira, Inc. in June 2007. In October 2010, we changed our name to Pacira Pharmaceuticals, Inc.

Pacira Pharmaceuticals, Inc. is the holding company for our California operating subsidiary of the same name, which we refer to as PPI-California. On March 24, 2007, MPM Capital, Sanderling Ventures, OrbiMed Advisors, HBM BioVentures, the Foundation for Research and their co-investors, through Pacira Pharmaceuticals, Inc., acquired PPI-California, from SkyePharma Holding, Inc., which we refer to as the Acquisition. PPI-California was known as SkyePharma, Inc. prior to the Acquisition. In this prospectus, the term Predecessor refers to SkyePharma, Inc. prior to March 24, 2007, or the Acquisition Date, and the term Successor refers to Pacira Pharmaceuticals, Inc. and its consolidated subsidiaries.

Our principal executive offices are located at 5 Sylvan Way, Suite 125, Parsippany, New Jersey 07054, and our telephone number is (973) 254-3560. Our website address is www.pacira.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus or in deciding whether to purchase shares of our common stock.

Pacira®, DepoFoam®, DepoCyt® (U.S. registration), DepoCyte® (EU registration), DepoDur®, EXPAREL™, the Pacira logo and other trademarks or service marks of Pacira appearing in this prospectus are the property of Pacira. This prospectus contains additional trade names, trademarks and service marks of other companies. In the prospectus, references 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.

The Offering

Common stock offered by Pacira	4,250,000 shares
Common stock to be outstanding after this offering	14,911,448 shares (15,548,948 shares in the event the underwriters elect to exercise their option to purchase additional shares from us in full)
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting estimated underwriting discounts and commissions and offering expenses, will be approximately $57.0 million, or approximately $65.9 million if the underwriters exercise their option to purchase additional shares from us in full. We intend to use the net proceeds from this offering as follows: • approximately $36.0 million through the fourth quarter of 2011 for the planned manufacture and commercialization of EXPAREL in the United States; • approximately $1.5 million through the fourth quarter of 2011 for the development of EXPAREL for nerve block; and • the balance for working capital and other general corporate purposes, which may include the acquisition or licensing of other products or technologies or the acquisition of other businesses in the biotechnology or specialty pharmaceuticals industry. See “Use of Proceeds.”
Risk factors	You should read the “Risk Factors” section and other information included in this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
Proposed NASDAQ Global Market symbol	“PCRX”

The number of shares of our common stock to be outstanding after this offering is based on the number of shares of common stock outstanding as of December 31, 2010, and excludes:

- 360,291 shares of common stock issuable upon the exercise of warrants outstanding as of December 31, 2010, at a weighted average exercise price of $8.73 per share;
- 2,073,864 shares of common stock issuable upon the exercise of stock options outstanding as of December 31, 2010, at a weighted average exercise price of $2.69 per share;
- 363,662 shares of common stock available for future issuance under our equity compensation plans as of December 31, 2010; and

- 167,361 shares of common stock issuable upon the exercise of warrants outstanding as of December 31, 2010, at a weighted average exercise price of $13.44 per share and 167,361 shares of common stock issuable upon the exercise of warrants to be outstanding in the event a second closing of the issuance and sale of the December 2010 Convertible Notes occurs, at a weighted average exercise price of $13.44 per share.

Except as otherwise noted, all information in this prospectus:

- gives effect to a one-for-10.755 reverse split of our common stock to be effected prior to the effective date of the registration statement of which this prospectus is a part;
- assumes no exercise of outstanding options or warrants;
- assumes no exercise by the underwriters of their option to purchase additional shares of common stock to cover over-allotments;
- does not give effect to the occurrence of a second closing of the issuance and sale of the December 2010 Convertible Notes, which would convert into 500,000 shares of common stock at a conversion price equal to the price per share of the common stock sold in this offering based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, or the related warrants which would become exercisable for 167,361 shares of our common stock;
- gives effect to the issuance of 6,322,640 shares of common stock upon the automatic conversion of all outstanding shares of our Series A convertible preferred stock into shares of our common stock upon the completion of this offering;
- gives effect to the issuance of 500,000 shares of common stock upon the conversion of the December 2010 Convertible Notes at a conversion price equal to the price per share of common stock sold in this offering based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus;
- gives effect to the issuance of 3,264,777 shares of common stock upon the conversion of certain outstanding secured and unsecured notes and accrued interest thereon held by certain of our stockholders; and
- gives effect to the restatement of our certificate of incorporation and amendment and restatement of our bylaws prior to the effective date of the registration statement of which this prospectus is a part.

Summary Consolidated Financial Data

The following tables summarize our consolidated financial data as of the dates and for the periods indicated. You should read this data together with our financial statements and related notes included elsewhere in this prospectus and the information under "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- The consolidated financial data as of December 31, 2008 and 2009, and for the years ended December 31, 2007, 2008 and 2009 have been derived from our consolidated financial statements included elsewhere in this prospectus, which have been audited by J.H. Cohn LLP, an independent registered public accounting firm.
- The consolidated financial data as of September 30, 2009 and 2010, and for the nine months ended September 30, 2009 and 2010, have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus.
- The consolidated financial data as of December 31, 2007 have been derived from our consolidated financial statements not contained herein.
- The consolidated financial data as of March 23, 2007, and for the period from January 1, 2007 through March 23, 2007 have been derived from unaudited consolidated financial statements of the Predecessor, SkyePharma, Inc., not included in this prospectus.

The unaudited consolidated financial data include, in the opinion of our management, all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair presentation of our financial position and results of operations for these periods. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period, and our results for any interim period are not necessarily indicative of results to be expected for a full fiscal year.

The term Predecessor refers to SkyePharma, Inc. prior to March 24, 2007, and the term Successor refers to Pacira Pharmaceuticals, Inc. and its consolidated subsidiaries. Our results of operations for the year ended December 31, 2007, while representing a full year for Pacira Pharmaceuticals, Inc., do not reflect the operations of PPI-California until March 24, 2007, after the Acquisition Date. We have presented the Predecessor for the period from January 1, 2007 through March 23, 2007, as we believe it best presents the continuity of operations of the Successor prior to the Acquisition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" for a discussion of the presentation of our results for the year ended December 31, 2007.

The pro forma balance sheet data give effect to the conversion of all outstanding shares of our Series A convertible preferred stock into common stock and the conversion of $47.5 million aggregate principal amount of secured and unsecured notes and accrued interest thereon held by certain of our stockholders into common stock, as of September 30, 2010. The pro forma as adjusted balance sheet data also give effect to our sale of shares of common stock offered by this prospectus at an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, after deducting the estimated underwriting discounts and commissions and offering expenses payable by us.

	Predecessor	Successor				
	January 1 to March 23	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2007	2008	2009	2009	2010
	(unaudited)		(audited)		(unaudited)	(unaudited)
		(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:						
Revenues	$ 1,427	$ 8,341	$ 13,925	$ 15,006	$ 10,722	$ 12,371
Operating expenses:						
Cost of revenues	2,825	9,492	17,463	12,301	8,823	10,168
Research and development	3,251	20,665	33,214	26,233	18,717	14,954
Selling, general and administrative	2,632	4,170	8,611	5,020	3,920	3,941
Acquired in-process research and development	—	12,400	—	—	—	—
Total operating expenses	8,708	46,727	59,288	43,554	31,460	29,063
(Loss) from operations	(7,281)	(38,386)	(45,363)	(28,548)	(20,738)	(16,692)
Other income (expense)	(13)	16	(224)	367	353	100
Interest:						
Interest income	4	491	235	77	46	112
Interest (expense)	(2,265)	—	—	(1,723)	(990)	(2,577)
Royalty interest obligation	(1,486)	1,686	3,490	(1,880)	(1,407)	(1,048)
Total interest income (expense)	(3,747)	2,177	3,725	(3,526)	(2,351)	(3,513)
Net income (loss)	$(11,041)	$ (36,193)	$ (41,862)	$ (31,707)	$ (22,736)	$ (20,105)
Net (loss) per share applicable to common stockholders —basic and diluted		$ (77.85)	$ (79.23)	$ (55.32)	$ (39.69)	$ (35.02)
Weighted average number of common shares used in net (loss) per share calculation—basic and diluted		464,900	528,357	573,118	572,860	574,112
Pro forma net (loss) per share—basic and diluted (unaudited) (1)				$ (3.60)		$ (1.72)
Shares used in computing pro forma loss per share—basic and diluted (unaudited)				8,545,094		10,661,448

(1) Pro forma basic and diluted net loss per share is calculated assuming the conversion of all of our outstanding shares of Series A convertible preferred stock and our secured and unsecured notes (including the notes issued upon the first closing of the December 2010 Convertible Notes) and accrued interest thereon into common stock at the beginning of the period or at the original date of issuance, if later, but does not give effect to a second closing of the issuance and sale and subsequent conversion of the December 2010 Convertible Notes into 500,000 shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering, based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, or the related warrants which would become exercisable for 167,361 shares of our common stock. The net losses for the years ended December 31, 2009 and the nine months ended September 30, 2010 were adjusted to reflect the elimination of interest expense associated with the assumed conversion at the beginning of each period of the convertible and secured notes in the amounts of $0.9 million and $1.7 million, respectively.

	As of September 30, 2010		
	Actual	Pro forma (1)	Pro forma as adjusted
		(unaudited, in thousands)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 13,851	$36,351	$ 93,339
Working capital	6,585	29,085	86,073
Total assets	52,756	75,256	132,244
Long-term debt	57,312	29,660	29,660
Convertible preferred stock, par value	6	—	—
Common stock, par value	1	11	15
Accumulated deficit	(129,867)	(129,867)	(129,867)
Total stockholders' equity (deficit)	(43,038)	7,114	64,102

(1) Pro forma includes the impact of $26,250,000 of long-term debt borrowed after September 30, 2010 under the Hercules Credit Facility and the repayment in full of $11,250,000 principal amount under the GECC Credit Facility. The pro forma information also includes $7,500,000 of the gross proceeds from the first closing of the issuance and sale of the December 2010 Convertible Notes and the subsequent conversion of the December 2010 Convertible Notes into 500,000 shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering, based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus. The pro forma consolidated balance sheet data do not give effect to a second closing of the issuance and sale and subsequent conversion of the December 2010 Convertible Notes into 500,000 shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering, based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, or the related warrants which would become exercisable for 167,361 shares of our common stock.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before you decide to invest in our common stock, you should consider carefully the risks described below, together with the other information contained in this prospectus, including our financial statements and the related notes appearing at the end of this prospectus. We believe the risks described below are the risks that are material to us as of the date of this prospectus. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to the Development and Commercialization of our Product Candidates

We are dependent on the success of our lead product candidate, EXPAREL, and cannot guarantee that this product candidate will receive regulatory approval or be successfully commercialized.

We have invested a significant portion of our efforts and financial resources in the development of our most advanced product candidate, EXPAREL. Our ability to generate revenues in the near term is substantially dependent on our ability to develop and commercialize EXPAREL. In September 2010, we submitted a new drug application, or NDA, with the U.S. Food and Drug Administration, or FDA, which was accepted by the FDA for review on December 10, 2010, seeking approval to commercialize EXPAREL for treatment of postsurgical pain. We cannot commercialize EXPAREL prior to obtaining FDA approval. Even though EXPAREL has completed two pivotal Phase 3 clinical trials with positive results, EXPAREL is still, nonetheless, susceptible to the risks of failure inherent at any stage of product development, including the appearance of unexpected adverse events, the FDA's determination that EXPAREL is not approvable or failure to achieve its primary endpoints in subsequent clinical trials. For example, in 2009, we completed two Phase 3 clinical trials of EXPAREL that did not meet their primary endpoints.

If we do not receive FDA approval for, and commercialize, EXPAREL, we will not be able to generate revenue from EXPAREL in the foreseeable future, or at all. Any significant delays in obtaining approval for and commercializing EXPAREL will have a substantial adverse impact on our business and financial condition.

If approved, our ability to generate revenues from EXPAREL will depend on our ability to:

- create market demand for EXPAREL through our own marketing and sales activities, and any other arrangements to promote this product candidate we may later establish;
- hire, train and deploy a sales force to commercialize EXPAREL in the United States;
- manufacture EXPAREL in sufficient quantities and at an acceptable quality and at an acceptable manufacturing cost to meet commercial demand at launch and thereafter;
- establish and maintain agreements with wholesalers, distributors and group purchasing organizations on commercially reasonable terms;
- create partnerships with, or offer licenses to, third parties to promote and sell EXPAREL outside the United States; and
- maintain patent and trade secret protection and regulatory exclusivity for EXPAREL.

We face significant competition from other pharmaceutical and biotechnology companies. Our operating results will suffer if we fail to compete effectively.

The pharmaceutical and biotechnology industries are intensely competitive and subject to rapid and significant technological change. Our major competitors include organizations such as major multinational pharmaceutical companies, established biotechnology companies and specialty pharmaceutical and generic drug companies. Many of our competitors have greater financial and other resources than we have, such as larger research and development staff, more extensive marketing, distribution, sales and manufacturing organizations

and experience, more extensive clinical trial and regulatory experience, expertise in prosecution of intellectual property rights and access to development resources like personnel generally and technology. As a result, these companies may obtain regulatory approval more rapidly than we are able to and may be more effective in selling and marketing their products. Smaller or early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. Our competitors may succeed in developing, acquiring or licensing on an exclusive basis technologies and drug products that are more effective or less costly than EXPAREL or any other product candidate that we are currently developing or that we may develop, which could render our products obsolete and noncompetitive or significantly harm the commercial opportunity for EXPAREL.

As a result of these factors, our competitors may obtain regulatory approval of their products more rapidly than we are able to or may obtain patent protection or other intellectual property rights that limit our ability to develop or commercialize EXPAREL. Our competitors may also develop drugs that are more effective, useful or less costly than ours and may be more successful than us in manufacturing and marketing their products.

EXPAREL will compete with well-established products with similar indications. Competing products available for postsurgical pain management include opioids such as morphine, fentanyl, meperidine and hydromorphone, each of which is available generically from several manufacturers, and several of which are available as proprietary products using novel delivery systems. Ketorolac, an injectable non-steroidal anti-inflammatory drug, or NSAID, is also available generically in the United States from several manufacturers, and Caldolor (ibuprofen for injection), an NSAID, has been approved by the FDA for pain management and fever in adults. In addition, EXPAREL will compete with non-opioid products such as bupivacaine, Marcaine, ropivacaine and other anesthetics/analgesics, all of which are also used in the treatment of postsurgical pain and are available as either oral tablets, injectable dosage forms or administered using novel delivery systems. Additional products may be developed for the treatment of acute pain, including new injectable NSAIDs, novel opioids, new formulations of currently available opioids and NSAIDS, long-acting local anesthetics and new chemical entities as well as alternative delivery forms of various opioids and NSAIDs.

We also expect to compete with an extended release bupivacaine product in development by Durect Corporation which has been licensed to Hospira in North America (Posidur) and to Nycomed for Europe (Optesia).

We also anticipate that EXPAREL will compete with elastomeric bag/catheter devices intended to provide bupivacaine over several days. I-FLOW Corporation (acquired by Kimberly-Clark Corporation in 2009) has marketed these medical devices in the United States since 2004.

If we are unable to establish effective marketing and sales capabilities or enter into agreements with third parties to market and sell our product candidates, if they are approved, we may be unable to generate product revenues.

We currently do not have a commercial infrastructure for the marketing, sale and distribution of pharmaceutical products. In order to commercialize our products, we must build our marketing, sales and distribution capabilities or make arrangements with third parties to perform these services. If EXPAREL is approved by the FDA, we plan to build a commercial infrastructure to launch EXPAREL in the United States, including a specialty sales force of approximately 100 people within three years from launch. We may seek to further penetrate the U.S. market in the future by expanding our sales force or through collaborations with other pharmaceutical or biotechnology companies or third-party manufacturing and sales organizations. We may also seek to commercialize EXPAREL outside the United States, although we currently plan to do so with a marketing and sales collaborator and not with our own sales force.

The establishment and development of our own sales force and related compliance plans to market any products we may develop will be expensive and time consuming and could delay any product launch, and we

may not be able to successfully develop this capability. We, or our future collaborators, will have to compete with other pharmaceutical and biotechnology companies to recruit, hire, train and retain marketing and sales personnel. In the event we are unable to develop a marketing and sales infrastructure, we would not be able to commercialize EXPAREL or any other product candidates that we develop, which would limit our ability to generate product revenues.

Although our current plan is to hire most of our sales and marketing personnel only if EXPAREL is approved by the FDA, we will incur expenses prior to product launch in recruiting this sales force and developing a marketing and sales infrastructure. If the commercial launch of EXPAREL is delayed as a result of FDA requirements or other reasons, we would incur these expenses prior to being able to realize any revenue from sales of EXPAREL. Even if we are able to effectively hire a sales force and develop a marketing and sales infrastructure, our sales force and marketing teams may not be successful in commercializing EXPAREL or any other product candidates that we may develop.

To the extent we rely on third parties to commercialize any products for which we obtain regulatory approval, we may receive less revenues than if we commercialized these products ourselves. In addition, we would have less control over the sales efforts of any other third parties involved in our commercialization efforts. In the event we are unable to collaborate with a third-party marketing and sales organization, our ability to generate product revenues may be limited either in the United States or internationally.

If EXPAREL does not achieve broad market acceptance, the revenues that we generate from its sales will be limited.

Other than DepoCyt(e) and DepoDur, we have never commercialized a product candidate for any indication. Even if EXPAREL is approved by the appropriate regulatory authorities for marketing and sale, it may not gain acceptance among physicians, hospitals, patients and third-party payers. If our products for which we obtain regulatory approval do not gain an adequate level of acceptance, we may not generate significant additional product revenues or become profitable. Market acceptance of EXPAREL, and any other product candidates that we develop, license or acquire, by physicians, hospitals, patients and third-party payers will depend on a number of factors, some of which are beyond our control. The degree of market acceptance of EXPAREL will depend on a number of factors, including:

- limitations or warnings contained in the product's FDA-approved labeling, including potential limitations or warnings for EXPAREL that may be more restrictive than other pain management products;
- changes in the standard of care for the targeted indications for EXPAREL, which could reduce the marketing impact of any claims that we could make following FDA approval, if obtained;
- the relative convenience and ease of administration of EXPAREL;
- the prevalence and severity of adverse events associated with EXPAREL;
- cost of treatment versus economic and clinical benefit in relation to alternative treatments;
- the availability of adequate coverage or reimbursement by third parties, such as insurance companies and other healthcare payers, and by government healthcare programs, including Medicare and Medicaid;
- the extent and strength of our marketing and distribution of EXPAREL;
- the safety, efficacy and other potential advantages over, and availability of, alternative treatments, including, in the case of EXPAREL, a number of products already used to treat pain in the hospital setting; and
- distribution and use restrictions imposed by the FDA or to which we agree as part of a mandatory risk evaluation and mitigation strategy or voluntary risk management plan.

Our ability to effectively promote and sell EXPAREL and any other product candidates that we may develop, license or acquire in the hospital marketplace will also depend on pricing and cost effectiveness, including our ability to produce a product at a competitive price and achieve acceptance of the product onto hospital formularies, and our ability to obtain sufficient third-party coverage or reimbursement. Since many hospitals are members of group purchasing organizations, which leverage the purchasing power of a group of entities to obtain discounts based on the collective buying power of the group, our ability to attract customers in the hospital marketplace will also depend on our ability to effectively promote our product candidates to group purchasing organizations. We will also need to demonstrate acceptable evidence of safety and efficacy, as well as relative convenience and ease of administration. Market acceptance could be further limited depending on the prevalence and severity of any expected or unexpected adverse side effects associated with our product candidates. If our product candidates are approved but do not achieve an adequate level of acceptance by physicians, health care payers and patients, we may not generate sufficient revenue from these products, and we may not become or remain profitable. In addition, our efforts to educate the medical community and third-party payers on the benefits of our product candidates may require significant resources and may never be successful.

In addition, even if the medical community accepts that EXPAREL is safe and effective for its approved indications, physicians and patients may not immediately be receptive to EXPAREL and may be slow to adopt it as an accepted treatment of postsurgical pain. It is unlikely that any labeling approved by the FDA will contain claims that EXPAREL is safer or more effective than competitive products or will permit us to promote EXPAREL as being superior to competing products. Further, the availability of inexpensive generic forms of postsurgical pain management products may also limit acceptance of EXPAREL among physicians, patients and third-party payers. If EXPAREL is approved but does not achieve an adequate level of acceptance among physicians, patients and third-party payers, we may not generate meaningful revenues from EXPAREL and we may not become profitable.

We may rely on third parties to perform many essential services for any products that we commercialize, including services related to warehousing and inventory control, distribution, customer service, accounts receivable management, cash collection and adverse event reporting. If these third parties fail to perform as expected or to comply with legal and regulatory requirements, our ability to commercialize EXPAREL will be significantly impacted and we may be subject to regulatory sanctions.

We may retain third-party service providers to perform a variety of functions related to the sale and distribution of EXPAREL, key aspects of which will be out of our direct control. These service providers may provide key services related to warehousing and inventory control, distribution, customer service, accounts receivable management and cash collection, and, as a result, most of our inventory may be stored at a single warehouse maintained by one such service provider. If we retain this provider, we would substantially rely on them as well as other third-party providers that perform services for us, including entrusting our inventories of products to their care and handling. If these third-party service providers fail to comply with applicable laws and regulations, fail to meet expected deadlines, or otherwise do not carry out their contractual duties to us, or encounter physical or natural damage at their facilities, our ability to deliver product to meet commercial demand would be significantly impaired. In addition, we may engage third parties to perform various other services for us relating to adverse event reporting, safety database management, fulfillment of requests for medical information regarding our product candidates and related services. If the quality or accuracy of the data maintained by these service providers is insufficient, we could be subject to regulatory sanctions.

Distribution of our DepoFoam-based products requires cold-chain distribution provided by third parties, whereby a product must be maintained between specified temperatures. We and our partners have utilized similar cold-chain processes for DepoCyt(e) and DepoDur. If a problem occurs in our cold-chain distribution processes, whether through our failure to maintain our products or product candidates between specified temperatures or because of a failure of one of our distributors or partners to maintain the temperature of the products or product candidates, the product or product candidate could be adulterated and rendered unusable. This could have a material adverse effect on our business, financial condition, results of operations and reputation.

We will need to increase the size of our organization, and we may experience difficulties in managing growth.

As of December 31, 2010, we had 83 employees. We will need to substantially expand our managerial, commercial, financial, manufacturing and other personnel resources in order to manage our operations and prepare for the commercialization of EXPAREL, if approved. Our management, personnel, systems and facilities currently in place may not be adequate to support this future growth. In addition, we may not be able to recruit and retain qualified personnel in the future, particularly for sales and marketing positions, due to competition for personnel among pharmaceutical businesses, and the failure to do so could have a significant negative impact on our future product revenues and business results. Our need to effectively manage our operations, growth and various projects requires that we:

- continue the hiring and training of an effective commercial organization in anticipation of the potential approval of EXPAREL, and establish appropriate systems, policies and infrastructure to support that organization;
- ensure that our consultants and other service providers successfully carry out their contractual obligations, provide high quality results, and meet expected deadlines;
- continue to carry out our own contractual obligations to our licensors and other third parties; and
- continue to improve our operational, financial and management controls, reporting systems and procedures.

We may be unable to successfully implement these tasks on a larger scale and, accordingly, may not achieve our development and commercialization goals.

We may not be able to manage our business effectively if we are unable to attract and retain key personnel.

We may not be able to attract or retain qualified management and commercial, scientific and clinical personnel due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses, particularly in the San Diego, California and Northern New Jersey areas. If we are not able to attract and retain necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy.

Our industry has experienced a high rate of turnover of management personnel in recent years. We are highly dependent on the development and manufacturing expertise for our DepoFoam delivery technology and the commercialization expertise of certain members of our senior management. In particular, we are highly dependent on the skills and leadership of our management team, including David Stack, our president and chief executive officer. If we lose one or more of these key employees, our ability to successfully implement our business strategy could be seriously harmed. Replacing key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to develop, gain regulatory approval of and commercialize products successfully. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate additional key personnel.

Mr. Stack, our chief executive officer, is also a managing director at MPM Capital and a managing partner of Stack Pharmaceuticals, Inc. Although Mr. Stack has devoted substantially all of his time to our company over the past 12 months, Mr. Stack’s responsibilities at MPM Capital and Stack Pharmaceuticals, Inc. might require that he spend less than all his time managing our company in the future.

Under our consulting agreement with Gary Patou, M.D., our chief medical officer, he is not required to devote all of his time to our company. We cannot assure you that Dr. Patou’s time commitment to us will be sufficient to perform the duties of our chief medical officer.

We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for DepoCyt(e), DepoDur, EXPAREL or other product candidates that we may develop and may have to limit their commercialization.

The use of DepoCyt(e), DepoDur, EXPAREL and any other product candidates that we may develop, license or acquire in clinical trials and the sale of any products for which we obtain regulatory approval expose us to the risk of product liability claims. Product liability claims might be brought against us by consumers, health care providers or others using, administering or selling our products. If we cannot successfully defend ourselves against these claims, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- loss of revenue from decreased demand for our products and/or product candidates;
- impairment of our business reputation or financial stability;
- costs of related litigation;
- substantial monetary awards to patients or other claimants;
- diversion of management attention;
- loss of revenues;
- withdrawal of clinical trial participants and potential termination of clinical trial sites or entire clinical programs; and
- the inability to commercialize our product candidates.

We have obtained limited product liability insurance coverage for our products and our clinical trials with a $10.0 million annual aggregate coverage limit. However, our insurance coverage may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. We intend to expand our insurance coverage to include the sale of additional commercial products if we obtain FDA approval for our product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing, or at all. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our stock price to fall and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

We are the sole manufacturer of DepoCyt(e) and DepoDur and we only have two FDA approved manufacturing facilities. Our inability to continue manufacturing adequate supplies of DepoCyt(e) and DepoDur could result in a disruption in the supply of DepoCyt(e) and DepoDur to our partners.

We are the sole manufacturer of DepoCyt(e) and DepoDur. We develop and manufacture DepoCyt(e) and DepoDur at our facilities in San Diego, California, which are the only FDA approved sites for manufacturing DepoCyt(e) and DepoDur in the world. Our San Diego facilities are subject to the risks of a natural or man-made disaster, including earthquakes and fires, or other business disruption. There can be no assurance that we would be able to meet our requirements for DepoCyt(e) and DepoDur if there were a catastrophic event or failure of our current manufacturing system. If we are required to change or add a new manufacturer or supplier, the process would likely require prior FDA and/or equivalent foreign regulatory authority approval, and would be very time consuming. An inability to continue manufacturing adequate supplies of DepoCyt(e) and DepoDur at our facility in San Diego, California could result in a disruption in the supply of DepoCyt(e) and DepoDur to our partners and breach of our contractual obligations.

If we fail to manufacture DepoCyt(e) and DepoDur we will lose revenues and be in breach of our licensing obligations.

We have licensed the commercial rights in specified territories of the world to market and sell our products, DepoCyt(e) and DepoDur. Under those licenses we have obligations to manufacture commercial product for our commercial partners. If we are unable to timely fill the orders placed with us by our commercial partners, we will potentially lose revenue and be in breach of our licensing obligations under the agreements. In addition, we would be in breach of our obligations to comply with our supply and distribution agreements for DepoCyt(e) and DepoDur, which would in turn be a breach of our obligations under our amended and restated royalty interests assignment agreement, or the Amended and Restated Royalty Interests Assignment Agreement, with Royalty Securitization Trust I, an affiliate of Paul Capital Advisors, LLC, or Paul Capital. See "Risk Factors—Risks Related to Our Financial Condition and Capital Requirements—Under our financing arrangement with Paul Capital, upon the occurrence of certain events, Paul Capital may require us to repurchase the right to receive royalty payments that we assigned to it, or may foreclose on certain assets that secure our obligations to Paul Capital. Any exercise by Paul Capital of its right to cause us to repurchase the assigned right or any foreclosure by Paul Capital would adversely affect our results of operations and our financial condition."

We rely on third parties for the timely supply of specified raw materials and equipment for the manufacture of DepoCyt(e) and DepoDur. Although we actively manage these third-party relationships to provide continuity and quality, some events which are beyond our control could result in the complete or partial failure of these goods and services. Any such failure could have a material adverse effect on our financial condition and operations.

The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls, and the use of specialized processing equipment. We must comply with federal, state and foreign regulations, including current Good Manufacturing Practices, or cGMP, regulations and in the case of the manufacturing of DepoDur required government licenses regarding the storage and use of controlled substances. Any failure to comply with applicable regulations may result in fines and civil penalties, suspension of production, suspension or delay in product approval for sale, product seizure or recall, or withdrawal of product approval, and would limit the availability of our product. Any manufacturing defect or error discovered after products have been produced and distributed could result in even more significant consequences, including costly recall procedures, re-stocking costs, damage to our reputation, product liability claims and litigation.

Our future growth depends on our ability to identify, develop, acquire or in-license products and if we do not successfully identify develop, acquire or in-license related product candidates or integrate them into our operations, we may have limited growth opportunities.

An important part of our business strategy is to continue to develop a pipeline of product candidates by developing, acquiring or in-licensing products, businesses or technologies that we believe are a strategic fit with our focus on the hospital marketplace. However, these business activities may entail numerous operational and financial risks, including:

- difficulty or inability to secure financing to fund development activities for such development, acquisition or in-licensed products or technologies;
- incurrence of substantial debt or dilutive issuances of securities to pay for development, acquisition or in-licensing of new products;
- disruption of our business and diversion of our management's time and attention;
- higher than expected development, acquisition or in-license and integration costs;
- exposure to unknown liabilities;

- difficulty and cost in combining the operations and personnel of any acquired businesses with our operations and personnel;
- inability to retain key employees of any acquired businesses;
- difficulty in managing multiple product development programs; and
- inability to successfully develop new products or clinical failure.

We have limited resources to identify and execute the development, acquisition or in-licensing of products, businesses and technologies and integrate them into our current infrastructure. We may compete with larger pharmaceutical companies and other competitors in our efforts to establish new collaborations and in-licensing opportunities. These competitors likely will have access to greater financial resources than us and may have greater expertise in identifying and evaluating new opportunities. Moreover, we may devote resources to potential development, acquisitions or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts.

Our business involves the use of hazardous materials and we must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our manufacturing activities involve the controlled storage, use and disposal of hazardous materials, including the components of our products, product candidates and other hazardous compounds. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling, release and disposal of, and exposure to, these hazardous materials. Violation of these laws and regulations could lead to substantial fines and penalties. Although we believe that our safety procedures for handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, state or federal authorities may curtail our use of these materials and interrupt our business operations. In addition, we could become subject to potentially material liabilities relating to the investigation and cleanup of any contamination, whether currently unknown or caused by future releases.

Our business and operations would suffer in the event of system failures.

Despite the implementation of security measures, our internal computer systems are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Any system failure, accident or security breach that causes interruptions in our operations could result in a material disruption of our product development programs. For example, the loss of clinical trial data from completed clinical trials for EXPAREL could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach results in a loss or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we may incur liability and the further development of our product candidates may be delayed.

Any collaboration arrangements that we may enter into in the future may not be successful, which could adversely affect our ability to develop and commercialize our product candidates.

Our business model is to commercialize our product candidates in the United States and generally to seek collaboration arrangements with pharmaceutical or biotechnology companies for the development or commercialization of our product candidates in the rest of the world. Accordingly, we may enter into collaboration arrangements in the future on a selective basis. Any future collaboration arrangements that we enter into may not be successful. The success of our collaboration arrangements will depend heavily on the efforts and activities of our collaborators. Collaborators generally have significant discretion in determining the efforts and resources that they will apply to these collaboration arrangements.

Disagreements between parties to a collaboration arrangement regarding clinical development and commercialization matters can lead to delays in the development process or commercializing the applicable product candidate and, in some cases, termination of the collaboration arrangement. These disagreements can be difficult to resolve if neither of the parties has final decision making authority.

Collaborations with pharmaceutical companies and other third parties often are terminated or allowed to expire by the other party. Any such termination or expiration would adversely affect us financially and could harm our business reputation.

Regulatory Risks

We may not receive regulatory approval for EXPAREL or any of our other product candidates, or the approval may be delayed for various reasons, including successful challenges to the FDA's interpretation of Section 505(b)(2), which would have a material adverse effect on our business and financial condition.

We may experience delays in our efforts to obtain regulatory approval from the FDA for EXPAREL or any of our other product candidates, and there can be no assurance that such approval will not be delayed, or that the FDA will ultimately approve these product candidates.

The FDA may require additional data or information as part of its review of our NDA. If additional stability data or other manufacturing data is required, such data may not be available for a significant amount of time, which could further delay the approval of our NDA for EXPAREL and cause us to incur significant additional expenses. The FDA may also require us to study EXPAREL in pediatric patients. Although we have requested a waiver for patients under two years of age and a deferral for patients under 18 years of age, there can be no assurance that the FDA will grant our waiver or deferral and we may be required to perform these additional pediatric trials, which could be expensive and time consuming.

Our NDA approval is subject to a pre-approval inspection of our production facilities for manufacturing for EXPAREL. Our NDA approval for EXPAREL could be delayed if the FDA does not agree that the registration batches submitted in our NDA are fully representative of the manufacturing process and thus meet the requirements for batches that may be used to provide evidence of stability for this product candidate. In such an event, we would be required to potentially manufacture new batches in order to provide the necessary stability data which could delay FDA approval and cause us to incur significant additional expenses.

Additionally, our NDA for EXPAREL may not be approved, or approval may be delayed, as a result of changes in FDA policies for drug approval. For example, although many products have been approved by the FDA in recent years under Section 505(b)(2) under the Federal Food, Drug and Cosmetic Act, objections have been raised by certain brand-name pharmaceutical companies and others to the FDA's interpretation of Section 505(b)(2). If challenges to the FDA's interpretation of Section 505(b)(2) are successful, the agency may be required to change its interpretation, which could delay or prevent the approval of our NDAs for EXPAREL or any of our other product candidates.

Any significant delay in re-submitting an NDA and obtaining FDA approval for EXPAREL, or a non-approval, could negatively impact our ability to ultimately obtain marketing authorization for this product candidate and would have a material adverse effect on our business and financial condition.

If EXPAREL is approved and we fail to manufacture the product in sufficient quantities and at acceptable quality and pricing levels, or to fully comply with cGMP regulations, we may face delays in the commercialization of this product candidate or be unable to meet market demand, and may lose potential revenues.

The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls, and the use of specialized processing equipment. In order to meet anticipated demand for EXPAREL if this product candidate is approved,

we plan to install additional specialized processing equipment to expand the manufacturing capacity for EXPAREL in our facilities. This processing equipment is designed based on our specifications and is not generally commercially available. If we are not able to expand our capacity to manufacture EXPAREL on time or at all, our ability to meet our customers' product demands may be materially and adversely impacted.

We purchase raw materials and components from various suppliers in order to manufacture EXPAREL. If we are unable to source the required raw materials from our suppliers, we may experience delays in manufacturing EXPAREL and may not be able to meet our customers' demands for EXPAREL.

In addition, we must comply with federal, state and foreign regulations, including cGMP requirements enforced by the FDA through its facilities inspection program. Any failure to comply with applicable regulations may result in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval, and would limit the availability of our product. Any manufacturing defect or error discovered after products have been produced and distributed could result in even more significant consequences, including costly recall procedures, re-stocking costs, damage to our reputation and potential for product liability claims.

If we are unable to produce the required commercial quantities of EXPAREL to meet market demand for EXPAREL on a timely basis or at all, or if we fail to comply with applicable laws for the manufacturing of EXPAREL, we will suffer damage to our reputation and commercial prospects and we will lose potential revenues.

The FDA may determine that EXPAREL or any of our other product candidates have undesirable side effects that could delay or prevent their regulatory approval or commercialization.

If concerns are raised regarding the safety of a new drug as a result of undesirable side effects identified during clinical testing, the FDA may decline to approve the drug at the end of the NDA review period or issue a letter requesting additional data or information prior to making a final decision regarding whether or not to approve the drug. The number of such requests for additional data or information issued by the FDA in recent years has increased, and resulted in substantial delays in the approval of several new drugs. Undesirable side effects caused by EXPAREL or any other product candidate could also result in the inclusion of unfavorable information in our product labeling, denial of regulatory approval by the FDA or other regulatory authorities for any or all targeted indications, and in turn prevent us from commercializing and generating revenues from the sale of EXPAREL or any other product candidate.

For example, the side effects observed in the EXPAREL clinical trials completed to date include nausea and vomiting. In addition, the class of drugs that EXPAREL belongs to has been associated with nervous system and cardiovascular toxicities at high doses. We cannot be certain that these side effects and others will not be observed in the future, or that the FDA will not require additional trials or impose more severe labeling restrictions due to these side effects or other concerns. The active component of EXPAREL is bupivacaine and bupivacaine infusions have been associated with the destruction of articular cartilage, or chondrolysis. Chondrolysis has not been observed in clinical trials of EXPAREL, but we cannot be certain that this side effect will not be observed in the future.

If EXPAREL or any of our other product candidates receives regulatory approval and we or others later identify undesirable side effects caused by such products:

- regulatory authorities may require the addition of unfavorable labeling statements, specific warnings or a contraindication;
- regulatory authorities may suspend or withdraw their approval of the product, or require it to be removed from the market;
- regulatory authorities may impose restrictions on the distribution or use of the product;

- we may be required to change the way the product is administered, conduct additional clinical trials or change the labeling of the product;
- we may be subject to product liability claims and litigation; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of EXPAREL or any of our other product candidates and could substantially increase our commercialization costs and expenses, which in turn could delay or prevent us from generating significant revenues from its sale.

Regulatory approval for any approved product is limited by the FDA to those specific indications and conditions for which clinical safety and efficacy have been demonstrated.

Any regulatory approval is limited to those specific diseases and indications for which a product is deemed to be safe and effective by the FDA. In addition to the FDA approval required for new formulations, any new indication for an approved product also requires FDA approval. If we are not able to obtain FDA approval for any desired future indications for our products and product candidates, our ability to effectively market and sell our products may be reduced and our business may be adversely affected.

While physicians may choose to prescribe drugs for uses that are not described in the product's labeling and for uses that differ from those tested in clinical studies and approved by the regulatory authorities, our ability to promote the products is limited to those indications that are specifically approved by the FDA. These "off-label" uses are common across medical specialties and may constitute an appropriate treatment for some patients in varied circumstances. Regulatory authorities in the United States generally do not regulate the behavior of physicians in their choice of treatments. Regulatory authorities do, however, restrict communications by pharmaceutical companies on the subject of off-label use. If our promotional activities fail to comply with these regulations or guidelines, we may be subject to warnings from, or enforcement action by, these authorities. In addition, our failure to follow FDA rules and guidelines relating to promotion and advertising may cause the FDA to issue warning letters or untitled letters, suspend or withdraw an approved product from the market, require a recall or institute fines or civil fines, or could result in disgorgement of money, operating restrictions, injunctions or criminal prosecution, any of which could harm our business.

If we are unable to complete pre-commercialization manufacturing development activities for EXPAREL on a timely basis or fail to comply with stringent regulatory requirements, we will face delays in our ability to obtain regulatory approval for, and to commercialize, this product candidate, and our costs will increase.

As part of the process for obtaining regulatory approval, we must demonstrate that the facilities, equipment and processes used to manufacture EXPAREL are capable of consistently producing a product that meets all applicable quality criteria, and that is comparable to the product that was used in our clinical trials. We must also provide the FDA with information regarding the validation of the manufacturing facilities, equipment and processes and data supporting the stability of our product candidate. If we are not in compliance with cGMP requirements, the approval of our NDA may be delayed, existing product batches may be compromised, and we may experience delays in the availability of this product candidate for commercial distribution.

Even if EXPAREL receives regulatory approval, it and any other products we may market, including DepoCyt(e) and DepoDur, will remain subject to substantial regulatory scrutiny.

EXPAREL, DepoCyt(e) and DepoDur and any other product candidates that we may develop, license or acquire will also be subject to ongoing FDA requirements with respect to the manufacturing, labeling, packaging, storage, distribution, advertising, promotion, record-keeping and submission of safety and other post-market information on the drug. In addition, the subsequent discovery of previously unknown problems with a product may result in restrictions on the product, including withdrawal of the product from the market.

If EXPAREL, DepoCyt(e) and DepoDur or any other product that we may develop, license or acquire fails to comply with applicable regulatory requirements, such as cGMP regulations, a regulatory agency may:

- issue warning letters or untitled letters;
- require us to enter into a consent decree, which can include imposition of various fines, reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- impose fines and other civil or criminal penalties;
- suspend regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve pending applications or supplements to approved applications filed by us;
- impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products or require a product recall.

For example, the FDA informed us that certain adverse event reports related to DepoCyt(e) and DepoDur submitted to us during the previous two years were not submitted by us to the FDA within the required 15-day timeframe for reporting such events. In response to the FDA's observations, we enhanced our reporting procedures and hired additional personnel to support our pharmacovigilance efforts.

If we fail to comply with federal and state healthcare laws, including fraud and abuse and health information privacy and security laws, we could face substantial penalties and our business, results of operations, financial condition and prospects could be adversely affected.

As a pharmaceutical company, even though we do not and will not control referrals of healthcare services or bill directly to Medicare, Medicaid or other third-party payers, certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients' rights are and will be applicable to our business. We would be subject to healthcare fraud and abuse and patient privacy regulation by both the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include:

- the federal Anti-Kickback Statute, which constrains our marketing practices, educational programs, pricing policies, and relationships with healthcare providers or other entities, by prohibiting, among other things, soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce, or in return for, the purchase or recommendation of an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs;
- federal civil and criminal false claims laws and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payers that are false or fraudulent;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created new federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters;
- federal physician self-referral laws, such as the Stark law, which prohibit a physician from making a referral to a provider of certain health services with which the physician or the physician's family member has a financial interest, and prohibit submission of a claim for reimbursement pursuant to a prohibited referral;
- HIPAA, as amended by the Health Information Technology and Clinical Health Act, or HITECH, and its implementing regulations, which imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payer, including commercial

insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available under the U.S. federal Anti-Kickback Statute, it is possible that some of our business activities could be subject to challenge under one or more of such laws. Recently, several pharmaceutical and other healthcare companies have been prosecuted under the federal false claims laws for allegedly inflating drug prices they report to pricing services, which in turn are used by the government to set Medicare and Medicaid reimbursement rates, and for allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. In addition, certain marketing practices, including off-label promotion, may also violate false claims laws. To the extent that any product we make is sold in a foreign country, we may be subject to similar foreign laws and regulations. If we or our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from participation in U.S. federal or state health care programs, and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could materially adversely affect our ability to operate our business and our financial results. Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, the risks cannot be entirely eliminated. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

The design, development, manufacture, supply, and distribution of DepoCyt(e) and DepoDur is highly regulated and technically complex.

The design, development, manufacture, supply, and distribution of our products DepoCyt(e) and DepoDur is technically complex and highly regulated. We, along with our third-party providers, must comply with all applicable regulatory requirements of the FDA and foreign authorities. In addition, the facilities used to manufacture, store, and distribute our products are subject to inspection by regulatory authorities at any time to determine compliance with applicable regulations.

The manufacturing techniques and facilities used for the manufacture and supply of our products must be operated in conformity with cGMP. In complying with cGMP requirements, we, along with our suppliers, must continually expend time, money and effort in production, record keeping, and quality assurance and control to ensure that our products meet applicable specifications and other requirements for safety, efficacy and quality. In addition, we, along with our suppliers, are subject to unannounced inspections by the FDA and other regulatory authorities.

Any failure to comply with regulatory and other legal requirements applicable to the manufacture, supply and distribution of our products could lead to remedial action (such as recalls), civil and criminal penalties and delays in manufacture, supply and distribution of our products. For instance, in connection with routine inspections of one of our manufacturing facilities in April and May 2008, the FDA issued a Form 483 Notice of Inspectional Observations identifying certain deficiencies with respect to our laboratory control system for Depocyt(e). As a result, we did not release new lots of Depocyt(e) for a limited time period as we validated a new assay. We also submitted the new assay to the FDA in July 2008 and in August 2008 we began releasing new lots of DepoCyt(e).

If we fail to comply with the extensive regulatory requirements to which we and our products DepoCyt(e) and DepoDur are subject, such products could be subject to restrictions or withdrawal from the market and we could be subject to penalties.

The testing, manufacturing, labeling, safety, advertising, promotion, storage, sales, distribution, export and marketing, among other things, of our products DepoCyt(e) and DepoDur are subject to extensive regulation by

governmental authorities in the United States and elsewhere throughout the world. Quality control and manufacturing procedures regarding DepoCyt(e) and DepoDur must conform to cGMP. Regulatory authorities, including the FDA, periodically inspect manufacturing facilities to assess compliance with cGMP. Our failure or the failure of our contract manufacturers to comply with the laws administered by the FDA or other governmental authorities could result in, among other things, any of the following:

- product recall or seizure;
- suspension or withdrawal of an approved product from the market;
- interruption of production;
- operating restrictions;
- warning letters;
- injunctions;
- fines and other monetary penalties;
- criminal prosecutions; and
- unanticipated expenditures.

If the government or third-party payers fail to provide coverage and adequate coverage and payment rates for DepoCyt(e), DepoDur, EXPAREL or any future products we may develop, license or acquire, if any, or if hospitals choose to use therapies that are less expensive, our revenue and prospects for profitability will be limited.

In both domestic and foreign markets, sales of our existing products and any future products will depend in part upon the availability of coverage and reimbursement from third-party payers. Such third-party payers include government health programs such as Medicare and Medicaid, managed care providers, private health insurers and other organizations. Coverage decisions may depend upon clinical and economic standards that disfavor new drug products when more established or lower cost therapeutic alternatives are already available or subsequently become available. Assuming coverage is approved, the resulting reimbursement payment rates might not be adequate. In particular, many U.S. hospitals receive a fixed reimbursement amount per procedure for certain surgeries and other treatment therapies they perform. Because this amount may not be based on the actual expenses the hospital incurs, hospitals may choose to use therapies which are less expensive when compared to our product candidates. Accordingly, DepoCyt(e), DepoDur, EXPAREL or any other product candidates that we may develop, in-license or acquire, if approved, will face competition from other therapies and drugs for these limited hospital financial resources. We may need to conduct post-marketing studies in order to demonstrate the cost-effectiveness of any future products to the satisfaction of hospitals, other target customers and their third-party payers. Such studies might require us to commit a significant amount of management time and financial and other resources. Our future products might not ultimately be considered cost-effective. Adequate third-party coverage and reimbursement might not be available to enable us to maintain price levels sufficient to realize an appropriate return on investment in product development.

Third party payers, whether foreign or domestic, or governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs. In addition, in the United States, no uniform policy of coverage and reimbursement for drug products exists among third-party payers. Therefore, coverage and reimbursement for drug products can differ significantly from payer to payer.

Further, we believe that future coverage and reimbursement will likely be subject to increased restrictions both in the United States and in international markets. Third-party coverage and reimbursement for our products or product candidates for which we receive regulatory approval may not be available or adequate in either the United States or international markets, which could have a negative effect on our business, results of operations, financial condition and prospects.

The FDA may not approve our proposed trade name, EXPAREL.

EXPAREL, or any other trade name that we intend to use for extended-release liposome injection of bupivacaine, must be approved by the FDA irrespective of whether we have secured a formal trademark registration from the U.S. Patent and Trademark Office. The FDA conducts a rigorous review of proposed product names, and may reject a product name if it believes that the name inappropriately implies medical claims or if it poses the potential for confusion with other product names. The FDA will not approve this trade name until the NDA for EXPAREL is approved. If the FDA determines that the trade names of other products that are approved prior to the approval of extended-release liposome injection of bupivacaine may present a risk of confusion with our proposed trade name, the FDA may not ultimately approve EXPAREL. If our trade name, EXPAREL, is rejected, we will lose the benefit of any brand equity that may already have been developed for this product candidate, as well as the benefit of our existing trademark applications for this trade name. If the FDA does not approve the EXPAREL trade name, we may be required to launch this product candidate without a brand name, and our efforts to build a successful brand identity for, and commercialize, this product candidate may be adversely impacted.

We are subject to new legislation, regulatory proposals and healthcare payer initiatives that may increase our costs of compliance and adversely affect our ability to market our products, obtain collaborators and raise capital.

In March 2010, the President signed the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, which we refer to collectively as the Health Care Reform Law. The Health Care Reform Law makes extensive changes to the delivery of health care in the United States. Among the provisions of the Health Care Reform Law of greatest importance to the pharmaceutical industry are the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents, apportioned among these entities according to their market share in certain government healthcare programs, beginning in 2011;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program, retroactive to January 1, 2010, to 23.1% and 13% of the average manufacturer price for most branded and generic drugs, respectively;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D, beginning in 2011;
- extension of manufacturers' Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations, effective March 23, 2010;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals beginning in April 2010 and by adding new mandatory eligibility categories for certain individuals with income at or below 133% of the Federal Poverty Level beginning in 2014, thereby potentially increasing both the volume of sales and manufacturers' Medicaid rebate liability;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program, effective in January 2010;
- new requirements to report certain financial arrangements with physicians and others, including reporting any "transfer of value" made or distributed to prescribers and other healthcare providers and reporting any investment interests held by physicians and their immediate family members during each calendar year beginning in 2012, with reporting starting in 2013;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians, effective April 1, 2012;

- a licensure framework for follow-on biologic products;
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research;
- creation of the Independent Payment Advisory Board which, beginning in 2014, will have authority to recommend certain changes to the Medicare program that could result in reduced payments for prescription drugs and those recommendations could have the effect of law even if Congress does not act on the recommendations; and
- establishment of a Center for Medicare Innovation at the Centers for Medicare & Medicaid Services to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending, beginning by January 1, 2011.

These measures could result in decreased net revenues from our pharmaceutical products and decrease potential returns from our development efforts. Many of the details regarding the implementation of the Health Care Reform Law are yet to be determined, and at this time, the full effect that the Health Care Reform Law would have on our business remains unclear.

In addition, there have been a number of other legislative and regulatory proposals aimed at changing the pharmaceutical industry. In particular, California has enacted legislation that requires development of an electronic pedigree to track and trace each prescription drug at the saleable unit level through the distribution system. California's electronic pedigree requirement is scheduled to take effect in January 2015. Compliance with California and future federal or state electronic pedigree requirements may increase our operational expenses and impose significant administrative burdens. As a result of these and other new proposals, we may determine to change our current manner of operation, provide additional benefits or change our contract arrangements, any of which could have a material adverse effect on our business, financial condition and results of operations.

Public concern regarding the safety of drug products such as EXPAREL could delay or limit our ability to obtain regulatory approval, result in the inclusion of unfavorable information in our labeling, or require us to undertake other activities that may entail additional costs.

In light of widely publicized events concerning the safety risk of certain drug products, the FDA, members of Congress, the Government Accountability Office, medical professionals and the general public have raised concerns about potential drug safety issues. These events have resulted in the withdrawal of drug products, revisions to drug labeling that further limit use of the drug products and the establishment of risk management programs that may, for example, restrict distribution of drug products after approval. The Food and Drug Administration Amendments Act of 2007, or FDAAA, grants significant expanded authority to the FDA, much of which is aimed at improving the safety of drug products before and after approval. In particular, the FDAAA authorizes the FDA to, among other things, require post-approval studies and clinical trials, mandate changes to drug labeling to reflect new safety information and require risk evaluation and mitigation strategies for certain drugs, including certain currently approved drugs. It also significantly expands the federal government's clinical trial registry and results databank, which we expect will result in significantly increased government oversight of clinical trials. Under the FDAAA, companies that violate these and other provisions of the new law are subject to substantial civil monetary penalties, among other regulatory, civil and criminal penalties. The increased attention to drug safety issues may result in a more cautious approach by the FDA in its review of data from our clinical trials. Data from clinical trials may receive greater scrutiny, particularly with respect to safety, which may make the FDA or other regulatory authorities more likely to require additional preclinical studies or clinical trials. If the FDA requires us to conduct additional preclinical studies or clinical trials prior to approving EXPAREL, our ability to obtain approval of this product candidate will be delayed. If the FDA requires us to provide additional clinical or preclinical data following the approval of EXPAREL, the indications for which this product candidate is approved may be limited or there may be specific warnings or limitations on dosing, and our efforts to commercialize EXPAREL may be otherwise adversely impacted.

Our product, DepoDur, is subject to regulation by the Drug Enforcement Agency and such regulation may affect the sale of DepoDur.

Products used to treat and manage pain, especially in the case of opioids, are from time to time subject to negative publicity, including illegal use, overdoses, abuse, diversion, serious injury and death. These events have led to heightened regulatory scrutiny. Controlled substances are classified by the DEA as Schedule I through V substances, with Schedule I substances being prohibited for sale in the United States, Schedule II substances considered to present the highest risk of abuse and Schedule V substances being considered to present the lowest relative risk of abuse. DepoDur contains morphine, and it is regulated as a Schedule II controlled substance. Despite the strict regulations on the marketing, prescribing and dispensing of such substances, illicit use and abuse of morphine does occur. Thus, the marketing of DepoDur by our partners may generate public controversy that may adversely affect sales of DepoDur and decrease the revenue we receive from the sale of DepoDur.

In addition, we and our contract manufacturers are subject to ongoing DEA regulatory obligations, including, among other things, annual registration renewal, security, recordkeeping, theft and loss reporting, periodic inspection and annual quota allotments for the raw material for commercial production of our products. The DEA, and some states, conduct periodic inspections of registered establishments that handle controlled substances. Facilities that conduct research, manufacture, store, distribute, import or export controlled substances must be registered to perform these activities and have the security, control and inventory mechanisms required by the DEA to prevent drug loss and diversion. Failure to maintain compliance, particularly non-compliance resulting in loss or diversion, can result in regulatory action that could have a material adverse effect on our business, results of operations, financial condition and prospects. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to revoke those registrations. In certain circumstances, violations could lead to criminal proceedings.

Individual states also have controlled substances laws. Though state controlled substances laws often mirror federal law, because the states are separate jurisdictions, they may separately schedule drugs, as well. While some states automatically schedule a drug when the DEA does so, in other states there has to be rulemaking or a legislative action. State scheduling may delay commercial sale of any controlled substance drug product for which we obtain federal regulatory approval and adverse scheduling could have a material adverse effect on the commercial attractiveness of such product. We or our partners must also obtain separate state registrations in order to be able to obtain, handle, and distribute controlled substances for clinical trials or commercial sale, and failure to meet applicable regulatory requirements could lead to enforcement and sanctions from the states in addition to those from the DEA or otherwise arising under federal law.

Risks Related to Intellectual Property

The patents and the patent applications that we have covering our products are limited to specific injectable formulations, processes and uses of drugs encapsulated in our DepoFoam drug delivery technology and our market opportunity for our product candidates may be limited by the lack of patent protection for the active ingredient itself and other formulations and delivery technology and systems that may be developed by competitors.

The active ingredients in EXPAREL, DepoCyt(e) and DepoDur are bupivacaine, cytarabine and morphine, respectively. Patent protection for the bupivacaine, cytarabine and morphine molecules themselves has expired and generic immediate-release products are available. As a result, competitors who obtain the requisite regulatory approval can offer products with the same active ingredients as EXPAREL, DepoCyt(e) and DepoDur so long as the competitors do not infringe any process, use or formulation patents that we have developed for these drugs encapsulated in our DepoFoam drug delivery technology.

For example, we are aware of at least one long acting injectable bupivacaine product in development which utilizes an alternative delivery system to EXPAREL. Such a product is similar to EXPAREL in that it also extends the duration of effect of bupivacaine, but achieves this clinical outcome using a completely different drug delivery system compared to our DepoFoam drug delivery technology.

The number of patents and patent applications covering products in the same field as EXPAREL indicates that competitors have sought to develop and may seek to market competing formulations that may not be covered by our patents and patent applications. The commercial opportunity for EXPAREL could be significantly harmed if competitors are able to develop and commercialize alternative formulations of bupivacaine that are long acting but outside the scope of our patents.

If EXPAREL is approved by the FDA, one or more third parties may challenge the patents covering this product, which could result in the invalidation or unenforceability of some or all of the relevant patent claims. For example, if a third party files an Abbreviated New Drug Application, or ANDA, for a generic drug product containing bupivacaine and relies in whole or in part on studies conducted by or for us, the third party will be required to certify to the FDA that either: (1) there is no patent information listed in the FDA's Orange Book with respect to our NDA for EXPAREL; (2) the patents listed in the Orange Book have expired; (3) the listed patents have not expired, but will expire on a particular date and approval is sought after patent expiration; or (4) the listed patents are invalid or will not be infringed by the manufacture, use or sale of the third-party's generic drug product. A certification that the new product will not infringe the Orange Book-listed patents for EXPAREL, or that such patents are invalid, is called a paragraph IV certification. If the third party submits a paragraph IV certification to the FDA, a notice of the paragraph IV certification must also be sent to us once the third-party's ANDA is accepted for filing by the FDA. We may then initiate a lawsuit to defend the patents identified in the notice. The filing of a patent infringement lawsuit within 45 days of receipt of the notice automatically prevents the FDA from approving the third-party's ANDA until the earliest of 30 months or the date on which the patent expires, the lawsuit is settled, or the court reaches a decision in the infringement lawsuit in favor of the third party. If we do not file a patent infringement lawsuit within the required 45-day period, the third-party's ANDA will not be subject to the 30-month stay. Litigation or other proceedings to enforce or defend intellectual property rights are often very complex in nature, may be very expensive and time-consuming, may divert our management's attention from our core business, and may result in unfavorable results that could adversely impact our ability to prevent third parties from competing with our products.

Because it is difficult and costly to protect our proprietary rights, we may not be able to ensure their protection and all patents will eventually expire.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection for EXPAREL, DepoCyt(e), DepoDur, DepoFoam and for any other product candidates that we may develop, license or acquire and the methods we use to manufacture them, as well as successfully defending these patents and trade secrets against third-party challenges. We will only be able to protect our technologies from unauthorized use by third parties to the extent that valid and enforceable patents or trade secrets cover them.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in pharmaceutical or biotechnology patents has emerged to date in the United States. The patent situation outside the United States is even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our patents or in third-party patents.

The degree of future protection for our proprietary rights is uncertain, because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we may not have been the first to make the inventions covered by each of our pending patent applications and issued patents;
- we may not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or duplicate any of our product candidates or technologies;

- it is possible that none of the pending patent applications will result in issued patents;
- the issued patents covering our product candidates may not provide a basis for commercially viable active products, may not provide us with any competitive advantages, or may be challenged by third parties;
- we may not develop additional proprietary technologies that are patentable; or
- patents of others may have an adverse effect on our business.

Patent applications in the United States are maintained in confidence for at least 18 months after their earliest effective filing date. Consequently, we cannot be certain we were the first to invent or the first to file patent applications on EXPAREL, our DepoFoam drug delivery technology or any other product candidates that we may develop, license or acquire. In the event that a third party has also filed a U.S. patent application relating to our product candidates or a similar invention, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention in the United States. The costs of these proceedings could be substantial and it is possible that our efforts would be unsuccessful, resulting in a material adverse effect on our U.S. patent position. Furthermore, we may not have identified all United States and foreign patents or published applications that affect our business either by blocking our ability to commercialize our drugs or by covering similar technologies that affect our drug market.

In addition, some countries, including many in Europe, do not grant patent claims directed to methods of treating humans, and in these countries patent protection may not be available at all to protect our product candidates. Even if patents issue, we cannot guarantee that the claims of those patents will be valid and enforceable or provide us with any significant protection against competitive products, or otherwise be commercially valuable to us.

Some of our older patents have already expired. In the cases of DepoCyt(e) and DepoDur, key patents providing protection in Europe have expired. In the case of EXPAREL, while pending patent applications, if granted, would provide protection for EXPAREL in Europe and the United States through November 2018, an existing formulation patent for EXPAREL will expire in November 2013. Once our patents covering EXPAREL have expired, we are more reliant on trade secrets to protect against generic competition.

We also rely on trade secrets to protect our technology, particularly where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. While we use reasonable efforts to protect our trade secrets, our licensors, employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

If we fail to obtain or maintain patent protection or trade secret protection for EXPAREL, DepoCyt(e), DepoDur, DepoFoam or any other product candidate that we may develop, license or acquire, third parties could use our proprietary information, which could impair our ability to compete in the market and adversely affect our ability to generate revenues and achieve profitability.

If we are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in any litigation would harm our business.

Our ability to develop, manufacture, market and sell EXPAREL, our DepoFoam drug delivery technology or any other product candidates that we may develop, license or acquire depends upon our ability to avoid infringing the proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the general fields of pain management and cancer

treatment and cover the use of numerous compounds and formulations in our targeted markets. Because of the uncertainty inherent in any patent or other litigation involving proprietary rights, we and our licensors may not be successful in defending intellectual property claims by third parties, which could have a material adverse affect on our results of operations. Regardless of the outcome of any litigation, defending the litigation may be expensive, time-consuming and distracting to management. In addition, because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that EXPAREL, DepoCyt(e) or DepoDur may infringe. There could also be existing patents of which we are not aware that EXPAREL, DepoCyt(e) or DepoDur may inadvertently infringe.

There is a substantial amount of litigation involving patent and other intellectual property rights in the biotechnology and biopharmaceutical industries generally. If a third party claims that we infringe on their products or technology, we could face a number of issues, including:

- infringement and other intellectual property claims which, with or without merit, can be expensive and time consuming to litigate and can divert management's attention from our core business;
- substantial damages for past infringement which we may have to pay if a court decides that our product infringes on a competitor's patent;
- a court prohibiting us from selling or licensing our product unless the patent holder licenses the patent to us, which it would not be required to do;
- if a license is available from a patent holder, we may have to pay substantial royalties or grant cross licenses to our patents; and
- redesigning our processes so they do not infringe, which may not be possible or could require substantial funds and time.

We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

As is common in the biotechnology and pharmaceutical industry, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Risks Related to Our Financial Condition and Capital Requirements

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

Our independent registered public accounting firm stated that our financial statements for the year ended December 31, 2009 were prepared assuming that we would continue as a going concern, and that certain matters raise substantial doubt about our ability to continue as a going concern. Such doubts are based on our recurring losses and our working capital and stockholders' deficits. We continue to experience losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including by the sale of our securities, obtaining loans from financial institutions or other financing arrangements, where possible. Our continued losses and "going concern" audit report increase the difficulty of our meeting such goals and our efforts to continue as a going concern may not prove successful.

We have incurred significant losses since our inception and anticipate that we will incur continued losses for the foreseeable future.

We are an emerging specialty pharmaceutical company with a limited operating history. We have focused primarily on developing EXPAREL with the goal of achieving regulatory approval. We have incurred losses in

each year since our inception in December 2006, including net losses of $31.7 million, $41.9 million and $36.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of September 30, 2010, we had an accumulated deficit of $129.9 million. These losses, among other things, have had, and will continue to have, an adverse effect on our stockholders' equity (deficit) and working capital (deficit). We incurred increased pre-commercialization expenses during 2009 as we prepared for the potential market launch of EXPAREL, and we expect to incur significant sales, marketing and manufacturing expenses, as well as continued development expenses related to the commercialization of EXPAREL, if approved by the FDA. As a result, we expect to continue to incur significant losses for the foreseeable future. Because of the numerous risks and uncertainties associated with developing pharmaceutical products, we are unable to predict the extent of any future losses or when we will become profitable, if at all.

We may never become profitable.

Our ability to become profitable depends upon our ability to generate revenue from EXPAREL and to continue to generate revenue from DepoCyt(e) and DepoDur. Our ability to generate revenue depends on a number of factors, including, but not limited to, our ability to:

- continue to manufacture DepoCyt(e) and DepoDur for sale by our commercial partners;
- obtain regulatory approval for EXPAREL, or any other product candidates that we may develop, license or acquire;
- manufacture commercial quantities of EXPAREL, if approved, at acceptable cost levels; and
- develop a commercial organization and the supporting infrastructure required to successfully market and sell EXPAREL, if it is approved.

If EXPAREL is approved for commercial sale, we anticipate incurring significant costs associated with its commercialization. We also do not anticipate that we will achieve profitability for a period of time after generating material revenues, if ever. If we are unable to generate revenues, we will not become profitable and may be unable to continue operations without continued funding.

Under our financing arrangement with Paul Capital, upon the occurrence of certain events, Paul Capital may require us to repurchase the right to receive royalty payments that we assigned to it, or may foreclose on certain assets that secure our obligations to Paul Capital. Any exercise by Paul Capital of its right to cause us to repurchase the assigned right or any foreclosure by Paul Capital would adversely affect our results of operations and our financial condition.

On March 23, 2007, we entered into the Amended and Restated Royalty Interests Assignment Agreement with affiliates of Paul Capital, pursuant to which we assigned to Paul Capital the right to receive a portion of our royalty payments from DepoCyt(e) and DepoDur. To secure our obligations to Paul Capital, we granted Paul Capital a security interest in collateral which includes the royalty payments we are entitled to receive with respect to sales of DepoCyt(e) and DepoDur, as well as to bank accounts to which such payments are deposited. Under our arrangement with Paul Capital, upon the occurrence of certain events, or the put events, including if we experience a change of control, we or our subsidiary undergo certain bankruptcy events, transfer any or substantially all of our rights in DepoCyt(e) or DepoDur, transfer all or substantially all of our assets, breach certain of the covenants, representations or warranties under the Amended and Restated Royalty Interests Assignment Agreement, or sales of DepoCyt(e) or DepoDur are suspended due to an injunction or if we elect to suspend sales of DepoCyt(e) or DepoDur as a result of a lawsuit filed by certain third parties, Paul Capital may (i) require us to repurchase the rights we assigned to it at a cash price equal to (a) 50% of all cumulative payments made by us to Paul Capital under the Amended and Restated Royalty Interests Assignment Agreement during the preceding 24 months, multiplied by (b) the number of days from the date of Paul Capital's exercise of such option until December 31, 2014, divided by 365. Any exercise by Paul Capital of its right to cause us to repurchase the assigned right or any foreclosure by Paul Capital would adversely affect our results of operations and our financial condition.

Our debt obligations expose us to risks that could adversely affect our business, operating results and financial condition.

We have a substantial level of debt. As of September 30, 2010, after giving effect to the Hercules Credit Facility and the issuance and sale of the December 2010 Convertible Notes and the application of the proceeds therefrom, we had $73.75 million in aggregate principal amount of indebtedness outstanding, not including our obligation under the Amended and Restated Royalty Interests Assignment Agreement with Paul Capital. Approximately $47.5 million of outstanding indebtedness will convert to common stock upon the completion of this offering, and $26.25 million in aggregate principal amount of our outstanding indebtedness will not convert to common stock upon the completion of this offering and remain outstanding. The level and nature of our indebtedness, among other things, could:

- make it difficult for us to make payments on our outstanding debt from time to time or to refinance it;
- make it difficult for us to obtain any necessary financing in the future for working capital, capital expenditures, debt service, product and company acquisitions or general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our business including life cycle management;
- reduce funds available for use in our operations;
- impair our ability to incur additional debt because of financial and other restrictive covenants;
- make us more vulnerable in the event of a downturn in our business;
- place us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have better access to capital resources;
- restrict the operations of our business as a result of provisions in the Amended and Restated Royalty Interests Assignment Agreement with Paul Capital that restrict our ability to (i) amend, waive any rights under, or terminate any material agreements relating to DepoCyt(e) and DepoDur, (ii) enter into any new agreement or amend or fail to exercise any of our material rights under existing agreements that would materially adversely affect Paul Capital's royalty interest, and (iii) sell any material assets related to DepoCyt(e) or DepoDur; or
- impair our ability to merge or otherwise effect the sale of the Company due to the right of the holders of certain of our indebtedness to accelerate the maturity date of the indebtedness in the event of a change of control of the Company.

We will need to raise additional capital to pay our indebtedness as it comes due. If we are unable to obtain funds necessary to make required payments, or if we fail to comply with the various requirements of our indebtedness, we would be in default, which would permit the holders of our indebtedness to accelerate the maturity of the indebtedness and could cause defaults under any indebtedness we may incur in the future. Any default under our indebtedness would have a material adverse effect on our business, operating results and financial condition. If we are unable to refinance or repay our indebtedness as it becomes due, we may become insolvent and be unable to continue operations.

For example, our loan and security agreement governing the Hercules Credit Facility, contains a number of affirmative and restrictive covenants, including reporting requirements and other collateral limitations, certain limitations on liens and indebtedness, dispositions, mergers and acquisitions, restricted payments and investments, corporate changes and limitations on waivers and amendments to certain agreements, our organizational documents, and documents relating to debt that is subordinate to our obligations under the Hercules Credit Facility. Our failure to comply with the covenants in the loan and security agreement governing the Hercules Credit Facility could result in an event of default that, if not cured or waived, could result in the acceleration of all or a substantial portion of our debt and potential foreclosure on the assets pledged to secure the debt.

Our short operating history makes it difficult to evaluate our business and prospects.

We were incorporated in December 2006 and have only been conducting operations with respect to EXPAREL since March 2007. Our operations to date have been limited to organizing and staffing our company, conducting product development activities, including clinical trials and manufacturing development activities, for EXPAREL and manufacturing and related activities for DepoCyt(e) and DepoDur. Further, in 2010 we began to establish our commercial infrastructure for EXPAREL. We have not yet demonstrated an ability to obtain regulatory approval for or successfully commercialize a product candidate. Consequently, any predictions about our future performance may not be as accurate as they could be if we had a history of successfully developing and commercializing pharmaceutical products.

We will need additional funding and may be unable to raise capital when needed, which would force us to delay, reduce or eliminate our product development programs or commercialization efforts.

Developing products for use in the hospital setting, conducting clinical trials, establishing outsourced manufacturing relationships and successfully manufacturing and marketing drugs that we may develop is expensive. We will need to raise additional capital to:

- fund our operations and continue our efforts to hire additional personnel and build a commercial infrastructure to prepare for the commercialization of EXPAREL, if approved by the FDA;
- qualify and outsource the commercial-scale manufacturing of our products under cGMP; and
- in-license and develop additional product candidates.

Throughout 2009 and 2010, we generated net proceeds of approximately $47.5 million through several private placements of secured and unsecured notes and proceeds of approximately $26.25 million under the Hercules Credit Facility. We believe that with our currently available cash and cash equivalent balance, along with the net proceeds from this offering, we have sufficient funds to meet our projected operating requirements and service our indebtedness for at least the next 12 months. We have based this estimate on assumptions that may prove to be wrong and we could spend our available financial resources faster than we currently expect. Further, we may not have sufficient financial resources to meet all of our objectives if EXPAREL is approved, which could require us to postpone, scale back or eliminate some, or all, of these objectives, including our potential launch activities. Our future funding requirements will depend on many factors, including, but not limited to:

- the potential for delays in our efforts to seek regulatory approval for EXPAREL, and any costs associated with such delays;
- the costs of establishing a commercial organization to sell, market and distribute EXPAREL;
- the rate of progress and costs of our efforts to prepare for the submission of an NDA for any product candidates that we may in-license or acquire in the future, and the potential that we may need to conduct additional clinical trials to support applications for regulatory approval;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights associated with our product candidates, including any such costs we may be required to expend if our licensors are unwilling or unable to do so;
- the cost and timing of manufacturing sufficient supplies of EXPAREL in preparation for commercialization;
- the effect of competing technological and market developments;
- the terms and timing of any collaborative, licensing, co-promotion or other arrangements that we may establish;
- if EXPAREL is approved, the potential that we may be required to file a lawsuit to defend our patent rights or regulatory exclusivities from challenges by companies seeking to market generic versions of extended-release liposome injection of bupivacaine; and
- the success of the commercialization of EXPAREL.

Future capital requirements will also depend on the extent to which we acquire or invest in additional complementary businesses, products and technologies.

Until we can generate a sufficient amount of product revenue, if ever, we expect to finance future cash needs through public or private equity offerings, debt financings, product supply revenue and royalties, corporate collaboration and licensing arrangements, as well as through interest income earned on cash and investment balances. We cannot be certain that additional funding will be available on acceptable terms, or at all. If adequate funds are not available, we may be required to delay, reduce the scope of, or eliminate, one or more of our development programs or our commercialization efforts.

Our quarterly operating results may fluctuate significantly.

We expect our operating results to be subject to quarterly fluctuations. Our net loss and other operating results will be affected by numerous factors, including:

- whether the FDA requires us to complete additional, unanticipated studies, tests or other activities prior to approving EXPAREL, which would likely further delay any such approval;
- if EXPAREL is approved, our ability to establish the necessary commercial infrastructure to launch this product candidate without substantial delays, including hiring sales and marketing personnel and contracting with third parties for warehousing, distribution, cash collection and related commercial activities;
- maintaining our existing manufacturing facilities and expanding our manufacturing capacity, including installing specialized processing equipment for the manufacturing of EXPAREL;
- our execution of other collaborative, licensing or similar arrangements and the timing of payments we may make or receive under these arrangements;
- variations in the level of expenses related to our future development programs;
- any product liability or intellectual property infringement lawsuit in which we may become involved;
- regulatory developments affecting EXPAREL or the product candidates of our competitors; and
- if EXPAREL receives regulatory approval, the level of underlying hospital demand for this product candidate and wholesaler buying patterns.

If our quarterly or annual operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Furthermore, any quarterly or annual fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

Raising additional funds by issuing securities may cause dilution to existing stockholders and raising funds through lending and licensing arrangements may restrict our operations or require us to relinquish proprietary rights.

To the extent that we raise additional capital by issuing equity securities, our existing stockholders' ownership will be diluted. If we raise additional funds through licensing arrangements, it may be necessary to relinquish potentially valuable rights to our potential products or proprietary technologies, or grant licenses on terms that are not favorable to us. Any debt financing we enter into may involve covenants that restrict our operations. These restrictive covenants may include limitations on additional borrowing and specific restrictions on the use of our assets as well as prohibitions on our ability to create liens, pay dividends, redeem our stock or make investments.

We will incur significant increased costs as a result of operating as a public company.

As a public company, we will incur significant legal, accounting, insurance and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. We

also have incurred and will incur costs associated with complying with the requirements of the Sarbanes-Oxley Act of 2002 and related rules implemented by the Securities and Exchange Commission and The NASDAQ Global Market. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 will require our management to devote substantial time to new compliance initiatives, and if our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal controls, our stock price could be adversely affected.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, we will be required to furnish a report by our management on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. We have not been subject to these requirements in the past. The internal control report must contain (i) a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting, (ii) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal control over financial reporting, (iii) management's assessment of the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not internal control over financial reporting is effective, and (iv) a statement that our independent registered public accounting firm has issued an attestation report on internal control over financial reporting.

To achieve compliance with Section 404 within the prescribed period, we will be engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, hire additional employees for our finance and audit functions, potentially engage outside consultants and adopt a detailed work plan to (i) assess and document the adequacy of internal control over financial reporting, (ii) continue steps to improve control processes where appropriate, (iii) validate through testing that controls are functioning as documented, and (iv) implement a continuous reporting and improvement process for internal control over financial reporting. In addition, in connection with the attestation process by our independent registered public accounting firm, we may encounter problems or delays in completing the implementation of any requested improvements and receiving a favorable attestation. If we cannot favorably assess the effectiveness of our internal control over financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal controls, investors could lose confidence in our financial information and our stock price could decline.

The use of our net operating loss carryforwards and research tax credits may be limited.

Our net operating loss carryforwards and research and development tax credits may expire and not be used. As of December 31, 2009, we had federal and state net operating loss carryforwards of approximately $82.4 million and $59.0 million, respectively, and we also had federal and state research and development tax credit carryforwards of approximately $2.2 million and $0.9 million, respectively. Our net operating loss carryforwards will begin expiring in 2026 for federal purposes and 2016 for state purposes if we have not used them prior to that time, and our federal tax credits will begin expiring in 2027 unless previously used. Our state tax credits carryforward indefinitely. Additionally, our ability to use any net operating loss and credit carryforwards to offset taxable income or tax, respectively, in the future will be limited under Internal Revenue

Code Sections 382 and 383 if we have a cumulative change in ownership of more than 50% within a three-year period. The completion of this offering, together with private placements and other transactions that have occurred, may trigger, or may have already triggered such an ownership change. In addition, since we will need to raise substantial additional funding to finance our operations, we may undergo further ownership changes in the future. Following the Acquisition, we have not completed an analysis as to whether such a change of ownership has occurred, but in such an event, we will be limited regarding the amount of net operating loss carryforwards and research tax credits that could be utilized annually in the future to offset taxable income or tax, respectively. Any such annual limitation may significantly reduce the utilization of the net operating loss carryforwards and research tax credits before they expire. In addition, California and certain states have suspended use of net operating loss carryforwards for certain taxable years, and other states are considering similar measures. As a result, we may incur higher state income tax expense in the future. Depending on our future tax position, continued suspension of our ability to use net operating loss carryforwards in states in which we are subject to income tax could have an adverse impact on our results of operations and financial condition.

Our results of operations and liquidity needs could be materially negatively affected by market fluctuations and economic downturn.

Our results of operations could be materially negatively affected by economic conditions generally, both in the United States and elsewhere around the world. Continuing concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining residential real estate market in the United States have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic recession and fears of a possible depression. Domestic and international equity markets continue to experience heightened volatility and turmoil. These events and the continuing market upheavals may have an adverse effect on us. In the event of a continuing market downturn, our results of operations could be adversely affected by those factors in many ways, including making it more difficult for us to raise funds if necessary, and our stock price may further decline.

Risks Related to this Offering and Ownership of Our Common Stock

There is no established public market for our stock and a public market may not be obtained or be liquid and therefore you may not be able to sell your shares.

Prior to this offering, there has not been a public market for our common stock. If an active trading market for our common stock does not develop following this offering, you may not be able to sell your shares quickly or at the market price. The initial public offering price for the shares will be determined by negotiations between us and representatives of the underwriters and may not be indicative of prices that will prevail in the subsequent trading market.

The market price of our common stock may be highly volatile, and you may not be able to resell your shares at or above the initial public offering price.

The trading price of our common stock is likely to be volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors, including the following:

- any delay in the FDA approving our NDA for EXPAREL;
- the commercial success of EXPAREL, if approved by the FDA;
- results of clinical trials of our product candidates or those of our competitors;
- changes or developments in laws or regulations applicable to our product candidates;
- introduction of competitive products or technologies;
- failure to meet or exceed financial projections we provide to the public;

- actual or anticipated variations in quarterly operating results;
- failure to meet or exceed the estimates and projections of the investment community;
- the perception of the pharmaceutical industry by the public, legislatures, regulators and the investment community;
- general economic and market conditions and overall fluctuations in U.S. equity markets;
- developments concerning our sources of manufacturing supply;
- disputes or other developments relating to patents or other proprietary rights;
- additions or departures of key scientific or management personnel;
- issuances of debt, equity or convertible securities;
- changes in the market valuations of similar companies; and
- the other factors described in this "Risk Factors" section.

In addition, the stock market in general, and the market for small pharmaceutical and biotechnology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance.

Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

Upon completion of this offering, our executive officers, directors and 5% stockholders and their affiliates will beneficially own approximately 57.8% of our outstanding voting stock, excluding any shares of common stock that our existing stockholders may purchase in this offering. As a result, these stockholders will have significant influence and may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This concentration of ownership could delay or prevent any acquisition of our company on terms that other stockholders may desire.

If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

The initial public offering price is substantially higher than the net tangible book value per share of our common stock. Investors purchasing common stock in this offering will pay a price per share that substantially exceeds the book value of our tangible assets after subtracting our liabilities. As a result, investors purchasing common stock in this offering will incur immediate dilution of $11.35 per share. Further, investors purchasing common stock in this offering will contribute approximately 32.0% of the total amount invested by stockholders since our inception, but will own only approximately 28.5% of the shares of our common stock outstanding.

This dilution is due to the substantially lower price paid by our investors who purchased shares prior to this offering as compared to the price offered to the public in this offering, and the exercise of stock options granted to our employees. In addition, as of December 31, 2010, options to purchase 2,073,864 shares of our common stock at a weighted average exercise price of $2.69 per share, warrants exercisable for up to 325,422 shares of our common stock at weighted average exercise price of $8.22 per share and up to 202,230 shares of our Series A convertible preferred stock, assuming that the warrant issued in connection with the Hercules Credit Facility is exercised for our Series A convertible preferred stock, at weighted average exercise price of $13.44 per share were outstanding. The exercise of any of these options or warrants would result in additional dilution. As a result of the dilution to investors purchasing shares in this offering, investors may receive significantly less than the purchase price paid in this offering, if anything, in the event of a liquidation or sale of our company.

Sales of a substantial number of shares of our common stock in the public market by our existing stockholders could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise adequate capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

Substantially all of our existing stockholders are subject to lock-up agreements with the underwriters of this offering that restrict the stockholders' ability to transfer shares of our common stock for at least 180 days from the date of this prospectus, subject to certain exceptions. The lock-up agreements limit the number of shares of common stock that may be sold immediately following the public offering. Subject to certain limitations, 10,896,339 shares will become eligible for sale upon expiration of the lock-up period. In addition, shares issued or issuable upon exercise of options and warrants vested as of the expiration of the lock-up period will be eligible for sale at that time. Sales of stock by these stockholders could have a material adverse effect on the market price of our common stock.

Certain holders of shares of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act of 1933, as amended, or the Securities Act, subject to the 180-day lock-up arrangement described above. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares held by our affiliates as defined in Rule 144 under the Securities Act. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

Our management will have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering and our stockholders will not have the opportunity as part of their investment decision to assess whether the net proceeds are being used appropriately. Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their currently intended use. The failure by our management to apply these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing instruments and U.S. government securities. These investments may not yield a favorable return to our stockholders.

Because we do not intend to pay dividends on our common stock, your returns will be limited to any increase in the value of our stock.

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business and do not anticipate declaring or paying any cash dividends on our common stock for the foreseeable future. Any return to stockholders will therefore be limited to the appreciation of their stock, if any.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders, and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our restated certificate of incorporation and our bylaws that will become effective following the completion of this offering, as well as provisions of the Delaware General Corporation Law, or DGCL, could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders, including transactions in which stockholders might otherwise receive a premium for their shares. These provisions include:

- authorizing the issuance of "blank check" preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;

- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- eliminating the ability of stockholders to call a special meeting of stockholders; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, we are subject to Section 203 of the DGCL, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder, unless such transactions are approved by our board of directors. This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this prospectus regarding our strategy, future operations, regulatory process, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

The forward-looking statements in this prospectus include, among other things, statements about:

- our plans to develop and commercialize EXPAREL;
- our plans to continue to manufacture and provide support services for our commercial partners who have licensed DepoCyt(e) and DepoDur;
- the timing of, and our ability to obtain, regulatory approval of EXPAREL;
- the timing of our anticipated commercial launch of EXPAREL;
- the rate and degree of market acceptance of EXPAREL;
- the size and growth of the potential markets for EXPAREL and our ability to serve those markets;
- our plans to expand the indications of EXPAREL to include nerve block and epidural administration;
- our commercialization and marketing capabilities;
- regulatory developments in the United States and foreign countries;
- our ability to obtain and maintain intellectual property protection;
- the accuracy of our estimates regarding expenses and capital requirements; and
- the loss of key scientific or management personnel.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this prospectus, particularly in the "Risk Factors" section, that could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments that we may make.

You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $57.0 million (or approximately $65.9 million if the underwriters exercise their option to purchase additional shares from us in full), based on an assumed initial public offering price of $15.00 per share, which is the midpoint of the estimated price range shown on the cover of this prospectus, and after deducting the estimated underwriting discounts and commissions and offering expenses payable by us.

A $1.00 increase (decrease) in the assumed initial public offering price of $15.00 would increase (decrease) the net proceeds to us from this offering by $4.0 million, after deducting the estimated underwriting discounts and commissions and offering expenses payable by us.

We intend to use the net proceeds from this offering as follows:

- approximately $36.0 million through the fourth quarter of 2011 for the planned manufacture and commercialization of EXPAREL in the United States;
- approximately $1.5 million through the fourth quarter of 2011 for the development of EXPAREL for nerve block; and
- the balance for working capital and other general corporate purposes, which may include the acquisition or licensing of other products or technologies or the acquisition of other businesses in the biotechnology or specialty pharmaceuticals industry.

The amounts and timing of our actual expenditures may vary significantly depending on numerous factors, including:

- the timing and outcome of the FDA's review of the NDA for EXPAREL;
- the extent to which the FDA may require us to perform additional clinical trials for EXPAREL;
- the timing and success of this offering;
- the costs of our commercialization activities for EXPAREL, if it is approved by the FDA;
- the cost and timing of expanding our manufacturing facilities and purchasing manufacturing and other capital equipment for EXPAREL and our other product candidates;
- the scope, progress, results and costs of development for additional indications for EXPAREL and for our other product candidates;
- the cost, timing and outcome of regulatory review of our other product candidates;
- the extent to which we acquire or invest in products, businesses and technologies;
- the extent to which we choose to establish collaboration, co-promotion, distribution or other similar agreements for product candidates;
- the costs of preparing, submitting and prosecuting patent applications and maintaining, enforcing and defending intellectual property claims; and
- any unforeseen or underestimated cash needs.

We therefore cannot estimate the amount of net proceeds to be used for all of the purposes described above. We may find it necessary or advisable to use the net proceeds for other purposes, and we will have broad discretion in the application of net proceeds.

Following this offering, we believe that our available funds will be sufficient to complete the development of EXPAREL through FDA approval and to fund the expected commercial launch of EXPAREL in the United States in the fourth quarter of 2011. It is possible that we will not achieve the progress that we expect with

respect to EXPAREL because the actual costs, timing of development and regulatory approval are difficult to predict and are subject to substantial risks and delays. We have no committed external sources of funds. To the extent that the net proceeds from this offering and our other capital resources are insufficient to complete clinical development of, obtain regulatory approval for, and, if approved, commercially launch EXPAREL, we will need to finance our cash needs through public or private equity offerings, debt financings, corporate collaboration and licensing arrangements or other financing alternatives.

Pending our use of the net proceeds from this offering, we intend to invest the net proceeds in a variety of capital preservation investments, including short-term, investment-grade, interest-bearing instruments and U.S. government securities.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain earnings, if any, to finance the growth and development of our business. We do not expect to pay any cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments, provisions of applicable law and other factors the board deems relevant. Our ability to pay dividends on our common stock is limited by the covenants of our loan and security agreement governing the Hercules Credit Facility and may be further restricted by the terms of any of our future indebtedness. See "Risk Factors—Risks Related to Our Financial Condition and Capital Requirements—Our debt obligations expose us to risks that could adversely affect our business, operating results and financial condition."

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2010:

- on an actual basis;
- on a pro forma basis to reflect (1) the automatic conversion of all outstanding shares of our Series A convertible preferred stock into common stock upon the completion of this offering, (2) the conversion of $47.5 million aggregate principal amount and all accrued and unpaid interest on secured and unsecured notes held by certain of our stockholders into common stock upon the completion of this offering and (3) the one-for-10.755 reverse split of our common stock to be effected prior to the completion of this offering, (4) the filing of our restated certificate of incorporation prior to the completion of this offering; and
- on a pro forma as adjusted basis to reflect (1) the automatic conversion of all outstanding shares of our Series A convertible preferred stock into common stock upon the completion of this offering, (2) the conversion of $47.5 million aggregate principal amount and all accrued and unpaid interest on secured and unsecured notes held by certain of our stockholders into common stock upon the completion of this offering, (3) the one-for-10.755 reverse split of our common stock to be effected prior to the completion of this offering, (4) the filing of our restated certificate of incorporation prior to the completion of this offering, and (5) our issuance and sale of 4,250,000 shares of common stock in this offering at an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, after deducting the estimated underwriting discount and offering expenses payable by us.

You should read this table together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds" and "Selected Consolidated Financial Data."

	As of September 30, 2010		
	Actual	Pro Forma (1)	Pro Forma As Adjusted
	(in thousands, except per share amounts)		
Cash and cash equivalents	$ 13,851	$ 36,351	$ 93,339
Related party debt, excluding current portion	$ 42,652	$ —	$ —
Long-term debt, excluding current portion	11,250	26,250	26,250
Royalty interest obligation, excluding current portion	3,410	3,410	3,410
Total long-term debt	57,312	29,660	29,660
Series A convertible preferred stock, $0.001 par value: actual, 88,000,000 shares authorized, 6,322,640 shares issued and outstanding; pro forma and pro forma as adjusted, no shares authorized, issued and outstanding	6	—	—
Preferred stock, $0.001 par value: actual, no shares authorized, issued and outstanding; pro forma and pro forma as adjusted; 5,000,000 shares authorized, no shares issued and outstanding	—	—	—
Common stock, $0.001 par value: actual, 120,000,000 shares authorized, 574,903 shares issued and 573,838 shares outstanding; pro forma, 120,000,000 shares authorized, 10,661,448 shares issued and outstanding; pro forma as adjusted, 250,000,000 shares authorized, 14,911,448 shares issued and outstanding	1	11	15
Additional paid-in capital	86,824	136,972	193,956
Accumulated deficit	(129,867)	(129,867)	(129,867)
Treasury stock, 1,065 shares at cost	(2)	(2)	(2)
Total stockholders' equity (deficit)	(43,038)	7,114	64,102
Total capitalization	$ 14,274	$ 36,774	$ 93,762

(1) Pro forma includes the impact of $26,250,000 of long-term debt borrowed after September 30, 2010 under the Hercules Credit Facility and the repayment in full of $11,250,000 principal amount under the GECC Credit Facility. The pro forma information also includes $7,500,000 of the gross proceeds from the first closing of the issuance and sale of the December 2010 Convertible Notes and the subsequent conversion of the December 2010 Convertible Notes into 500,000 shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering, based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus. The pro forma information does not include the impact of a second closing of the issuance and sale and subsequent conversion of the December 2010 Convertible Notes into 500,000 shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering, based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, or the related warrants which would become exercisable for 167,361 shares of our common stock.

Each $1.00 increase (decrease) in the assumed initial public offering price of $15.00 would increase (decrease) each of cash and cash equivalents, additional paid-in capital and total stockholders' equity in the pro forma as adjusted column by $4.0 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us.

The table above does not include:

- 181,305 shares of common stock issuable upon the exercise of warrants outstanding and exercisable as of September 30, 2010, at a weighted average exercise price of $4.07 per share;
- 1,504,507 shares of common stock issuable upon the exercise of stock options outstanding as of September 30, 2010, at a weighted average exercise price of $1.61 per share; and
- 116,054 shares of common stock available for future issuance under our equity compensation plans as of September 30, 2010.

DILUTION

If you invest in our common stock, your interest will be diluted immediately to the extent of the difference between the initial public offering price per share you will pay in this offering and the pro forma as adjusted net tangible book value per share of our common stock after this offering.

Our historical net tangible book value as of September 30, 2010 was $(52.5) million, or $(91.52) per share of our common stock. Our historical net tangible book value per share represents our total tangible assets less total liabilities, divided by the number of shares of our common stock outstanding on September 30, 2010.

Our pro forma net tangible book value as of September 30, 2010 was $(2.6) million, or $(0.24) per share of our common stock. Our pro forma net tangible book value per share set forth below represents our total tangible assets less total liabilities, divided by the number of shares of our common stock outstanding on September 30, 2010, after giving effect to the automatic conversion of all of our outstanding shares of Series A convertible preferred stock into shares of our common stock immediately prior to the completion of this offering and the conversion of $47.5 million aggregate principal amount and all accrued and unpaid interest on secured and unsecured notes (including the notes issued upon the first closing of the December 2010 Convertible Notes) held by certain of our stockholders into common stock immediately prior to the completion of this offering.

After giving effect to our issuance and sale of 4,250,000 shares of our common stock in this offering at an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, after deducting the estimated underwriting discounts and commissions and offering expenses payable by us, the pro forma as adjusted net tangible book value as of September 30, 2010 would have been $54.4 million, or $3.65 per share. This represents an immediate increase in net tangible book value to existing stockholders of $3.89 per share. The initial public offering price per share will significantly exceed the net tangible book value per share. Accordingly, new investors who purchase shares of common stock in this offering will suffer an immediate dilution of their investment of $11.35 per share. The following table illustrates this per share dilution to the new investors purchasing shares of common stock in this offering without giving effect to the over-allotment option granted to the underwriters:

Assumed initial public offering price per share		$ 15.00
Pro forma net tangible book value per share as of September 30, 2010	$(0.24)	
Increase per share attributable to sale of shares of common stock in this offering	3.89	
Pro forma as adjusted net tangible book value per share after the offering		3.65
Dilution per share to new investors		$11.35

Each $1.00 increase (decrease) in the assumed initial public offering price of $15.00 per share would increase (decrease) the pro forma as adjusted net tangible book value by $4.0 million, the pro forma as adjusted net tangible book value per share after this offering by $0.27 per share and the dilution per share to investors in this offering by $0.27 per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discount and offering expenses payable by us.

If the underwriters exercise their over-allotment option in full, the pro forma as adjusted net tangible book value will increase to $4.07 per share, representing an immediate increase to existing stockholders of $4.31 per share and an immediate dilution of $10.93 per share to new investors. If any shares are issued upon exercise of outstanding options or warrants, you will experience further dilution.

The following table summarizes, on a pro forma basis as of September 30, 2010, after giving effect to the conversion of all of our outstanding Series A convertible preferred stock into common stock and the conversion of $47.5 million aggregate principal amount and all accrued and unpaid interest on secured and unsecured notes (including the notes issued upon the first closing of the December 2010 Convertible Notes), the differences between the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing stockholders and by new investors purchasing shares of common stock in this offering. The calculation below is based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, before the deduction of the estimated underwriting discounts and commissions and offering expenses payable by us:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	%	Amount	%	
Existing stockholders	10,661,255	71.5%	$ 135,379,681	68.0%	$12.70
New investors	4,250,000	28.5	63,750,000	32.0	$15.00
Total	14,911,448	100%	$199,129,681	100%	

The number of shares purchased from us by existing stockholders is based on 10,661,448 shares of our common stock outstanding as of September 30, 2010 after giving effect to the automatic conversion of all of our outstanding shares of Series A convertible preferred stock into common stock upon the completion of this offering and the conversion of $47.5 million aggregate principal amount and all accrued and unpaid interest on secured and unsecured notes (including the notes issued upon the first closing of the December 2010 Convertible Notes) held by certain of our stockholders into common stock upon the completion of this offering. This number excludes:

- 181,305 shares of common stock issuable upon the exercise of warrants outstanding and exercisable as of September 30, 2010, at a weighted average exercise price of $4.07 per share;
- 1,504,507 shares of common stock issuable upon the exercise of stock options outstanding as of September 30, 2010, at a weighted average exercise price of $1.61 per share; and
- 116,054 shares of common stock available for future issuance under our equity compensation plans as of September 30, 2010.

If the underwriters exercise their option to purchase additional shares from us in full, the number of shares held by new investors will increase to 4,887,500, or 31.4% of the total number of shares of common stock outstanding after this offering and the percentage of shares held by existing stockholders will decrease to 68.6% of the total shares outstanding.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with our consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The selected consolidated financial data in this section is not intended to replace our consolidated financial statements and the accompanying notes. Our historical results are not necessarily indicative of our future results.

- The selected consolidated financial data as of December 31, 2008 and 2009, and for the years ended December 31, 2007, 2008 and 2009 have been derived from our consolidated financial statements included elsewhere in this prospectus, which have been audited by J.H. Cohn LLP, an independent registered public accounting firm.
- The selected consolidated financial data as of September 30, 2010, and for the nine months ended September 30, 2009 and 2010, have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus.
- The selected consolidated financial data as of December 31, 2007 have been derived from our consolidated financial statements not contained herein.
- The selected consolidated financial data as of December 31, 2005 and December 31, 2006, and for the years ended December 31, 2005 and December 31, 2006, and for the period from January 1, 2007 through March 23, 2007, have been derived from unaudited consolidated financial statements of the Predecessor, SkyePharma, Inc., not included in this prospectus.

The unaudited consolidated financial data include, in the opinion of our management, all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair presentation of our financial position and results of operations for these periods. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period, and our results for any interim period are not necessarily indicative of results to be expected for a full fiscal year.

The term Predecessor refers to SkyePharma, Inc. prior to March 24, 2007, or the Acquisition Date, and the term Successor refers to Pacira Pharmaceuticals, Inc. and its consolidated subsidiaries. Our results of operations for the year ended December 31, 2007, while representing a full year for Pacira Pharmaceuticals, Inc., do not reflect the operations of PPI-California until March 24, 2007, after the Acquisition Date. We have presented the Predecessor for the period from January 1, 2007 through March 23, 2007, as we believe it best presents the continuity of operations of the Successor prior to the Acquisition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" for a discussion of the presentation of our results for the year ended December 31, 2007.

	Predecessor			Successor				
	Year Ended December 31,		January 1, 2007 to March 23, 2007	Year Ended December 31,			Nine Months Ended September 30,	
	2005	2006		2007	2008	2009	2009	2010
	(unaudited)			(audited)			(unaudited)	
	(in thousands, except share and per share data)							
Consolidated Statement of Operations Data:								
Revenues:								
Supply revenue	$ 3,647	$ 5,800	$ 684	$ 5,444	$ 6,852	$ 6,324	$ 4,273	$ 7,127
Royalties	1,813	2,784	500	2,388	3,648	4,044	2,906	2,693
Collaborative licensing and development revenue	13,630	3,088	204	509	3,425	4,638	3,543	2,551
Revenue from SkyePharma PLC	1,927	702	39	—	—	—	—	—
Total revenues	21,017	12,374	1,427	8,341	13,925	15,006	10,722	12,371
Operating expenses:								
Cost of revenues	15,312	15,782	2,825	9,492	17,463	12,301	8,823	10,168
Research and development	21,280	16,060	3,251	20,665	33,214	26,233	18,717	14,954
Selling, general and administrative	12,768	8,685	2,632	4,170	8,611	5,020	3,920	3,941
Acquired in-process research and development	—	—	—	12,400	—	—	—	—
Total operating expenses	49,360	40,527	8,708	46,727	59,288	43,554	31,460	29,063
(Loss) from operations:	(28,343)	(28,153)	(7,281)	(38,386)	(45,363)	(28,548)	(20,738)	(16,692)
Other income (expense)	1,525	(2,713)	(13)	16	(224)	367	353	100
Interest income (expense)								
Interest income	25	60	4	491	235	77	46	112
Interest (expense)	(8,485)	(11,221)	(2,265)	—	—	(1,723)	(990)	(2,577)
Royalty interest obligation	961	4,694	(1,486)	1,686	3,490	(1,880)	(1,407)	(1,048)
Net income (loss)	$ (34,317)	$ (37,333)	$ (11,041)	$ (36,193)	$ (41,862)	$ (31,707)	$ (22,736)	$ (20,105)
Net (loss) per share applicable to common stockholders—basic and diluted				$ (77.85)	$ (79.23)	$ (55.32)	$ (39.69)	$ (35.02)
Weighted average number of common shares used in net (loss) per share calculation				464,900	528,357	573,118	572,860	574,112
Pro forma net (loss) per share—basic and diluted (unaudited)(1)						$ (3.60)		$ (1.72)
Shares used in computing pro forma loss per share—basic and diluted (unaudited)						8,545,094		10,661,448

(1) Pro forma basic and diluted net loss per share is calculated assuming the conversion of all of our outstanding shares of Series A convertible preferred stock and our secured and unsecured notes (including the notes issued upon the first closing of the December 2010 Convertible Notes) and accrued interest thereon into common stock at the beginning of the period or at the original date of issuance, if later, but does not give effect to a second closing of the issuance and sale and subsequent conversion of the December 2010 Convertible Notes into 500,000 shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering, based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, or the related warrants which would become exercisable for 167,361 shares of our common stock. The net losses for the years ended December 31, 2009 and the nine months ended September 30, 2010 were adjusted to reflect the elimination of interest expense associated with the assumed conversion at the beginning of each period of the convertible and secured notes in the amounts of $0.9 million and $1.7 million, respectively.

	Predecessor		Successor					
	December 31,		December 31,			September 30, 2010		
	2005	2006	2007	2008	2009	Actual	Pro forma (1)	Pro forma as adjusted
	(unaudited)		(unaudited)	(audited)			(unaudited)	
			(in thousands)					
Consolidated Balance Sheet Data:								
Cash and cash equivalents	$ 911	$ 627	$ 7,240	$ 12,386	$ 7,077	$ 13,851	$ 36,351	93,339
Working capital (deficit)	17,004	27,010	2,354	2,341	(1,868)	6,585	29,085	86,073
Total assets	61,698	63,188	39,157	50,541	43,954	52,756	75,256	132,244
Long-term debt	28,789	21,648	8,241	3,618	25,820	57,312	29,660	29,660
Convertible preferred stock, par value	—	—	3	6	6	6	—	—
Common stock, par value	—	—	1	1	1	1	11	15
Accumulated deficit	(282,423)	(319,756)	(36,193)	(78,055)	(109,762)	(129,867)	(129,867)	(129,867)
Total stockholders' equity (deficit)	$(163,867)	$ (221,541)	$ 8,937	$ 7,490	$ (22,949)	$ (43,038)	7,114	64,102

(1) Pro forma includes the impact of $26,250,000 of long-term debt borrowed after September 30, 2010 under the Hercules Credit Facility and the repayment in full of $11,250,000 principal amount under the GECC Credit Facility. The pro forma information also includes $7,500,000 of the gross proceeds from the first closing of the issuance and sale of the December 2010 Convertible Notes and the subsequent conversion of the December 2010 Convertible Notes into 500,000 shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering, based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus. The pro forma consolidated balance sheet data do not give effect to a second closing of the issuance and sale and subsequent conversion of the December 2010 Convertible Notes into 500,000 shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering, based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, or the related warrants which would become exercisable for 167,361 shares of our common stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on our proprietary DepoFoam drug delivery technology, for use in hospitals and ambulatory surgery centers. In September 2010, we filed an NDA for EXPAREL with the United States Food and Drug Administration, or FDA, which was accepted by the FDA for review on December 10, 2010, using a 505(b)(2) application. Our clinical data demonstrates that EXPAREL provides analgesia for up to 72 hours post-surgery, compared with seven hours or less for bupivacaine. We are initially seeking approval for postsurgical analgesia by local administration into the surgical wound, or infiltration, a procedure commonly employed using bupivacaine. Under the Prescription Drug User Fee Act, or PDUFA, guidelines, the FDA has a goal of ten months from the date of NDA filing to make a decision regarding the approval of our filing. The PDUFA goal date for our NDA is July 28, 2011. We are also pursuing several additional indications for EXPAREL and expect to submit a supplemental NDA, or sNDA, for nerve block and epidural administration. We currently intend to develop and commercialize EXPAREL and our other product candidates in the United States while out-licensing commercialization rights for other territories.

We were incorporated in Delaware under the name Blue Acquisition Corp. in December 2006 and changed our name to Pacira, Inc. in June 2007. In October 2010, we changed our name to Pacira Pharmaceuticals, Inc. Pacira Pharmaceuticals, Inc. is the holding company for our California operating subsidiary of the same name, which we refer to as PPI-California. On March 24, 2007, or the Acquisition Date, MPM Capital, Sanderling Ventures, OrbiMed Advisors, HBM BioVentures, the Foundation for Research and their co-investors, through Pacira Pharmaceuticals, Inc., acquired PPI-California, from SkyePharma Holding, Inc., which we refer to as the Acquisition. PPI-California was known as SkyePharma, Inc. prior to the Acquisition.

Our two marketed products, DepoCyt(e) and DepoDur, and our proprietary DepoFoam extended release drug delivery technology were acquired as part of the Acquisition. 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. DepoDur is an extended release injectable formulation of morphine indicated for epidural administration for the treatment of pain following major surgery. DepoDur was approved by the FDA in 2004.

Since inception, we have incurred significant operating losses. Our net loss was $20.1 million for the nine months ended September 30, 2010, including research and development expenses of $15.0 million. Our net loss was $31.7 million for the year ended December 31, 2009, including research and development expenses of $26.2 million. We do not expect our currently marketed products to generate revenue that is sufficient for us to achieve profitability because we expect to continue to incur significant expenses as we advance the development of EXPAREL and our other product candidates, seek FDA approval for our product candidates that successfully complete clinical trials and develop our sales force and marketing capabilities to prepare for their commercial launch. We also expect to incur additional expenses to add operational, financial and management information systems and personnel, including personnel to support our product development efforts and our obligations as a public reporting company. For us to become and remain profitable, we believe that we must succeed in commercializing EXPAREL or other product candidates with significant market potential.

Financial Operations Overview

Revenues

Our revenue derived from DepoCyt(e) and DepoDur, our products manufactured by us and sold by our commercial partners, is comprised of two components: supply revenue and royalties. Supply revenue is derived from a contractual supply price paid to us by our commercial partners. Royalties are recognized as the product is sold by our commercial partners and is typically calculated as a percentage of the net selling price, which is net of discounts, returns, and allowances incurred by our commercial partners. Accordingly, the primary factors that determine our revenues derived from DepoCyt(e) and DepoDur are:

- the level of orders submitted by our commercial partners;
- the level of prescription and institutional demand for our products;
- unit sales prices; and
- the amount of gross-to-net sales adjustments realized by our commercial partners.

We also generate collaborative licensing and development revenue from our collaborations with third parties who seek to use our DepoFoam technology to develop extended release formulations of their products and product candidates.

The following table sets forth a summary of our supply revenue, royalties and collaborative licensing and development revenue for the years ended December 31, 2007, 2008 and 2009, and the nine months ended September 30, 2009 and 2010.

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
			(in thousands)		
DepoCyt(e) [1]					
Supply revenue	$ 4,675	$ 5,912	$ 5,882	$ 3,921	$ 6,497
Royalties	2,276	3,195	3,708	2,652	2,470
	6,951	9,107	9,590	6,573	8,967
DepoDur [1]					
Supply revenue	769	940	442	352	630
Royalties	112	453	336	254	223
	881	1,393	778	606	853
Total DepoCyt(e) and DepoDur revenue [1]	7,832	10,500	10,368	7,179	9,820
Collaborative licensing and development revenue	509	3,425	4,638	3,543	2,551
Total revenue	$ 8,341	$13,925	$15,006	$10,722	$12,371

[1] Total DepoCyt(e) and DepoDur revenue does not include collaborative licensing and development revenue related to DepoCyt(e) and DepoDur.

Cost of Revenues

Cost of revenues consists of the costs associated with producing our products for our commercial partners and providing research and development services to our collaboration partners. In particular, our cost of revenues includes:

- manufacturing overhead and fixed costs associated with running two cGMP manufacturing facilities, including salaries and related costs of personnel involved with our manufacturing activities;
- allocated overhead, personnel conducting research and development, as well as research and development performed by outside contractors or consultants for our collaborative licensing and development activities;

- royalties due to third parties on our revenues;
- packaging, testing, freight and shipping;
- the cost of active pharmaceutical ingredients; and
- overhead costs associated with excess manufacturing capacity are charged to cost of revenue as incurred. Manufacturing, labor and overhead costs are capitalized only to the extent of actual capacity utilized. The cost of excess capacity was $10.1 million, $5.5 million and $4.4 million for the years ended December 31, 2008 and 2009 and for the nine months ended September 30, 2010, respectively. Gross margins from supply revenue were -110%, -55% and -25% for the years ended December 31, 2008 and 2009, and for the nine months ended September 30, 2010, respectively. Our negative margin is primarily due to excess capacity. Excluding the cost of excess capacity, as described above, gross margin from supply revenue was 36%, 31%, and 36% for the years ended December 31, 2008 and 2009, and for the nine months ended September 30, 2010, respectively.

Research and Development Expenses

Our research and development expenses consist of expenses incurred in developing, testing, manufacturing and seeking regulatory approval of our product candidates, including:

- expenses associated with regulatory submissions, clinical trials and manufacturing, including additional expenses to prepare for the commercial manufacture of EXPAREL, such as the hiring and training of additional personnel;
- payments to third-party contract research organizations, contract laboratories and independent contractors;
- payments made to consultants who perform research and development on our behalf and assist us in the preparation of regulatory filings;
- payments made to third-party investigators who perform research and development on our behalf and clinical sites where such research and development is conducted;
- personnel related expenses, such as salaries, benefits, travel and other related expenses, including stock-based compensation;
- expenses incurred to maintain technology licenses; and
- facility, maintenance, and allocated rent, utilities, and depreciation and amortization, and other related expenses.

Clinical trial expenses for our product candidates are a significant component of our current research and development expenses. Product candidates in later stage clinical development, such as EXPAREL, generally have higher research and development expenses than those in earlier stages of development, primarily due to the increased size and duration of the clinical trials. We coordinate clinical trials through a number of contracted investigational sites and recognize the associated expense based on a number of factors, including actual and estimated subject enrollment and visits, direct pass-through costs and other clinical site fees.

From the Acquisition Date through September 30, 2010, we incurred research and development expenses of $95.1 million, of which $90.9 million is related to the development of EXPAREL. We incurred research and development expenses associated with the development of EXPAREL of $14.2 million for the nine months ended September 30, 2010, $25.2 million for the year ended December 31, 2009 and $31.9 million for the year ended December 31, 2008.

We expect to incur additional research and development expenses as we accelerate the development of EXPAREL in additional indications. These expenditures are subject to numerous uncertainties regarding timing and cost to completion. Completion of clinical trials may take several years or more and the length of time

generally varies according to the type, complexity, novelty and intended use of a product candidate. We are currently unable to determine our future research and development expenses related to EXPAREL because the timing and outcome of the FDA's review of the NDA for EXPAREL is not currently known and the requirements of any additional clinical trials of EXPAREL for additional indications has yet to be determined. The cost of clinical development may vary significantly due to factors such as the scope, rate of progress, expense and outcome of our clinical trials and other development activities.

We acquired in-process research and development projects as part of the Acquisition. The estimated fair value of in-process research and development projects, which had not reached technological feasibility at the Acquisition Date and which did not have an alternative future use, were immediately expensed. Accordingly, for the year ended December 31, 2007, we expensed $12.4 million of acquired in-process research and development related to the Acquisition.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries, benefits and other related costs, including stock-based compensation, for personnel serving in our executive, finance, accounting, legal, human resource, and sales and marketing functions. Our selling, general and administrative expenses also include facility and related costs not included in research and development expenses and cost of revenues, professional fees for legal, consulting, tax and accounting services, insurance, depreciation and general corporate expenses. We expect that our selling, general and administrative expenses will increase with the continued development and potential commercialization of our product candidates and increased expenses associated with us becoming a public company. Additionally, we plan to build a commercial infrastructure for the anticipated launch of EXPAREL and we currently plan to hire most of our sales force only if EXPAREL is approved by the FDA.

Interest Income (Expense)

Interest income (expense) consists of interest income, interest expense, and royalty interest obligation. Interest income consists of interest earned on our cash and cash equivalents, and amortization of discount on a note receivable from one of our commercial partners. Interest expense consists primarily of cash and non-cash interest costs related to our credit facility, our secured and unsecured notes issued to certain of our investors that we expect will convert into common stock upon completion of this offering, and negotiated rent deferral payments. Royalty interest obligation consists of our royalty payments made in connection with the amended and restated royalty interests assignment agreement, or the Amended and Restated Royalty Interests Assignment Agreement, with Royalty Securitization Trust I, an affiliate of Paul Capital Advisors, LLC, or Paul Capital.

We record our royalty interest obligation as a liability in our consolidated balance sheets in accordance with ASC 470-10-25, Sales of Future Revenues. We impute interest expense associated with this liability using the effective interest rate method. The effective interest rate may vary during the term of the agreement depending on a number of factors including the actual sales of DepoCyt(e) and DepoDur and a significant estimation, performed quarterly, of certain of our future cash flows related to these products during the remaining term of the Amended and Restated Royalty Interests Assignment Agreement which terminates on December 31, 2014. The effect of the change in the estimates is reflected in our consolidated statements of operations as interest income (expense). In addition, such cash flows are subject to foreign exchange movements related to sales of DepoCyt(e) and DepoDur denominated in currencies other than U.S. dollars.

Critical Accounting Policies and Use of Estimates

We have based our management's discussion and analysis of our financial condition and results of operations on our financial statements that have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States. The preparation of these financial statements requires us to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and

liabilities at the date of the financial statements as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to clinical trial expenses and stock-based compensation. We base our estimates on historical experience and on various other factors we believe to be appropriate under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully discussed in Note 2 to our audited consolidated financial statements included in this prospectus, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements. We have reviewed these critical accounting policies and estimates with the audit committee of our board of directors.

Revenue Recognition

We recognize revenue in accordance with SEC Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition*, and Statement of Financial Accounting Standards, or ASC 605, *Revenue Recognition*.

Supply revenue. We recognize supply revenue from products manufactured and supplied to our commercial partners, when the following four basic revenue recognition criteria under the related accounting guidance are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Prior to the shipment of our manufactured products, we conduct initial product release and stability testing in accordance with cGMP. Our commercial partners can return the products within contracted specified timeframes if the products do not meet the applicable inspection tests. We estimate our return reserves based on our experience with historical return rates. Historically, our product returns have not been material.

Royalties. We recognize revenue from royalties based on our commercial partners' net sales of products. Royalties are recognized as earned in accordance with contract terms when they can be reasonably estimated and collectability is reasonably assured. Our commercial partners are obligated to report their net product sales and the resulting royalty due to us within 60 days from the end of each quarter. Based on historical product sales, royalty receipts and other relevant information, we accrue royalty revenue each quarter and subsequently true-up when we receive royalty reports from our commercial partners.

Collaborative licensing and development revenue. We recognize revenue from reimbursement received in connection with feasibility studies and development work for third parties who desire to utilize our DepoFoam extended release drug delivery technology for their products, when our contractual services are performed, provided collectability is reasonably assured. Our principal costs under these agreements include our personnel conducting research and development, and our allocated overhead, as well as research and development performed by outside contractors or consultants.

We recognize revenues from non-refundable up-front license fees received under collaboration agreements ratably over the performance period as determined under the collaboration agreement (estimated development period in the case of development agreements, and contract period or longest patent life in the case of supply and distribution agreements). If the estimated performance period is subsequently modified, we will modify the period over which the up-front license fee is recognized accordingly on a prospective basis. Upon termination of a collaboration agreement, any remaining non-refundable license fees received by us, which had been deferred, are generally recognized in full. All such recognized revenues are included in collaborative licensing and development revenue in our consolidated statements of operations.

We recognize revenue from milestone payments received under collaboration agreements when earned, provided that the milestone event is substantive, its achievability was not reasonably assured at the inception of the agreement, we have no further performance obligations relating to the event, and collectability is reasonably assured. If these criteria are not met, we recognize milestone payments ratably over the remaining period of our performance obligations under the collaboration agreement.

Research and Development Expenses

We expense all research and development costs as incurred. We rely on third parties to conduct our preclinical and clinical studies and to provide services, including data management, statistical analysis and electronic compilation for our clinical trials. We track and record information regarding third-party research and development expenses for each study or trial that we conduct and recognize these expenses based on the estimated progress towards completion at the end of each reporting period. Factors we consider in preparing these estimates include the number of subjects enrolled in studies, milestones achieved and other criteria related to the efforts of our vendors. Historically, any adjustments we have made to these assumptions have not been material. Depending on the timing of payments to vendors and estimated services provided, we may record net prepaid or accrued expenses related to these costs.

We expense the manufacturing costs (labor and overhead) of our clinical supplies as incurred. To date, these expenses have not been material. Unused raw material for manufacturing clinical supplies is included in inventory and expensed when used.

Stock-Based Compensation

We have adopted the fair value recognition provisions of Financial Accounting Standards Board Accounting Standards Codification, or ASC, 718 "*Accounting for Stock Based Compensation*" (formerly Statement of Financial Accounting Standards No. 123(R), Share-Based Payments), which we refer to as ASC 718, using the modified prospective transition method. The modified prospective transition method applies the provisions of ASC 718 to new awards and to awards modified, repurchased or cancelled after the adoption date. Additionally, compensation cost for the portion of the awards for which the requisite service has not been rendered that are outstanding as of the adoption date is recognized in the Statement of Operations over the remaining service period after the adoption date based on the award's original estimate of fair value. All stock-based awards granted to non-employees are accounted for at their fair value in accordance with ASC 718, and ASC 505, "*Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*," under which compensation expense is generally recognized over the vesting period of the award. Determining the amount of stock-based compensation to be recorded requires us to develop estimates of fair values of stock options as of the grant date.

For the years ended December 31, 2007, 2008 and 2009, we recognized employee stock-based compensation expense of $80,000, $242,000 and $524,000, respectively. The intrinsic value of all outstanding vested and non-vested stock-based compensation arrangements, based on the initial public offering price of $15.00 per share, is $25.5 million, based on 2,073,864 shares of our common stock issuable upon exercise of stock-based compensation arrangements outstanding at December 31, 2010 at a weighted average exercise price of $2.69 per share.

We account for stock-based compensation by measuring and recognizing compensation expense for all stock-based payments made to employees and directors based on estimated grant date fair values. We use the straight-line method to allocate compensation cost to reporting periods over each optionee's requisite service period, which is generally the vesting period. We estimate the fair value of our stock-based awards to employees and directors using the Black-Scholes option valuation model, or Black-Scholes model. The Black-Scholes model requires the input of subjective assumptions, including the expected stock price volatility, the calculation of expected term and the fair value of the underlying common stock on the date of grant, among other inputs.

The following table summarizes our assumptions used in the Black-Scholes model:

	Year Ended December 31,			Nine Months Ended September 30,
	2007	2008	2009	2010
Expected volatility	75.1%	78.2%	82.0%	80.8%
Expected term (in years)	6.25	6.25	6.25	5.50 – 6.25
Risk-free interest rate	3.6% – 4.9%	1.9% – 3.8%	2.1% – 2.7%	1.7% – 2.8%
Expected dividend yield	0%	0%	0%	0%

Expected Volatility. The expected volatility rate used to value stock option grants is based on volatilities of a peer group of similar companies whose share prices are publicly available. The peer group was developed based on companies in the pharmaceutical and biotechnology industry in a similar stage of development.

Expected Term. We elected to utilize the "simplified" method for "plain vanilla" options to estimate the expected term of stock option grants. Under this approach, the weighted average expected life is presumed to be the average of the vesting term and the contractual term of the option.

Risk-Free Interest Rate. The risk-free interest rate assumption was based on zero coupon U.S. Treasury instruments that had terms consistent with the expected term of our stock option grants.

Expected Dividend Yield. We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future.

The following table summarizes by grant date the number of shares of our common stock subject to options granted in 2007, 2008, 2009 and 2010 through the date of this prospectus and the associated per-share exercise prices.

Grant Date	Number of Options Granted	Per Share Exercise Price	Number of Options Exercised	Number of Options Cancelled	Number of Options Surrendered on March 24, 2009	Number of Options Outstanding
7/20/2007	361,395	$ 1.61	(51,884)[1]	(179,485)	(116,593)	14,498
10/2/2007	10,128	$ 1.61	(6,255)	(3,484)	—	389
12/6/2007	188,767	$ 1.61	(46,537)	(1,902)	(139,470)	858
2/1/2008	44,891	$ 1.61	—	(27,997)	(16,736)	158
4/17/2008	225,140	$ 1.61	(4,921)	(99,831)	(97,629)	22,759
6/19/2008	57,173	$ 2.15	(599)	(44,210)	(10,227)	2,137
6/27/2008	15,340	$ 2.15	—	(2,788)	(12,552)	—
6/30/2008	928	$ 2.69	—	(657)	—	271
7/14/2008	74,384	$ 2.69	—	—	(74,384)	—
8/15/2008	25,288	$ 2.69	—	(18,781)	(5,113)	1,394
9/30/2008	6,041	$ 2.69	—	(928)	(5,113)	—
12/9/2008	4,925	$ 2.69	—	(1,394)	—	3,531
4/16/2009	370	$ 2.69	—	—	—	370
9/23/2009	371	$ 2.69	—	—	—	371
3/3/2010	3,343	$ 2.69	—	—	—	3,343
5/20/2010	5,113	$ 2.69	—	—	—	5,113
9/2/2010	1,448,301	$ 1.61	—	(929)	—	1,447,372
12/29/2010	571,300	$ 5.49	—	—	—	571,300
	3,043,198		(110,196)[1]	(382,386)	(477,817)	2,073,864

(1) Includes 1,065 unvested shares that we repurchased, for a nominal amount, from a stockholder pursuant to the terms of the 2007 Plan. These shares are still available for issuance pursuant to the 2007 Plan.

The exercise price of options to purchase our common stock granted to our employees, directors and consultants was the fair value of our common stock on the date of grant. The fair value of our common stock was determined by our board of directors. Prior to this offering, there has been no public market for our common stock. Our board of directors determined the fair value of our common stock based on several factors, including:

- valuation reports with respect to estimates of the fair values of our common stock;
- the substantial amount of claims of our creditors that are required to be satisfied prior to any payments or distributions to holders of our Series A convertible preferred stock and common stock;

- the aggregate principal amount of secured and unsecured indebtedness that is required to be discharged prior to any payments or distributions to holders of our of our Series A convertible preferred stock or common stock;
- the rights, preferences and privileges of our Series A convertible preferred stock relative to our common stock, including a substantial liquidation preference;
- the lack of marketability of our common stock;
- the price at which our Series A convertible preferred stock was sold;
- available data resulting from our clinical studies and development to date;
- our performance and stage of development;
- the likelihood of achieving a liquidity event for the shares of our common stock underlying these stock options, such as an initial public offering or sale of our company, given prevailing market conditions;
- the trading value of common stock of public companies comparable to us; and
- the sale prices of comparable acquisition transactions of public companies comparable to ours.

We obtained valuation reports with respect to estimates of the fair values of our common stock as follows:

- report dated June 27, 2007 for a valuation of our common stock as of April 30, 2007, or the April 2007 Report;
- report dated August 22, 2008 for a valuation of our common stock as of June 30, 2008, or the June 2008 Report;
- report dated October 1, 2010 for a valuation of our common stock as of August 31, 2010, or the August 2010 Report; and
- report dated December 23, 2010 for a valuation of our common stock as of December 22, 2010, or the December 2010 Report.

In these reports, industry standard valuation methodologies were used to value our common stock, as described below. In estimating the fair value of our common stock, a probability weighting of the market approach and the income approach was used to first arrive at an enterprise value.

- The income approach is an estimate of the present value of the future monetary benefits expected to flow to the owners of a business. It requires a projection of the cash flows that the business is expected to generate over a forecast period and an estimate of the present value of cash flows beyond that period, which is referred to as residual value. These cash flows are converted to present value by means of discounting, using a rate of return that accounts for the time value of money and the appropriate degree of risks inherent in the business.
- The market approach encompasses (i) the comparable company approach and/or (ii) the recent transaction approach.

  (i) The comparable company approach relies on an analysis of publicly traded companies similar in industry and/or business model to a company. This approach uses these comparable companies to develop relevant market multiples and ratios such as revenues, earnings before interest and taxes, or EBIT, earnings before interest, taxes, depreciation and amortization, or EBITDA, net income and/or tangible book value. These multiples and values are then applied to a company's results.

  (ii) The recent transaction approach uses actual prices paid in merger and acquisition transactions for companies similar to a company. Exit multiples of total purchase prices paid to revenues, EBIT, EBITDA, net income and/or book value may be developed for each comparable transaction, if the data is available. These multiples are then applied to a company's latest twelve months and projected performance.

Since no two companies are perfectly comparable, premiums or discounts may be applied to the subject company if its position in its industry is significantly different from the position of the comparable companies, or if its intangible attributes are significantly different.

After calculation of a company's enterprise value using these approaches, adjusting for cash and debt, the value of a share of common stock is then discounted for lack of marketability, or the inability to readily sell shares, which increases the owner's exposure to changing market conditions and increases the risk of ownership.

After arriving at an enterprise value, the enterprise value was then allocated, adjusting for cash and debt, to our different classes of equity using:

- the probability-weighted expected return method, or PWERM, whereby the value of our common stock was estimated based on an analysis of future values for the equity assuming various future outcomes including liquidity events; and
- the option pricing method, or OPM, whereby the rights of preferred and common stockholders are treated as equivalent to that of call options on any value of the enterprise above certain break points of value based upon the preferred stockholders' liquidation preferences, rights to participation and conversion, and thus, the value of the common stock can be determined by estimating the value of its portion of each of these call option rights.

For the PWERM method, the valuations considered the following scenarios for achieving shareholder liquidity:

- an initial public offering of our common stock, or an IPO;
- our sale at an equity value greater than the aggregate liquidation preference of the preferred stock;
- our sale or liquidation at an equity value equal to or less than the aggregate liquidation reference of the preferred stock; and
- our continued, long term operation as a private company.

In the IPO scenario, the comparable transactions method was applied under the market approach as provided in the AICPA Technical Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* , or the AICPA Practice Aid. The selection of comparable companies included companies deemed comparable because of their focus on specialty pharmaceuticals, use of proprietary drug delivery technologies, stage of clinical trials, and size.

In the sale above liquidation preference scenario, the guideline transactions method was applied under the market approach as provided in the AICPA Practice Aid. The selection of transactions took into account the timing of the transactions and the characteristics of the acquired companies. Target companies were selected which were deemed comparable because of their focus on specialty pharmaceuticals, use of proprietary drug delivery technologies, stage of clinical trials, and size. In the liquidation scenario, a sale or liquidation of the company was assumed at an equity value equal to the aggregate liquidation preference of our preferred stock. In the private company scenario, it was assumed that we continued over the long term to operate as a private company. Future values for each scenario are converted to present value by applying a discount rate.

Options Granted from July 20, 2007 through April 17, 2008

Our board of directors valued our common stock at $1.61 per share for options granted from July 20, 2007 through April 17, 2008. In determining the value of our common stock, our board of directors based its valuation, in part, on the April 2007 Report.

In determining the value of our common stock, the PWERM method was used as described above, employing four scenarios: an IPO, our sale at an equity value greater than the aggregate liquidation preference of

our Series A convertible preferred stock, our sale or liquidation at an equity value equal to or less than the aggregate liquidation preference of the preferred stock, and our continued, long term operation as a private company. Future values for each scenario are converted to present value by applying a discount rate of 41.0%, arrived at by using a size-adjusted capital asset pricing model, or CAPM. It was determined that using the PWERM method, the value of our common stock was $1.61 per share.

In addition, using the OPM method, our enterprise value was estimated employing a probability weighting of (i) the income approach, using discounted cash flows, a terminal value based on comparable publicly traded company revenue multiples and a risk-adjusted discount rate of 41.0%, (ii) the income approach, using discounted cash flows, a terminal value based on revenue multiples on comparable merger and acquisition transactions and a risk-adjusted discount rate of 41.0%, (iii) the market approach, using forward revenue multiples based on comparable publicly traded company revenue multiples, (iv) the market approach, using forward revenue multiples based on comparable merger and acquisition transactions and (v) the market approach, using the actual price paid in the Acquisition which occurred in March 2007. After determining our estimated enterprise value, it was then allocated among the various classes of our securities, including our Series A convertible preferred stock, common stock and options to purchase common stock using the Black-Scholes model. This allocation yielded an estimated value per share of our common stock of $2.26, which was reduced by a discount for lack of marketability of 30.0%, resulting in an estimated value per share of $1.61.

During this period, we granted options to purchase an aggregate of 830,321 shares of our common stock. As of December 31, 2010, options to purchase 38,662 of these shares of our common stock remain outstanding, options to purchase 109,597 of those shares were exercised and options to purchase 683,127 of these shares have been cancelled or surrendered. A portion of these options was cancelled as a result of employees and consultants terminating their service to us and not exercising the vested portion of their options prior to the expiration date. In addition, in March 2009, we adopted our company sale bonus plan which was amended and restated in March 2010, which is further described in "Executive Compensation—Company Sale Bonus Plan." As a condition to becoming a participant under the Company Sale Bonus Plan, most of the participants under the plan, including all of our executive officers and non-employee directors, agreed to have their existing option grants cancelled in March 2009.

Options Granted from June 19, 2008 through June 27, 2008

Our board of directors valued our common stock at $2.15 per share for options granted from June 19, 2008 through June 27, 2008. This valuation was partly based on the valuation set forth in the April 2007 Report, the rights, preferences and privileges of our Series A convertible preferred stock relative to our common stock, the lack of marketability of our common stock and the price at which our Series A convertible preferred stock was sold.

During this period, options to purchase an aggregate of 72,513 shares of our common stock were granted. As of December 31, 2010, options to purchase only 2,137 of these shares of our common stock remain outstanding, options to purchase 599 of those shares were exercised and options to purchase 69,777 of these shares of our common stock have been cancelled or surrendered. These options were cancelled as a result of employees and consultants terminating their service to us and not exercising the vested portion of their options prior to the expiration date and the forfeiture of such options pursuant to the Company Sale Bonus Plan.

Options Granted from June 30, 2008 through December 9, 2008

Our board of directors valued our common stock at $2.69 per share for options granted from July 30, 2008 through December 9, 2008. Our board of directors based its valuation on the June 2008 Report. In determining the value of our common stock, the PWERM method was used as described above, employing six scenarios: an IPO in 2009, an IPO in 2010, an IPO in 2011, our sale at an equity value greater than the aggregate liquidation preference of our Series A convertible preferred stock, our liquidation, and continued, long term operation as a

private company. Future values for each scenario are converted to present value by applying a discount rate of 30.0%, arrived at by using a size-adjusted CAPM. Using the PWERM method, the value of our common stock was $2.69 per share.

This valuation reflects the following positive factor:

- we successfully enrolled our Phase 3 clinical trials for EXPAREL.

The positive factor set forth above was offset by:

- a sharp deterioration in financial markets with accompanying decreases in market capitalization of companies comparable to ours;
- increased risk of running out of cash as the proceeds from the Series A convertible preferred stock financing were becoming exhausted; and
- increased difficulty in raising equity financing with accompanying financing uncertainty.

The value of our common stock from April 2007 to June 2008 increased from $1.61 per share to $2.69 per share. The change in value is primarily the result of an increase in our estimated enterprise value, offset by an increase in assigned probability of our sale at an equity value equal to or less than the aggregate liquidation preference of our Series A convertible preferred stock.

The change reflects the following positive factors:

- license of U.S. and EU marketing rights to DepoDur;
- launch of DepoDur in Australia;
- implementation of an expanded Phase 3 clinical development plan for EXPAREL; and
- execution of a license and development agreement with our development partner, Amylin, resulting in an up-front milestone payment of $8 million and the potential for significant future milestone and royalty payments.

The positive factors set forth above were partially offset by:

- a significant delay in the forecasted generation of material license and product revenues compared to our April 2007 forecast; and
- increased risk of running out of cash as the proceeds from the Series A convertible preferred stock financing were partially exhausted.

While no single factor listed above was specifically quantified or weighted greater than another in estimating our enterprise value, each was taken into account in calculating the discount rate for the discounted cash flow analysis, estimating the time to liquidity and the expense that would be required to achieve liquidity. A discount for lack of marketability of 22.9% was used for these options.

During this period, we granted options to purchase an aggregate of 111,566 shares of our common stock. As of December 31, 2010, options to purchase 5,196 of these shares of our common stock remain outstanding and options to purchase 106,370 of these shares have been cancelled or surrendered. A portion of these options was cancelled as a result of employees and consultants terminating their service to us and not exercising the vested portion of their options prior to the expiration date. In addition, in March 2009, we adopted our company sale bonus plan which was amended and restated in March 2010, which is further described in “Executive Compensation—Stock Option and Other Compensation Plans—Company Sale Bonus Plan.” As a condition to becoming a participant under the company sale bonus plan, most of the participants under the plan, including all of our executive officers and non-employee directors, agreed to have their existing option grants cancelled in March 2009.

Options Granted from April 16, 2009 through May 20, 2010

Our board of directors established an option exercise price of $2.69 per share for options granted from April 16, 2009 through May 20, 2010. During this period, the valuation was partly based on the valuation set forth in the June 2008 Report, the substantial amount of new secured and unsecured indebtedness that is required to be discharged prior to any payments or distributions to holders of our Series A convertible preferred stock and common stock, the rights, preferences and privileges of our Series A convertible preferred stock relative to our common stock, including an aggregate $85 million liquidation preference, the lack of marketability of our common stock and the price at which our Series A convertible preferred stock was sold.

During this period, our board of directors believed that the value of our common stock was at or below the value of $2.69 per share as set forth in the June 2008 Report, because of the following negative factors:

- two of our three Phase 3 clinical trials of EXPAREL did not meet their primary endpoint of superiority over the comparator arm and we discontinued a third trial;
- the proceeds from the Series A convertible preferred stock financing were exhausted; and
- the incurrence of a substantial amount of new secured and unsecured indebtedness during this period that is required to be discharged prior to any payments or distributions to holders of our of our Series A convertible preferred stock and common stock.

These negative factors were partially offset by the fact that our two Phase 3 placebo controlled trials of EXPAREL met their primary endpoint in the fourth quarter of 2009.

While no single factor listed above was specifically quantified or weighted greater than another in estimating the company's enterprise value, each was taken into account in estimating the time to liquidity and the expense that would be required to achieve liquidity.

During this period, we granted options to purchase an aggregate of 9,197 shares of our common stock. As of December 31, 2010, all of these options remained outstanding.

Options Granted on September 2, 2010

Our board of directors valued our common stock at $1.61 per share for options granted on September 2, 2010, based on the August 2010 Report. In the August 2010 Report, the PWERM method was used employing four scenarios: an IPO early in 2011, an IPO in mid-2011, a merger or sale of the company or an out-license of our lead product candidate that results in an equity value greater than the aggregate liquidation preference of our Series A convertible preferred stock, and a sale of the company at an equity value equal to or less than the aggregate liquidation preference of our Series A convertible preferred stock. Future values for each scenario are converted to present value by applying a discount rate of 25.0%, based on returns to venture capitalist investors as set forth in the AICPA Practice Aid. Using the PWERM method, the value of our common stock at the valuation date was $1.61 per share. A discount for lack of marketability of 20.0% was used for these options.

The change in value for our common stock to $1.61 per share on September 2, 2010, as compared to the $2.69 per share value as of June 2008, is primarily the result of a materially similar estimated enterprise value in September 2010 compared to the enterprise value in June 2008 and the incurrence of secured and unsecured indebtedness in the aggregate principal amount of $51.25 million, $9.38 million of such amount was incurred between May 20, 2010 and September 2, 2010.

On September 2, 2010, we granted options to purchase an aggregate of 1,448,301 shares of our common stock. As of December 31, 2010, options to purchase 1,447,372 of these shares of our common stock remain outstanding and options to purchase 929 of these shares have been cancelled or surrendered.

Options Granted on December 29, 2010

Our board of directors valued our common stock at $5.49 per share for options granted on December 29, 2010, based on the December 2010 Report. In the December 2010 Report, the PWERM method was used employing three scenarios: an IPO early in 2011, an IPO in late 2011, and a sale of the company at an equity value equal to or less than the aggregate liquidation preference of our Series A convertible preferred stock. Future values for each scenario are converted to present value by applying a discount rate of 20.0%, based on returns to venture capitalist investors as set forth in the AICPA Practice Aid. Using the PWERM method, the value of our common stock at the valuation date was $5.49 per share. A discount for lack of marketability of 14.3% was used for these options.

The income and market approaches were also used to examine our enterprise value. For purposes of calculating our enterprise value using the income approach, we applied a discount rate of 20% to our forecasted future cash flows, as it was consistent with the weighted average cost of capital of a group of venture-backed companies of similar size and stage. We also assumed significantly increased cash flows based on the possible approval of EXPAREL. For purposes of calculating our enterprise value using the market approach, we applied multiples ranging from 2.4 to 4.0 times revenue, which we believed to be a reasonable range based on a review of the same peer group data. This peer group included the following companies: AP Pharma Inc., BioDelivery Sciences International Inc., CPEX Pharmaceuticals, Inc., NeurogesX, Inc., Anacor Pharmaceuticals, Inc., Zogenix, Inc., Ligand Pharmaceuticals Inc., POZEN, Inc., Durect Corp., Enzon Pharmaceuticals Inc. and Akorn Inc.

The change in value for our common stock to $5.49 per share on December 29, 2010, as compared to the $1.61 per share value as of September 2010, is primarily the result of the filing of our NDA on September 28, 2010, the acceptance of our NDA filing by the FDA and FDA establishment of a PDUFA goal date of July 28, 2011, which occurred in December 2010, the filing of this registration statement in November 2010, the completion of the $26.25 million Hercules Credit Facility in November 2010 which provided $15.0 million of new funding to us, the issuance and sale of the December 2010 Convertible Notes which provides up to an additional $15.0 million of new funding to us, and, with the aforementioned resources available, the ability to assemble the commercial team to prepare for the launch of EXPAREL, and the marketplace interactions the commercial team has had with KOLs in validating the unmet medical need that may be addressed by EXPAREL.

On December 29, 2010, we granted options to purchase an aggregate of 571,300 shares of our common stock. As of December 31, 2010, all of these options remained outstanding.

On January 11, 2011, we and the underwriters determined a preliminary range for the initial public offering price. The midpoint of the range was $15.00 per share as compared to $5.49 per share, which was based on the December 2010 Report. We note that, as is typical in initial public offerings, the preliminary range was not derived using a formal determination of fair value, but was determined based upon discussions between us and the underwriters. Among the factors considered in setting the preliminary range were prevailing market conditions and estimates of our business potential, as described below. In addition to this difference in purpose and methodology, we believe that the difference in value reflected between the midpoint of the preliminary range and management's determination of the value of our common stock on December 29, 2010 was primarily the result of the following factors:

- The contemporaneous valuation we prepared on December 23, 2010 contained multiple scenarios including two IPO scenarios with an aggregate probability of 80% and one sale scenario. If we had considered only a single scenario with 100% probability and assumed that the IPO will be completed by the middle of February 2011, the contemporaneous valuation would have resulted in an increased fair value determination.
- Our December 23, 2010 contemporaneous valuation included a scenario with a 40% probability that the IPO would not be completed until the end of the second quarter of 2011. However, our January 2011 discussions with the underwriters took into account our and the underwriters' perceptions of

significantly increased optimism regarding overall market conditions and the market for initial public offerings, and confirmed our and the underwriters' expectations that we would complete our initial public offering by the middle of February 2011.

- Our convertible preferred stock currently has substantial economic rights and preferences over our common stock. The midpoint of the estimated price range shown on the cover of this prospectus assumes the conversion of our preferred stock upon the completion of this offering and the corresponding elimination of these preferences resulting in an increased common stock valuation.
- The proceeds of a successful initial public offering would substantially strengthen our balance sheet by increasing our cash and reducing our outstanding indebtedness. Additionally, the completion of this offering would provide us with access to the public company debt and equity markets. These projected improvements in our financial position influenced the increased common stock valuation indicated by the midpoint of the estimated price range shown on the cover of this prospectus.
- History has shown that it is reasonable to expect that the completion of an initial public offering will increase the value of stock as a result of the significant increase in the liquidity and ability to trade/sell such securities. However, it is not possible to measure such increase in value with precision or certainty.

Based on the $15.00 midpoint of the estimated price range shown on the cover of this prospectus, the intrinsic value of the options granted on December 29, 2010, the last date we granted stock options, was approximately $5.4 million. Also based on the $15.00 midpoint of the estimated price range shown on the cover of this prospectus, the intrinsic value of outstanding options as of December 31, 2010 was $25.5 million, of which $6.3 million related to vested options and $19.2 million related to unvested options.

Internal Control over Financial Reporting

Effective internal control over financial reporting is necessary for us to provide reliable annual and quarterly financial reports and to prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results and financial condition could be materially misstated and our reputation could be significantly harmed. As a private company, we were not subject to the same standards as a public company. As a public company, we will be required to file annual and quarterly reports containing our consolidated financial statements and will be subject to the requirements and standards set by the Securities and Exchange Commission, or SEC.

Results of Operations

Comparison of Nine Months Ended September 30, 2010 and 2009

	Nine Months Ended September 30,		Increase/ (Decrease)	% Increase/ (Decrease)
	2009	2010		
	(dollars in thousands)			
Revenues	$ 10,722	$ 12,371	$ 1,649	15%
Cost of revenues	8,823	10,168	1,345	15%
Research and development	18,717	14,954	(3,763)	(20)%
Selling, general and administrative	3,920	3,941	21	1%
Other income (expense)	353	100	(253)	N.M.
Interest income (expense)	$ (2,351)	$ (3,513)	$ 1,162	49%

Revenues. Revenues increased by $1.6 million, or 15%, to $12.4 million in the nine months ended September 30, 2010 as compared to $10.7 million in the nine months ended September 30, 2009. The increase reflects an increase of supply revenue of $2.9 million, partially offset by a decrease of royalties of $0.2 million and of collaborative licensing and development revenue of $1.0 million. Supply revenue increased due to a significant increase in DepoCyt(e) product orders from our European commercial partner, Mundipharma, and

from our new U.S. commercial partner, Sigma-Tau, subsequent to its acquisition of the product as part of a larger product portfolio acquisition in January 2010. Royalties declined in part due to lower DepoCyt market sales in the United States in the nine months ended September 30, 2010 as compared to the same period in 2009. The decrease in collaborative licensing and development revenue reflected a reduction in contract development activities for Amylin, for the nine months ended September 30, 2010, as well as a one-time purchase of equipment for which we were reimbursed by Amylin in the nine months ended September 30, 2009.

Cost of Revenues. Cost of revenues increased by $1.3 million, or 15%, to $10.2 million in the nine months ended September 30, 2010 as compared to $8.8 million in the nine months ended September 30, 2009. The increase reflects a $2.0 million increase in cost of supply revenue and royalties, offset by a $0.7 million decrease in cost of collaborative licensing and development revenue as our personnel were re-assigned to internal research and development projects subsequent to the reduction in contract development activities for Amylin.

Research and Development Expenses. Research and development expenses decreased by $3.8 million, or 20%, to $15.0 million in the nine months ended September 30, 2010 as compared to $18.7 million in the nine months ended September 30, 2009. The decrease was primarily due to a decrease in clinical study expenses in the nine months ended September 30, 2010 as compared to the comparable period in 2009, during which time the pivotal placebo controlled Phase 3 studies were completed.

In the nine months ended September 30, 2010 and 2009, research and development expenses attributable to EXPAREL were $14.2 million, or 95%, and $17.9 million, or 96%, respectively of total research and development expenses. The remaining research and development expenses related to our other product candidates.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by $21,000, or 1%, to $3.9 million in the nine months ended September 30, 2010 as compared to $3.9 million in the nine months ended September 30, 2009. Selling expenses decreased by $0.3 million, or 43%, to $0.4 million in the nine months ended September 30, 2010 as compared to $0.7 million in the nine months ended September 30, 2009. The decrease in selling expenses reflects the termination of our commercial personnel in February 2009. General and administrative expenses increased by $0.3 million, or 9%, to $3.5 million in the nine months ended September 30, 2010 as compared to $3.2 million in the nine months ended September 30, 2009.

Other Income (Expense). Other income decreased by $0.3 million to $0.1 million in the nine months ended September 30, 2010 as compared to $0.4 million in the nine months ended September 30, 2009. The decrease was primarily due to a lower amount of gains realized on settlements with trade creditors in 2010 as a result of lower proportionate settlement payments.

Interest Income (Expense). Interest expense increased by $1.2 million, or 49%, to $3.5 million in the nine months ended September 30, 2010 as compared to $2.4 million in the nine months ended September 30, 2009. Interest expense increased by $1.6 million in the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009, driven by debt financing activities in 2009 and 2010, and was partially offset by a $0.3 million credit, resulting primarily from the periodic revaluation adjustment of our liability under the Amended and Restated Royalty Interests Assignment Agreement.

Comparison of Years Ended December 31, 2009 and 2008

	Year Ended December 31,		Increase/ (Decrease)	% Increase/ (Decrease)
	2008	2009		
	(dollars in thousands)			
Revenues	$13,925	$15,006	$ 1,081	8%
Cost of revenues	17,463	12,301	(5,162)	(30)%
Research and development	33,214	26,233	(6,981)	(21)%
Selling, general and administrative	8,611	5,020	(3,591)	(42)%
Other income (expense)	(224)	367	591	N.M.
Interest income (expense)	$ 3,725	$ (3,526)	$ (7,251)	N.M.

Revenues. Revenues increased by $1.1 million, or 8%, to $15.0 million in the year ended December 31, 2009 as compared to $13.9 million in the year ended December 31, 2008. The increase was primarily due to increases of collaborative licensing and development revenue of $1.2 million and royalties of $0.4 million, offset by a decrease in supply revenue of $0.5 million. The increase in collaborative licensing and development revenue reflected in part a $1.0 million increase in contract development activities for Amylin in 2009, and an increase in 2009 milestone revenue resulting from a milestone payment from our U.S. DepoDur commercial partner, EKR, paid at the end of 2008. The increase in royalties in 2009 reflected an increase in end user sales of DepoCyt(e) in 2009, offset by a decline in DepoDur royalties. The decrease in supply revenue in 2009 was primarily due to EKR gradually selling down excess inventory accumulated in 2008.

Cost of Revenues. Cost of revenues decreased by $5.2 million, or 30%, to $12.3 million in the year ended December 31, 2009 as compared to $17.5 million in the year ended December 31, 2008. The decrease was primarily due to reduction in cost of supply revenue, driven by cost control measures initiated in December 2008 and April 2009, including a reduction in force of manufacturing and support personnel, decreased reliance on outsourced providers to support our manufacturing activities, and elimination of non-essential activities.

Research and Development Expenses. Research and development expenses decreased by $7.0 million, or 21%, to $26.2 million in the year ended December 31, 2009 from $33.2 million in the year ended December 31, 2008. This decrease resulted primarily from a $6.1 million decrease in clinical trials costs, to $8.7 million in 2009 from $14.8 million in 2008. In 2009, we completed our pivotal Phase 3 placebo controlled studies, as compared to in 2008 when we incurred most of the expenses for three Phase 3 comparator studies as well as three Phase 2 studies.

In the years ended December 31, 2009 and 2008, research and development expenses attributable to EXPAREL were $25.2 million, or 96%, and $31.9 million, or 96% of total research and development expenses, respectively. The remaining research and development expenses related to our other product candidate initiatives.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by $3.6 million, or 42%, to $5.0 million in the year ended December 31, 2009 from $8.6 million in the year ended December 31, 2008. Selling expenses were $1.6 million lower in 2009 as compared to 2008, as we curtailed our pre-commercial efforts in early 2009, resulting in $1.0 million decrease in outside services and $0.3 million decrease in compensation expenses. General and administrative expenses decreased by $2.0 million in the year ended December 31, 2009 as compared to 2008, primarily due to a $0.8 million decrease in salary expenses and a $0.7 million decrease in severance and recruiting expenses.

Other Income (Expense). Other income increased by $0.6 million, to $0.4 million in the year ended December 31, 2009 as compared to $0.2 million in other expense in the year ended December 31, 2008. The increase was primarily due to a gain realized on settlement with trade creditors in 2009.

Interest Income (Expense). Interest expense increased by $7.3 million in the year ended December 31, 2009, to $3.5 million, as compared to interest income of $3.7 million in the year ended December 31, 2008. $5.4 million of the increase in interest expense was primarily attributable to the royalty interest obligation under the

Amended and Restated Royalty Interests Assignment Agreement and $1.7 million was due to our debt financing activities in 2009. The interest income (expense) relating to the obligations under the Amended and Restated Royalty Interests Assignment Agreement is composed of (1) the difference in the revaluation of our obligations under the Amended and Restated Royalty Interests Assignment Agreement between each reporting period and (2) the actual royalty interest payments payable pursuant to the Amended and Restated Royalty Interests Assignment Agreement for such reporting period. In determining the amount of the royalty interest obligation, we employ estimates of future cash flows derived from our royalties payable to Paul Capital based on end user sales of DepoCyt(e) and DepoDur, discounted at a rate that reflects an estimate of the cost of capital under the Amended and Restated Royalty Interests Assignment Agreement. At December 31, 2008, our estimate of future end user sales of DepoCyt(e) and DepoDur was considerably lower than the estimate as of December 31, 2007. This lower estimate resulted in a decrease of the royalty interest obligation valuation of $10.2 million at December 31, 2007 to $5.0 million at December 31, 2008. As a result, $5.2 million of the royalty interest obligation was recorded as interest income in the year ended December 31, 2008. In comparison, the valuation of the royalty interest obligation of $5.2 million at December 31, 2009 was slightly higher than the valuation of $5.0 million at December 31, 2008, which resulted in a $0.2 million interest expense in the year ended December 31, 2009.

Comparison of Years Ended December 31, 2008 and 2007

The combined statement of operations for the year ended December 31, 2007 represents the statement of operations of the Successor for the year ended December 31, 2007 (for which there was no activity prior to the Acquisition Date).

	Year Ended December 31,		Increase/ (Decrease)	% Increase/ (Decrease)
	2007	2008		
	(dollars in thousands)			
Revenues	$ 8,341	$13,925	$ 5,584	67%
Cost of revenues	9,492	17,463	7,971	84%
Research and development	20,665	33,214	12,549	61%
Selling, general and administrative	4,170	8,611	4,441	106%
In-process research and development	12,400	—	(12,400)	100%
Other income (expense)	16	(224)	(240)	N.M.
Interest income (expense)	$ 2,177	$ 3,725	$ 1,548	71%

Revenues. Revenues increased by $5.6 million, or 67%, to $13.9 million in the year ended December 31, 2008 as compared to $8.3 million in the year ended December 31, 2007. The increase was due to increases of collaborative licensing and development revenue of $2.9 million, of supply revenue of $1.4 million and of royalties of $1.3 million. The increase in collaborative licensing and development revenue reflected in part $1.4 million of contract development activities for Amylin after we entered into an agreement in April 2008, and an increase in 2008 milestone revenue resulting from an up-front milestone payment from Amylin. The increase in supply revenue and royalties in the year ended December 31, 2008 reflected higher end user sales for our commercial partners, as well as 2008 reflecting a full year of operations in comparison to 2007, which reflects operations from the Acquisition Date.

Cost of Revenues. Cost of revenues increased by $8.0 million, or 84%, to $17.5 million in the year ended December 31, 2008 as compared to $9.5 million in the year ended December 31, 2007. The increase was primarily due an increase in cost of supply revenue of $5.7 million and an increase in cost of collaborative licensing and development revenue of $2.1 million. The increase in cost of supply revenue reflects higher manufacturing and support personnel, higher cost of manufacturing supplies and increased outsourced services in support of the manufacturing activities as well as 2008 reflecting a full year of operations in comparison to 2007 which reflects operations from the Acquisition Date. The increase in cost of collaborative licensing and development revenue reflects the additional personnel and overhead allocated to servicing our collaborative licensing partners as well as 2008 reflecting a full year of operations in comparison to 2007, which reflects operations from the Acquisition Date.

Research and Development Expenses. Research and development expenses increased by $12.5 million, or 61%, to $33.2 million in the year ended December 31, 2008 as compared to $20.7 million in the year ended December 31, 2007. This increase resulted primarily from a $8.2 million increase in clinical trial costs, to $14.8 million in 2008 from $6.6 million in 2007. In 2008, we incurred most of the expenses for three Phase 3 clinical trials and three Phase 2 clinical trials, as compared to 2007 when we incurred most of the expenses for three Phase 2 clinical trials and one Phase 1 clinical trial, as well as 2008 reflecting a full year of operations in comparison to 2007, which reflects operations from the Acquisition Date.

In the years ended December 31, 2008 and 2007, research and development expenses attributable to EXPAREL were $31.9 million, or 96%, and $19.6 million, or 95% of total research and development expenses, respectively. The remaining research and development expenses are related to our other product candidate initiatives.

Selling, General and Administrative Expense. Selling, general and administrative expenses increased by $4.4 million, or 106%, to $8.6 million in the year ended December 31, 2008 from $4.2 million in the year ended December 31, 2007. Selling expenses related to pre-commercial efforts were $2.4 million in 2008, and we did not incur any selling expenses in 2007. General and administrative expenses increased by $2.0 million in 2008 as compared to 2007, reflecting a full year of operations in comparison to 2007, which reflects operations from the Acquisition Date.

In-Process Research and Development Expenses. There were no in-process research and development expenses in the year ended December 31, 2008, as compared to $12.4 million in the year ended December 31, 2007. We acquired and expensed $12.4 million of in-process research and development projects as part of the Acquisition.

Other Income (Expense). Other expense increased by $0.2 million, to $0.2 million in the year ended December 31, 2008 as compared to $16,000 in other income in the year ended December 31, 2007. The increase was primarily due to unfavorable foreign currency exchange rate movement between the euro and dollar for DepoCyte sales in Europe and between the pound sterling and dollar for value added tax refunds in Europe.

Interest Income (Expense). Interest income increased $1.5 million, to $3.7 million in the year ended December 31, 2008 as compared to interest income of $2.2 million in the year ended December 31, 2007. The increase was primarily due to the impact of the periodic revaluation adjustment of our royalty interest obligation under the Amended and Restated Royalty Interests Assignment Agreement. The interest income (expense) relating to the obligations under the Amended and Restated Royalty Interests Assignment Agreement is composed of (1) the difference in the revaluation of our obligations under the Amended and Restated Royalty Interests Assignment Agreement between each reporting period and (2) the actual royalty interest payments payable pursuant to the Amended and Restated Royalty Interests Assignment Agreement for such reporting period. In determining the amount of the royalty interest obligation, we employ estimates of future cash flows derived from royalties payable to Paul Capital based on end user sales of DepoCyt(e) and DepoDur, discounted at a rate that reflects an estimate of the cost of capital of the Amended and Restated Royalty Interests Assignment Agreement. At December 31, 2008, our estimate of future end user sales of DepoCyt(e) and DepoDur was considerably lower than the estimate as at December 31, 2007. This lower estimate resulted in a decrease of the royalty interest obligation valuation of $10.2 million at December 31, 2007 to $5.0 million at December 31, 2008. As a result, $5.2 million of the royalty interest obligation was recorded as to interest income in the year ended December 31, 2008. Our estimate of future end user sales of DepoCyt(e) and DepoDur at December 31, 2007 of $10.2 million was also lower than the estimate as of March 24, 2007 of $13.0 million, and resulted in a $2.8 million lower valuation of the royalty interest obligation being recorded as interest income in the year ended December 31, 2007. The higher interest income of $2.4 million for the year ended December 31, 2008 was partially offset by $0.6 million higher royalty interest payment in 2008, reflecting a full year of operations in comparison to 2007, which reflected operations from the Acquisition Date, and $0.2 million lower interest income.

Liquidity and Capital Resources

Since our inception in 2007, we have devoted most of our cash resources to research and development and general and administrative activities primarily related to the development of EXPAREL. We have financed our operations primarily with the proceeds of the sale of convertible preferred stock, secured and unsecured notes and borrowings under debt facilities, supply revenue, royalties and collaborative licensing and development revenue. To date, we have generated limited supply revenue and royalties, and we do not anticipate generating any revenues from the sale of EXPAREL, if approved, until at least the fourth quarter of 2011. We have incurred losses and generated negative cash flows from operations since inception. As of September 30, 2010, we had an accumulated deficit of $129.9 million, cash and cash equivalents of $13.9 million and working capital of $6.6 million.

The following table summarizes our cash flows from operating, investing and financing activities for the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2009 and September 30, 2010:

	Year Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
			(in thousands)		
Consolidated Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$ (13,435)	$(29,189)	$(20,838)	$(21,677)	$ (19,040)
Investing activities	(24,375)	(5,838)	(5,509)	(5,109)	(3,822)
Financing activities	45,050	40,173	21,038	18,812	29,636
Net increase (decrease) in cash and cash equivalents	$ 7,240	$ 5,146	$ (5,309)	$ (7,974)	$ 6,774

Operating Activities

For the nine months ended September 30, 2010 and 2009, our net cash used in operating activities was $19.0 million and $21.7 million, respectively. The decrease in net cash used in operating activities in the nine months ended September 30, 2010 resulted from an increase in accounts payable and a decrease in inventory, offset by a decrease in research and development expenses and an increase in accounts receivable related to DepoCyt(e) supply revenue on product shipped to our commercial partners.

For the years ended December 31, 2009, 2008 and 2007, our net cash used in operating activities was $20.8 million, $29.2 million and $13.4 million, respectively. The decrease in net cash used in operating activities in 2009 resulted from lower research and development and selling expenses and a $3.8 million increase in the deferred revenue balance, primarily due to receipt of license fees from our commercial partners, offset by a decrease in accounts payable of $4.4 million. The increase in net cash used in operating activities in 2008 resulted from increased spending on research and development expenses and an increase in accounts receivable of $1.6 million, offset by an increase in accounts payable of $4.8 million, and an increase in deferred revenue of $11.3 million primarily due to receipt of license fees. The $3.8 million increase in the deferred revenue balance in 2009 as compared to 2008 was primarily due to the $5.0 million license fee received from EKR in 2009, offset by approximately $1.0 million of deferred revenue amortization in 2009. The $11.3 million increase in the deferred revenue balance in 2008 as compared to 2007 was primarily due the $8.0 million license fee received from Amylin and the $5.0 million license fee received from EKR in 2008, offset by approximately $3.0 million of deferred revenue amortization in 2008.

We do not believe that the impairment of the DepoDur trademark in 2008 that resulted from revised estimates of future sales of DepoDur will have a material impact on our future operations and cash flows because (i) the cash flows from DepoDur are not material and (ii) we have already taken the impairment charge for this trademark.

As described above, as of December 31, 2008, we lowered the amount of our liability under the Amended and Restated Royalty Interests Assignment Agreement, resulting from lower estimates of future sales of DepoCyt(e) and DepoDur. We do not believe the lower estimates of future sales of DepoCyt(e) and DepoDur will have a material impact on our future operations and cash flows because (i) our revenues from DepoCyt(e) remain stable, (ii) our estimates of future capital requirements are derived, in part, on stable but not high growth DepoCyt(e) revenue and (iii) the cash flows from DepoDur are not material.

Investing Activities

For the nine months ended September 30, 2010 and 2009, our net cash used in investing activities was $3.8 million and $5.1 million, respectively. The net cash used in investing activities in the nine months ended September 30, 2010 and 2009 was primarily for the purchases of fixed assets of $3.8 million and $5.1 million, respectively. For the years ended December 31, 2009, 2008 and 2007, our net cash used in investing activities was $5.5 million, $5.8 million and $24.4 million, respectively. The net cash used in investing activities in 2009 and 2008 was primarily for the purchases of fixed assets of $5.5 million and $5.8 million, respectively. The cash used in investing activities in 2007 was primarily to fund the $19.6 million purchase price of the Acquisition, and for the purchases of fixed assets of $2.1 million.

Financing Activities

For the nine months ended September 30, 2010 and 2009, our net cash provided by financing activities was $29.6 million and $18.8 million, respectively. The cash provided by financing activities in the nine months ended September 30, 2010 and 2009 was primarily the result of increased borrowings and the issuance and sale of notes payable, for total net proceeds of $30.0 million and $19.0 million, respectively.

For the years ended December 31, 2009, 2008 and 2007, our net cash provided by financing activities was $21.0 million, $40.2 million and $45.1 million, respectively. The net cash provided by financing activities in 2009 was primarily due to the sale and issuance of notes payable, for total net proceeds of $21.0 million. The cash provided by financing activities in 2008 was due primarily to the sale and issuance of our Series A convertible preferred stock, for total net proceeds of $40.0 million. The cash provided by financing activities in 2007 was due primarily to the sale and issuance of shares of our Series A convertible preferred stock for total net proceeds of $45.0 million.

Equity Financings

From inception through September 30, 2010, we have received net proceeds of $85 million from the sale of our Series A convertible preferred stock. The various issuances of our Series A convertible preferred stock are described in more detail under “Related Person Transactions—Preferred Stock Issuances.”

Debt Facilities

As of September 30, 2010, after giving effect to the Hercules Credit Facility and the issuance and sale of the December 2010 Convertible Notes and the application of the proceeds therefrom, we had $73.75 million in aggregate principal amount of debt outstanding, including $26.25 million under the Hercules Credit Facility, $3.75 million pursuant to secured notes we issued to one of our investors and $43.75 million under various secured and convertible notes that we issued to certain of our investors in 2009 and 2010. Pursuant to an agreement entered into in October 2010 between us and the holders of the convertible and secured notes, all principal and accrued interest on the convertible and secured notes (other than the December 2010 Convertible Notes) will convert into 3,264,777 shares of our common stock upon completion of this offering at a conversion price of $13.44, in accordance with the terms of the October 2010 agreement. The table below shows the principal amount of our indebtedness and the number of shares of our common stock that we expect our indebtedness will convert into.

Debt Issue	Principal amount	Conversion Shares
Hercules Credit Facility	$26.25 million	—
2009 Convertible Notes	10.63 million	871,635
2009 Secured Notes	10.63 million	927,881
2010 Secured Notes	15.00 million	1,156,606
HBM Secured Notes	3.75 million	308,655
December 2010 Convertible Notes	7.50 million	500,000(1)

(1) The December 2010 Convertible Notes will be converted into shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering. Based on an assumed initial public offering price of $15.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus.

Hercules Credit Facility. On November 24, 2010, we entered into a $26.25 million credit facility with Hercules Technology Growth Capital, Inc. and Hercules Technology III, L.P., as lenders. At the closing of the Hercules Credit Facility, we entered into a term loan in the aggregate principal amount of $26.25 million, which was the full amount available under the Hercules Credit Facility. As of December 31, 2010, the entire term loan of $26.25 million was outstanding. The term loan under the Hercules Credit Facility is comprised of two tranches, Tranche A and Tranche B. The Tranche A portion of the term loan is comprised of $11.25 million in principal and carries a floating per annum interest rate equal to 10.25% plus the amount, if any, by which the prime rate exceeds 4.00%. Upon the release of the investors' guaranty (described below), the interest rate on the Tranche A portion of the term loan will increase to a floating per annum interest rate equal to 11.00% plus the amount, if any, by which the prime rate exceeds 4.00%. The Tranche B portion of the term loan is comprised of $15.0 million in principal and carries a floating per annum interest rate equal to 12.65% plus the amount, if any, by which the prime rate exceeds 4.00%. As of December 31, 2010, the interest rate on the Tranche A portion was 10.25% and on the Tranche B portion was 12.65%. Interest on the term loan is payable monthly. If there is an event of default under the Hercules Credit Facility, we will be obligated to pay interest at a higher default rate. The proceeds of the term loan under the Hercules Credit Facility have been used to repay the GECC Credit Facility in full and the remainder will be used for other general corporate purposes.

As further consideration to the lenders to provide the term loan to us under the Hercules Credit Facility, we issued to the lenders a warrant to purchase 178,986 shares of our Series A convertible preferred stock. If after the closing date of the Hercules Credit Facility and prior to the completion of our proposed initial public offering, we issue equity securities in a private placement then the lenders may, at their option, exercise the warrant for the same class and type of equity securities that we issue in such private placement in lieu of Series A convertible preferred stock. The exercise price for the shares to be issued under the warrant is equal to $13.44 per share or the price per share paid in a private placement. The warrant is valid from the date of issuance until the earlier to occur of ten (10) years from the date of issuance or five (5) years following the effective date of the registration statement of which this prospectus is a part.

The Hercules Credit Facility provides for an "interest only period" when no principal amounts are due and payable. The interest only period runs initially from November 24, 2010 through August 31, 2011, but can be extended, at our request, to either November 30, 2011 or February 28, 2012 if certain conditions are satisfied. Following the end of the interest only period, the term loan is to be repaid in 33 equal monthly installments of principal and interest beginning on the first business day after the month in which the interest only period ends. Amounts repaid may not be re-borrowed. We can, at any time, prepay all or any part of the term loan provided that so long as the investors' guaranty (as described below) is in effect, we cannot prepay any part of the Tranche A portion of the term loan without the lenders' consent if any of the Tranche B portion is outstanding. If the investors' guaranty is not in effect, then any prepayments are to be applied pro rata across the outstanding balance of both portions of the term loan. In connection with any prepayments of the term loan under the Hercules Credit Facility, we are required to pay, in addition to all principal and accrued and unpaid interest on such term loan, a prepayment charge equal to 1.25% of the principal amount being prepaid. In addition, there is an end of term charge that is payable to the lenders upon the earliest to occur of the maturity date, the prepayment in full of our obligations under the Hercules Credit Facility and the acceleration of our obligations under the Hercules Credit Facility.

The Hercules Credit Facility is secured by a first priority lien on all of our assets other than the assets that secure our obligations under Amended and Restated Royalty Interests Assignment Agreement (as described below). In addition, the Hercules Credit Facility is guaranteed by certain of our investors (other than the entities affiliated with HBM) on a several and not joint basis which guarantee is limited to each investor's pro rata portion of the outstanding principal and accrued and unpaid interest under the Hercules Credit Facility, but in no event exceeding $11.25 million in the aggregate. The Hercules loan agreement provides that, upon the occurrence of certain circumstances and upon our request, the investors' guarantee may be terminated and released.

The Hercules loan and security agreement also contains a provision that entitles the lenders to, subject to applicable securities laws and regulatory requirements, a limited right to participate in any equity financings that occur between the closing date of the Hercules Credit Facility and the completion of this offering.

The Hercules loan and security agreement contains events of default including payment default, default arising from the breach of the provisions of the Hercules loan and security agreement and related documents (including the occurrence of certain changes in control, including if our chief executive officer ceases under certain conditions to be involved in the daily operations or management of the business, or if certain holders of our capital stock cease to retain, after the consummation of certain corporate transactions, shares representing more than 50% of the surviving entity after such transactions (provided that our initial public offering shall not constitute such a change in control)) or the inaccuracy of representations and warranties contained in the loan and security agreement, attachment default, bankruptcy and insolvency, cross-default with respect to certain other indebtedness (including certain events under the Amended and Restated Royalty Interests Assignment Agreement), breach of the terms of any guarantee (including the investors' guarantee) of the Hercules Credit Facility, the occurrence of a material adverse effect (as defined in the Hercules loan and security agreement).

The occurrence of an event of default under the Hercules Credit Facility could trigger the acceleration of our obligations under the Hercules Credit Facility or allow the lenders to exercise other rights and remedies, including rights against our assets that secure the Hercules Credit Facility and rights under guarantees provided to support the obligations under the Hercules Credit Facility.

The Hercules loan and security agreement contains a number of affirmative and restrictive covenants, including reporting requirements and other collateral limitations, certain limitations on liens and indebtedness, dispositions, mergers and acquisitions, restricted payments and investments, corporate changes and waivers and amendments to certain agreements, our organizational documents, and documents relating to debt that is subordinate to our obligations under the Hercules Credit Facility.

GECC Credit Facility. On April 30, 2010, we entered into an $11.25 million credit facility with General Electric Capital Corporation, as both agent and the sole lender, or the GECC Credit Facility. We borrowed the full $11.25 million under the GECC Credit Facility. On November 24, 2010, all borrowings under the GECC Credit Facility were repaid in full from proceeds of the Hercules Credit Facility, and the GECC Credit Facility was terminated and any and all liens in favor of the lenders under the GECC Credit Facility were released.

Investor Notes to be Converted into Common Stock.

2009 Convertible Notes. In January 2009, we sold $10.63 million in aggregate principal amount of convertible promissory notes, or the 2009 Convertible Notes, to certain of our existing investors. In connection with the issuance of the 2009 Convertible Notes, we issued warrants to purchase an aggregate of 158,061 shares of our common stock with an exercise price of $2.69 per share. The 2009 Convertible Notes have an interest rate of 5% per year and all principal and accrued and unpaid interest on the 2009 Convertible Notes was due on December 31, 2010. In connection with entering into the Hercules Credit Facility, the maturity date of the 2009 Convertible Notes was extended to the earliest of (1) a sale of us, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated. In connection with entering into the Hercules Credit Facility, the holders of the 2009 Convertible Notes entered into a subordination and intercreditor agreement with the lenders under the Hercules Credit Facility pursuant to which the 2009 Convertible Notes were subordinated to the Hercules Credit Facility. The holders of the 2009 Convertible Notes previously entered into a separate intercreditor agreement with the holders of the 2009 Secured Notes (as described below) and the 2010 Secured Notes (as described below) pursuant to which the 2009 Convertible Notes were subordinated to the 2009 Secured Notes and the 2010 Secured Notes, and the holders of the 2009 Secured Notes agreed to share payments pro rata with the holders of the 2010 Secured Notes. As of December 31, 2010, $11.67 million aggregate principal and accrued and unpaid interest was outstanding under the 2009 Convertible Notes. All principal and interest due on the 2009 Convertible Notes will be converted into 871,635 shares of our common stock upon completion of this offering.

2009 Secured Notes. In June 2009, we entered into an agreement with certain of our existing investors to issue $10.63 million in aggregate principal amount of secured notes, or the 2009 Secured Notes. To secure the performance of our obligations under the purchase agreement for the 2009 Secured Notes, we granted a security interest in substantially all of our assets, including our intellectual property assets, except the assets that secure our obligations under our agreement with Paul Capital. In connection with entering into the Hercules Credit Facility, the holders of the 2009 Secured Notes entered into a subordination and intercreditor agreement with the lenders under the Hercules Credit Facility pursuant to which the 2009 Secured Notes were subordinated to the Hercules Credit Facility. As described above under "—Investor Notes to be Converted into Common Stock—2009 Convertible Notes," the holders of the 2009 Secured Notes previously entered into a separate intercreditor agreement with the holders of the 2009 Convertible Notes and the 2010 Secured Notes which set out certain priorities among those parties.

The 2009 Secured Notes have an interest rate of 12% per year and all principal and accrued and unpaid interest on the 2009 Convertible Notes was due on December 31, 2010. In connection with entering into the Hercules Credit Facility, the maturity date of the 2009 Secured Notes was extended to the earliest of (1) a sale of us, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated. As of December 31, 2010, $12.32 million aggregate principal and accrued and unpaid interest was outstanding under the 2009 Secured Notes. All principal and interest due on the 2009 Secured Notes will be converted into 927,881 shares of our common stock upon completion of this offering.

2010 Secured Notes. In March 2010, we entered into an agreement with certain of our existing investors to issue $15.0 million in aggregate principal amount of secured notes and the investors purchased the entire

$15.0 million of 2010 Secured Notes. To secure the performance of our obligations under the purchase agreement for the 2010 Secured Notes, we granted a subordinated security interest in substantially all of our assets, including our intellectual property assets, except the assets that secure our obligations under the Amended and Restated Royalty Interests Agreement. In connection with entering into the Hercules Credit Facility, the holders of the 2010 Secured Notes entered into a subordination and intercreditor agreement with the lenders under the Hercules Credit Facility pursuant to which the 2010 Secured Notes were subordinated to the Hercules Credit Facility. As described above under "—Investor Notes to be Converted into Common Stock—2009 Convertible Notes," the holders of the 2010 Secured Notes previously entered into a separate intercreditor agreement with the holders of the 2009 Convertible Notes and the 2009 Secured Notes which set out certain priorities among those parties.

The 2010 Secured Notes have an interest rate of 5% per year and all principal and accrued and unpaid interest on the 2010 Secured Notes is due on December 31, 2010. In connection with entering into the Hercules Credit Facility, the maturity date of the 2010 Secured Notes was extended to the earliest of (1) a sale of us, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated. As of December 31, 2010, $15.46 million in aggregate principal and accrued and unpaid interest was outstanding pursuant to the 2010 Secured Notes. All principal and interest due on the 2010 Secured Notes will be converted into 1,156,606 shares of our common stock upon completion of this offering.

HBM Term Loan. On April 30, 2010, we entered into a subordinated secured note purchase agreement with entities affiliated with HBM BioVentures, or HBM, to issue $3.75 million in aggregate principal amount of secured notes, or the HBM Secured Notes. To secure the performance of our obligations under the purchase agreement for the HBM Secured Notes, we granted a subordinated security interest in substantially all of our assets, including our intellectual property assets, other than the assets that secure our obligations under the Amended and Restated Royalty Interests Agreement. The HBM Secured Notes carry an interest rate of approximately 10% per year. In addition, the HBM Secured Notes require a final payment fee if they are prepaid prior to the maturity date. The maturity date of the HBM Secured Notes is the earliest of (1) a sale of us, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated. In connection with entering into the Hercules Credit Facility, the holders of the HBM Secured Notes entered into a subordination and intercreditor agreement with the lenders under the Hercules Credit Facility pursuant to which the HBM Secured Notes were subordinated to the Hercules Credit Facility. As of December 31, 2010, $3.94 million in aggregate principal and accrued and unpaid interest was outstanding pursuant to the HBM Secured Notes. All principal and interest due on the HBM Secured Notes will be converted into 308,655 shares of our common stock upon completion of this offering.

December 2010 Convertible Notes. On December 29, 2010, we sold $15.0 million in aggregate principal amount of convertible promissory notes, or the December 2010 Convertible Notes, in a private placement to certain of our existing investors. 50% of the principal amount was funded on December 29, 2010. The remaining 50% of the principal amount will be funded in a second closing to occur upon written request of holders of at least 75% of the outstanding principal amount of the December 2010 Convertible Notes on or before the earlier of the completion of this offering or March 31, 2011. In connection with the issuance and sale of the December 2010 Convertible Notes, we issued warrants to the holders of the December 2010 Convertible Notes to purchase an aggregate of 167,361 shares of our common stock with an exercise price of $13.44 per share. Pursuant to the terms of the agreement for the issuance and sale of the December 2010 Convertible Notes, in the event a second closing of the issuance and sale of the December 2010 Convertible Notes occurs, we will issue warrants to the holders of the December 2010 Convertible Notes to purchase an additional 167,361 shares of our common stock with an exercise price of $13.44 per share. The December 2010 Convertible Notes will have an interest rate of 5% per year from and after March 31, 2011 and all principal and accrued and unpaid interest on the December 2010 Convertible Notes is due and payable upon the earliest of: (1) sale of us, (2) the date which is 30 days after

the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated. Upon completion of this offering, all principal and interest due under the December 2010 Convertible Notes will be converted into shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering. Purchasers of the December 2010 Convertible Notes included certain holders of more than 5% of our capital stock, or entities affiliated with them.

Royalty Interests Assignment Agreement

On March 23, 2007, we entered into the Amended and Restated Royalty Interests Assignment Agreement with Paul Capital, pursuant to which we assigned to Paul Capital the right to receive up to approximately 20% of our royalty payments from DepoCyt(e) and DepoDur. The original agreement was entered into prior to the Acquisition by the Predecessor in order to monetize certain royalty payments from DepoCyt(e) and DepoDur. In connection with the Acquisition, the original agreement with Paul Capital was amended and restated and the responsibility to pay the royalty interest in product sales of DepoCyt(e) and DepoDur was transferred to us and we were required to make payments to Paul Capital upon the occurrence of certain events. To secure our obligations to Paul Capital, we granted Paul Capital a security interest in collateral which includes the royalty payments we are entitled to receive with respect to sales of DepoCyt(e) and DepoDur, as well as to bank accounts to which such payments are deposited. Under our arrangement with Paul Capital, upon the occurrence of certain events, including if we experience a change of control, undergo certain bankruptcy events of us or our subsidiary, transfer any or substantially all of our rights in DepoCyt(e) and/or DepoDur, transfer all or substantially all of our assets, breach certain of the covenants, representations or warranties under the Amended and Restated Royalty Interests Assignment Agreement, or sales of DepoCyt(e) and/or DepoDur are suspended due to an injunction or if we elect to suspend sales of DepoCyt(e) and/or DepoDur as a result of a lawsuit filed by certain third parties, Paul Capital may require us to repurchase the rights we assigned to it at a cash price equal to (a) 50% of all cumulative payments made by us to Paul Capital under the Amended and Restated Royalty Interests Assignment Agreement during the preceding 24 months, multiplied by (b) the number of days from the date of Paul Capital's exercise of such option until December 31, 2014, divided by 365. Under the terms of the Amended and Restated Royalty Interests Assignment Agreement, this offering would not constitute a change of control.

Future Capital Requirements

We believe that the net proceeds from this offering, together with our existing cash and cash equivalents and revenue from product sales, will be sufficient to enable us to fund our operating expenses, capital expenditure requirements and service our indebtedness for at least the next 12 months. However, no assurance can be given that this will be the case, and we may require additional debt or equity financing to meet our working capital requirements. We expect that the net proceeds from this offering will be sufficient for our planned manufacture and commercialization of EXPAREL in the United States. Our need for additional external sources of funds will depend significantly on the level and timing of our sales of EXPAREL. Moreover, changing circumstances may cause us to expend cash significantly faster than we currently anticipate, and we may need to spend more cash than currently expected because of circumstances beyond our control.

Our expectations regarding future cash requirements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments that we make in the future. We have no current understandings, agreements or commitments for any material acquisitions or licenses of any products, businesses or technologies. We may need to raise substantial additional capital in order to engage in any of these types of transactions.

We expect to continue to incur substantial additional operating losses as we seek FDA approval for and commercialize EXPAREL and develop and seek regulatory approval for our other product candidates. If we obtain FDA approval for EXPAREL, we will incur significant sales and marketing and manufacturing expenses. In addition, we expect to incur additional expenses to add operational, financial and information systems and

personnel, including personnel to support our planned product commercialization efforts. We also expect to incur significant costs to comply with corporate governance, internal controls and similar requirements applicable to us as a public company following the closing of this offering.

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

- the timing and outcome of the FDA's review of the NDA for EXPAREL;
- the extent to which the FDA may require us to perform additional clinical trials for EXPAREL;
- the timing and success of this offering;
- the costs of our commercialization activities for EXPAREL, if it is approved by the FDA;
- the cost and timing of expanding our manufacturing facilities and purchasing manufacturing and other capital equipment for EXPAREL and our other product candidates;
- the scope, progress, results and costs of development for additional indications for EXPAREL and for our other product candidates;
- the cost, timing and outcome of regulatory review of our other product candidates;
- the extent to which we acquire or invest in products, businesses and technologies;
- the extent to which we choose to establish collaboration, co-promotion, distribution or other similar agreements for our product candidates; and
- the costs of preparing, submitting and prosecuting patent applications and maintaining, enforcing and defending intellectual property claims.

As described above, as of December 31, 2008, we lowered the value of our liability under the Amended and Restated Royalty Interests Assignment Agreement, resulting from lower estimates of future sales of DepoCyt(e) and DepoDur. We do not believe the lower estimates of future sales of DepoCyt(e) and DepoDur will have a material impact on our future operations and cash flows because (i) our revenues from DepoCyt(e) remain stable, (ii) our estimates of future capital requirements are derived, in part, on stable but not high growth DepoCyt(e) revenue and (iii) the cash flows from DepoDur are not material.

In addition, we do not believe that the impairment of the DepoDur trademark in 2008 that resulted from revised estimates of future sales of DepoDur will have a material impact on our future operations and cash flows because (a) the cash flows from DepoDur are not material and (b) we have already taken the impairment charge for this trademark.

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

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, except for operating leases, or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2009:

	Payments Due by Period				
	Total	2010	2011 and 2012	2013 and 2014	2015 and thereafter
			(in thousands)		
Contractual Obligations [1]:					
Debt obligations [2]	$26,250	—	$ 10,904	$15,346	$ —
Interest payments on debt [2]	7,983	520	5,382	2,082	—
Operating lease obligations [3]	30,038	6,215	10,647	10,104	3,072
	$64,271	$6,735	$26,933	$27,532	$3,072

(1) This table does not include (i) royalties payable to Paul Capital (through 2014 pursuant to the Amended and Restated Royalty Interest Assignment Agreement described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Royalty Interests Assignment Agreement") and pursuant to the Assignment Agreement with Research Development Foundation; (ii) contingent milestone payments of up to $62 million related to EXPAREL due to SkyePharma PLC, including $10 million due upon the first commercial sale of EXPAREL to end users in the United States.

(2) Debt obligations and interest payments includes payments under the GECC Credit Facility, which was terminated in November 2010, and obligations and payments under the Hercules Credit Facility entered into on November 24, 2010, and exclude the secured and unsecured notes (including the December 2010 Convertible Notes) and accrued interest thereon to be converted into common stock.

(3) Includes building and equipment leases.

Recent Accounting Pronouncements

We have adopted new accounting guidance on fair value measurements effective January 1, 2008, for financial assets and liabilities. In addition, effective January 1, 2009, we adopted this guidance as it relates to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. This guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability, referred to as the exit price, in an orderly transaction between market participants at the measurement date. The guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. The adoption of this guidance did not have a material impact on our financial statements.

In June 2008, the Financial Accounting Standards Board, or FASB, issued new guidance related to assessing whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock for the purposes of determining whether such equity-linked financial instrument (or embedded feature) is subject to derivative accounting. We adopted this new guidance effective January 1, 2009. The adoption of this guidance did not have a material impact on our financial statements.

In May 2009, the FASB issued a new standard regarding subsequent events. The standard provides guidance on management's assessment of subsequent events and incorporates this guidance in accounting literature. The guidance is effective prospectively for interim and annual periods ending after June 15, 2009. We adopted this guidance beginning with the interim period ended June 30, 2009. The adoption of this guidance did not have a material impact on our financial statements.

In April 2009, the FASB issued a staff position requiring fair value disclosures in both interim and annual financial statements in order to provide more timely information about the effects of current market conditions on financial instruments. The guidance is effective for interim and annual periods ending after June 15, 2009. We adopted this guidance beginning with the issuance of our September 30, 2009 financial statements. The adoption of this guidance did not have a material impact on our financial statements.

In June 2009, the FASB Accounting Standards Codification, or ASC, was issued, effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC supersedes literature of the FASB, Emerging Issues Task Force and other sources. The ASC did not change U.S. generally accepted accounting principles. The adoption of this guidance did not have a material impact on our financial statements.

Quantitative and Qualitative Disclosures about Market Risk

The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. Our exposure to market risk is confined to our cash and cash equivalents. As of September 30, 2010, we had cash and cash equivalents of $13.9 million. We do not engage in any hedging activities against changes in interest rates. Because of the short-term maturities of our cash and cash equivalents, we do not believe that an increase in market rates would have any significant impact on the realized value of our investments, but may increase the interest expense associated with our debt.

We have commercial partners for DepoCyte and DepoDur who sell our products in the EU. Under these agreements, we provide finished goods to our commercial partners in exchange for euro-denominated supply revenue, and we also receive euro-denominated royalties on market sales when the products are sold to end users. Under these agreements, we received $6.8 million in the nine months ended September 30, 2010, $7.2 million in the year ended December 31, 2009 and $7.3 million in the year ended December 31, 2008 from these commercial partners.

Because of these agreements, we are subject to fluctuations in exchange rates, specifically in the relative values of the U.S. dollar and the euro. We estimate that an unfavorable fluctuation in exchange rates of 10% would have an impact of approximately $0.7 million on our annual revenue. Between October 2007 and September 2010 the exchange rate between the U.S. dollar and the Euro ranged between $1.60 per Euro and $1.19 per Euro.

BUSINESS

Overview

We are an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on our proprietary DepoFoam drug delivery technology, for use in hospitals and ambulatory surgery centers. We filed a New Drug Application, or NDA, for our lead product candidate, EXPAREL, a long-acting bupivacaine (anesthetic/analgesic) product for postsurgical pain management with the United States Food and Drug Administration, or FDA, which was accepted by the FDA for review on December 10, 2010. Our clinical data demonstrates that EXPAREL provides analgesia for up to 72 hours post-surgery, compared with seven hours or less for bupivacaine. We believe EXPAREL will address a significant unmet medical need for a long-acting non-opioid postsurgical analgesic, resulting in simplified postsurgical pain management and reduced opioid consumption, leading to improved patient outcomes and enhanced hospital economics. We estimate there are approximately 39 million opportunities annually in the United States for EXPAREL to be used. EXPAREL will be launched by certain members of our management team who have successfully launched multiple products in the hospital market.

EXPAREL consists of bupivacaine encapsulated in DepoFoam, both of which are used in FDA-approved products. DepoFoam, our extended release drug delivery technology, is the basis for our two FDA-approved commercial products: DepoCyt(e) and DepoDur, which we manufacture for our commercial partners. DepoFoam-based products have been manufactured for over a decade and have an extensive safety record and regulatory approvals in the United States, European countries and other territories. Bupivacaine, a well-characterized, FDA-approved anesthetic/analgesic, has an established safety profile and over 20 years of use in the United States.

EXPAREL has demonstrated efficacy and safety in two multicenter, randomized, double-blind, placebo-controlled, pivotal Phase 3 clinical trials in patients undergoing soft tissue surgery (hemorrhoidectomy) and orthopedic surgery (bunionectomy). Overall, EXPAREL has demonstrated safety in over 1,300 subjects. In September 2010, we filed an NDA for EXPAREL with the FDA, using a 505(b)(2) application. We are initially seeking approval for postsurgical analgesia by local administration into the surgical wound, or infiltration, a procedure commonly employing bupivacaine. Under the Prescription Drug User Fee Act, or PDUFA, guidelines, the FDA has a goal of ten months from the date of NDA filing to make a decision regarding the approval of our filing. The PDUFA goal date for our NDA is July 28, 2011. We also plan to expand the indications of EXPAREL to include nerve block and epidural administration, markets where bupivacaine is also used routinely.

Our current product portfolio and product candidate pipeline is summarized in the table below:

Product(s)/ Product Candidate(s)	Primary Indication(s)	Status	Commercialization Rights
EXPAREL	Postsurgical analgesia by infiltration	PDUFA goal date: July 28, 2011	Pacira (worldwide)
	Postsurgical analgesia by nerve block	Phase 2/3 (planning)	Pacira (worldwide)
	Postsurgical analgesia by epidural administration	Phase 1 (completed)	Pacira (worldwide)
DepoCyt(e)	Lymphomatous meningitis	Marketed	Sigma-Tau Pharmaceuticals Mundipharma International
DepoDur	Post-operative pain	Marketed	EKR Therapeutics Flynn Pharmaceuticals
DepoNSAID	Acute pain	Preclinical	Pacira (worldwide)
DepoMethotrexate	Rheumatoid arthritis Oncology	Preclinical Preclinical	Pacira (worldwide) Pacira (worldwide)

Our Strategy

Our goal is to be a leading specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products principally for use in hospitals and ambulatory surgery centers. We plan to achieve this by:

- obtaining FDA approval for EXPAREL in the United States for postsurgical analgesia by local infiltration;
- building a streamlined commercial organization concentrating on major hospitals and ambulatory surgery centers in the United States and targeting surgeons, anesthesiologists, pharmacists and nurses;
- working directly with managed care payers, quality improvement organizations, key opinion leaders, or KOLs, in the field of postsurgical pain management and leading influence hospitals with registry programs to demonstrate the economic benefits of EXPAREL;
- securing commercial partnerships for EXPAREL in regions outside of the United States;
- obtaining FDA approval for nerve block and epidural administration indications for EXPAREL;
- manufacturing all our DepoFoam-based products, including EXPAREL, DepoCyt(e) and DepoDur, in our current Good Manufacturing Practices, or cGMP, compliant facilities; and
- continuing to expand our marketed product portfolio through development of additional DepoFoam-based hospital products utilizing a 505(b)(2) strategy, which permits us to rely upon the FDA's previous findings of safety and effectiveness for an approved product. A 505(b)(2) strategy may not succeed if there are successful challenges to the FDA's interpretation of Section 505(b)(2).

Postsurgical Pain Market Overview

According to Thomson Reuters, roughly 45 million surgical procedures were performed in the United States during the twelve months ending in October 2007. We estimate there are approximately 39 million opportunities annually in the United States for EXPAREL to be used to improve patient outcomes and enhance hospital economics. Postsurgical pain is a response to tissue damage during surgery that stimulates peripheral nerves, which signal the brain to produce a sensory and psychological response. Numerous studies reveal that the incidence and severity of postsurgical pain is primarily determined by the type of surgery, duration of surgery and the pain treatment choice following surgery. Postsurgical pain is usually greatest the first few days after the completion of a surgical procedure.

Limitations of Current Therapies for Postsurgical Pain

Substantially all surgical patients experience postsurgical pain, with approximately 50% reporting inadequate pain relief according to epidemiological studies. Unrelieved acute pain causes patient suffering and can lead to other health problems, which delays recovery from surgery and may result in higher healthcare costs. According to the Agency for Healthcare Research and Quality, aggressive prevention of pain is better than treatment of pain because, once established, pain is more difficult to suppress. Current multimodal therapy for postsurgical pain includes wound infiltration with local anesthetics combined with the systemic administration of opioid and non-steroidal anti-inflammatory drug, or NSAID, analgesics.

Local Anesthetics

Treatment of postsurgical pain typically begins at the end of surgery, with local anesthetics, such as bupivacaine, administered by local infiltration. Though this infiltration provides a base platform of postsurgical pain management for the patient, efficacy of conventional bupivacaine and other available local anesthetics is limited, lasting seven hours or less. As local infiltration is not practical after the surgery is complete, and as surgical pain is greatest in the first few days after surgery, additional therapeutics are required to manage postsurgical pain.

Opioids

Opioids, such as morphine, are the mainstay of postsurgical pain management but are associated with a variety of unwanted and potentially severe side effects, leading healthcare practitioners to seek opioid-sparing strategies for their patients. Opioid side effects include sedation, nausea, vomiting, urinary retention, headache, itching, constipation, cognitive impairment, respiratory depression and death. Side effects from opioids have been demonstrated to reduce the patient's quality of life and result in suboptimal pain relief. These side effects may require additional medications or treatments and prolong a patient's stay in the post-anesthesia care unit and the hospital or ambulatory surgery center, thereby increasing costs significantly.

PCA and Elastomeric Bag Systems

Opioids are often administered intravenously through patient controlled analgesia, or PCA, systems in the immediate postsurgical period. The total cost of PCA postsurgical pain management for three days can be up to $500, not including the costs of treating opioid complications. In an attempt to reduce opioid usage, many hospitals employ elastomeric bag systems designed to deliver bupivacaine to the surgical area through a catheter over a period of time. This effectively extends the duration of bupivacaine in the postsurgical site but has significant shortcomings.

PCA systems and elastomeric bag systems are clumsy and difficult to use, which may delay patient ambulation and introduce catheter-related issues, including infection. In addition, PCA systems and elastomeric bags require significant hospital resources to implement and monitor.

NSAIDs

NSAIDs are considered to be useful alternatives to opioids for the relief of acute pain since they do not produce respiratory depression or constipation. Despite these advantages, the use of injectable NSAIDs, such as ketorolac and ibuprofen, is severely limited in the postsurgical period because they increase the risk of bleeding and gastrointestinal and renal complications.

Our Solution—EXPAREL

Based on our clinical trial data, EXPAREL provides continuous and extended postsurgical analgesia for up to 72 hours and reduces the consumption of supplemental opioid medications. We believe this will simplify postsurgical pain management, minimize breakthrough episodes of pain and result in improved patient outcomes and enhanced hospital economics.

Our EXPAREL strategy has four principal elements:

Replace the use of bupivacaine in postsurgical infiltration. We believe EXPAREL:

- extends postsurgical analgesia for up to 72 hours, from seven hours or less;
- utilizes existing postsurgical infiltration administration techniques;
- dilutes easily with saline to reach desired volume;
- is a ready-to-use formulation; and
- facilitates treatment of both small and large surgical wounds.

Become the foundation of a postsurgical pain management regimen in order to reduce and delay opioid usage. We believe EXPAREL:

- significantly delays and reduces opioid usage while improving postsurgical pain management as demonstrated in our Phase 3 hemorrhoidectomy trial, in which EXPAREL demonstrated the following:
  - delayed first opioid usage to approximately 14 hours post-surgery, compared to approximately one hour for placebo;
  - significantly increased percentage of patients requiring no opioid rescue medication through 72 hours post-surgery, to 28% compared to 10% for placebo;
  - 45% less opioid usage at 72 hours post-surgery compared to placebo; and
  - increased percentage of patients who are pain free at 24 hours post-surgery compared to placebo; and
- may reduce hospital cost and staff monitoring of PCA systems.

Improve patient satisfaction. We believe EXPAREL:

- reduces the need for patients to be constrained by elastomeric bags and PCA systems, which are clumsy, difficult to use and may introduce catheter-related issues, including infection;
- promotes maintenance of early postsurgical pain management, thereby reducing the time spent in the intensive care unit; and
- promotes early ambulation, which potentially reduces the risk of life-threatening blood clots, and allows quicker return of bowel function, thereby leading to a faster switch to oral nutrition and medicine, and thus a faster discharge from the hospital.

Develop and seek approval of EXPAREL for nerve block and epidural administration. We believe these additional indications for EXPAREL:

- present a low-risk, low-cost opportunity for clinical development; and
- will enable us to fully leverage our manufacturing and sales infrastructure.

EXPAREL Development Program

EXPAREL has demonstrated efficacy and safety in two multicenter, randomized, double-blind, placebo-controlled, pivotal Phase 3 clinical trials in patients undergoing soft tissue surgery (hemorrhoidectomy) and orthopedic surgery (bunionectomy). At a pre-NDA meeting in February 2010, the FDA acknowledged that the two pivotal Phase 3 clinical trials conducted by us, in patients undergoing hemorrhoidectomy and bunionectomy surgeries, appeared to be appropriately designed to evaluate the safety and efficacy of EXPAREL. Both trials met their primary efficacy endpoints in demonstrating statistically significant analgesia through 72 hours for the hemorrhoidectomy trial and 24 hours for the bunionectomy trial. Both trials also met multiple secondary endpoints, including decreased opioid use and delayed time to first opioid use. These two pivotal Phase 3 clinical trials formed the basis of the evidence for efficacy in the NDA for EXPAREL.

The safety of EXPAREL has been demonstrated in 21 clinical trials consisting of nine Phase 1 trials, seven Phase 2 trials and five Phase 3 trials. EXPAREL was administered to over 1,300 human patients at doses ranging from 10 mg to 750 mg administered by local infiltration into the surgical wound, and by subcutaneous, perineural, epidural and intraarticular administration. In all 21 clinical trials, EXPAREL was well tolerated. The most common treatment emergent adverse events in the EXPAREL and placebo groups were nausea and vomiting and occurred with similar frequency across the EXPAREL and placebo groups. No signal of any of the central nervous system or cardiovascular system adverse events typically observed with high doses of

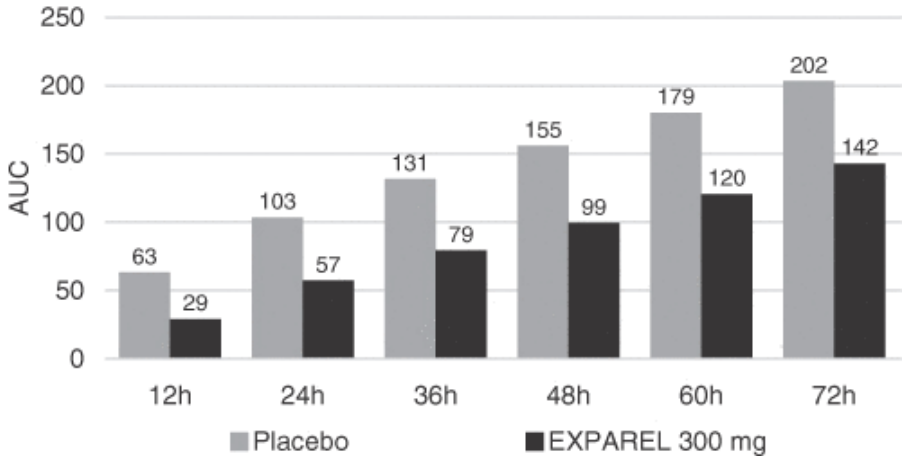
bupivacaine has been observed with EXPAREL. We conducted two thorough QTc studies that demonstrated that EXPAREL did not cause significant QTc prolongation (a measure of cardiac safety mandated by the FDA for all new products) even at the highest dose evaluated. No events of destruction of articular cartilage, or chondrolysis, have been reported in any of the EXPAREL trials. EXPAREL did not require dose adjustment in patients with mild to moderate liver impairment.

Pivotal Phase 3 Clinical Trials

Hemorrhoidectomy. Our pivotal Phase 3 hemorrhoidectomy clinical trial was a multicenter, randomized, double-blind, placebo-controlled trial conducted in 189 patients at 14 sites in Europe. The study enrolled patients 18 years of age or older undergoing a two or three column excisional hemorrhoidectomy under general anesthesia using the Milligan-Morgan technique, a commonly used method for surgically removing hemorrhoids. We studied a 300 mg dose of EXPAREL with a primary endpoint of pain control for up to 72 hours with morphine rescue medication available to both trial groups. Additional endpoints included the proportion of pain-free patients, proportion of patients requiring opioid rescue medication, total opioid usage, time to first use of opioid rescue medication and patient satisfaction.

The 300 mg dose of EXPAREL provided a statistically significant 30% reduction in pain ($p<0.0001$), as measured by the area under the curve, or AUC, of the NRS-R pain scores at 72 hours and all additional time points measured up to 72 hours. The numeric rating scale at rest score, or the NRS-R, is a commonly used patient reported measurement of pain. Under the NRS-R, severity of pain is measured on a scale from 0 to 10, with 10 representing the worst possible pain. The AUC of the NRS-R pain score represents a sum of the patient's pain measured at several time points using the NRS-R, from time of surgery to the specified endpoint. A lower number indicates less cumulative pain. The p-value is a measure of probability that the difference between the placebo group and the EXPAREL group is due to chance (e.g., $p = 0.01$ means that there is a 1% (0.01 = 1.0%) chance that the difference between the placebo group and EXPAREL group is the result of random chance as opposed to the EXPAREL treatment). A p-value less than or equal to 0.05 (0.05 = 5%) is commonly used as a criterion for statistical significance.

Phase 3 Hemorrhoidectomy Clinical Trial: AUC of NRS-R Pain Intensity Scores from Initial Infiltration Timepoint, EXPAREL Compared to Placebo



Note: Differences between study groups were statistically significant at 72 hours ($p<0.0001$), the primary endpoint, and all additional time points measured ($p<0.0001$).

In secondary endpoints, EXPAREL demonstrated efficacy in reducing the use of opioid rescue medication, which was available to both the EXPAREL treatment group and the placebo treatment group. Approximately three times the number of patients in the EXPAREL treatment group avoided opioid rescue medication

altogether, and patients in the EXPAREL treatment group showed 45% less opioid usage compared to the placebo treatment group at 72 hours. Opioid related secondary endpoints included:

- Total avoidance of opioid rescue medication. 28% of patients treated with EXPAREL received no postsurgical opioid rescue pain medication through 72 hours post-dose. By contrast only 10% of placebo treated patients avoided all opioid rescue medication through 72 hours, and this difference was statistically significant (p=0.0007);
- Reduced total consumption of opioid rescue medication. The adjusted mean total postsurgical consumption of supplemental opioid pain medication was 45% lower in patients treated with EXPAREL compared to the placebo treatment group through 72 hours (p=0.0006) post-dose; and
- Delayed use of opioid rescue medication. EXPAREL delayed the median time to first opioid use from approximately one hour in the placebo treatment group to approximately 14 hours in the EXPAREL treatment group and this difference was statistically significant (p<0.0001). At 14 hours post-surgery compared to one hour post-surgery, patients have substantially recovered from the effects of surgical anesthesia and are able to tolerate oral opioids and require less intensive monitoring.

In addition to the reduced usage of opioids compared to patients receiving placebo, secondary endpoints also demonstrated that patients in the EXPAREL treatment group had higher satisfaction scores and more were pain free compared to those in the placebo treatment group.

- More pain free patients. A greater percentage of patients treated with EXPAREL were pain free compared to the placebo treatment group, and the difference reached statistical significance at all times up to and through 24 hours post-dose (p=0.0448); and
- Improved patient satisfaction. A greater percentage of patients treated with EXPAREL were “extremely satisfied” compared to the placebo treatment group, and the difference was statistically significant (p=0.0007) at 24 and 72 hours post-dose.

We believe that this combination of reduced opioid usage and continuous and extended postsurgical pain management highlights the efficacy of EXPAREL and its ability to be used as a part of a multimodal, opioid sparing postsurgical pain management strategy.

Bunionectomy. Our pivotal Phase 3 bunionectomy clinical trial was a multicenter, randomized, double-blind, placebo-controlled trial conducted in 193 patients at four sites in the United States. The study enrolled patients 18 years of age or older undergoing a bunionectomy. We studied a 120 mg dose of EXPAREL with a primary endpoint of pain control at 24 hours, the critical period for postsurgical pain management in bunionectomy, with opioid rescue medication available to both trial groups. EXPAREL provided a statistically significant reduction in pain, as measured by the AUC of the NRS-R pain scores at 24 hours (p=0.0005). This reduction was also statistically significant at 36 hours.

EXPAREL also achieved statistical significance in secondary endpoints related to pain measurement and the use of opioid rescue medication, which was available to both patients in the EXPAREL treatment group and the placebo treatment group, including:

- Total avoidance of opioid rescue medication. The difference between treatment groups in the percentage of patients who received opioid rescue pain medication was statistically significant, favoring the group treated with EXPAREL compared to the placebo treatment group through 12 hours (p=0.0003) and 24 hours (p=0.0404);
- Delayed use of opioid rescue medication. EXPAREL delayed the median time before first opioid use compared to the placebo treatment group and this difference was statistically significant (p<0.0001); and
- More pain free patients. A statistically significant increase in the percentage of pain free patients was observed between treatment groups, favoring the group treated with EXPAREL compared to the placebo treatment group at 2 hours (p=0.0019), 4 hours (p=0.0002), 8 hours (p=0.0078) and 48 hours (p=0.0153) post-dose. The difference between groups was not statistically significant at 24 hours post-dose.

Other Clinical Trials

In 2009, we completed two Phase 3 clinical trials comprising 223 patients who received EXPAREL, comparing them to patients who received bupivacaine in a multimodal setting where patients received additional concomitant analgesics. One of these Phase 3 clinical trials was for total knee arthroplasty and the other was for hemorrhoidectomy. Although EXPAREL performed as expected and continued to demonstrate its safety and tolerability, due to the unexpectedly positive results in the control arm, these trials did not meet their primary endpoint. The results of these studies influenced some of the inclusion and exclusion criteria and protocol specified measures used in our successful pivotal Phase 3 clinical trials described above.

Based on the outcome of these two trials, in 2009, we discontinued a Phase 3 clinical trial in breast augmentation early. At the time of discontinuation, we had only enrolled approximately half of the number of patients required to demonstrate statistical significance. EXPAREL demonstrated a positive trend and safety, but did not meet the primary efficacy endpoint. We have collected data on all patients for whom data was available and expect to publish this data in a peer reviewed medical journal.

We have completed seven Phase 2 clinical trials, five of which were in wound infiltration. A total of 452 patients received various doses of EXPAREL and/or bupivacaine in various surgical settings including hernia repair, total knee arthroplasty, hemorrhoidectomy, and breast augmentation. The data from these Phase 2 clinical trials guided the dose selection for our successful pivotal Phase 3 clinical trials, which formed the basis of our NDA.

The EXPAREL wound infiltration program encompassed 21 dosing comparisons (a dose of EXPAREL compared to a control) throughout a total of ten clinical trials; nine of these were randomized parallel-group clinical trials, seven of which had a bupivacaine control and two of which had a placebo control. When a program-wide primary endpoint of the area under the curve of the numeric rating scale score for pain at rest from 0 through 72 hours was applied to the 19 doses in the randomized parallel-group clinical trials, 16 favored EXPAREL.

EXPAREL Health Economic Benefits

In addition to being efficacious and safe, we believe that EXPAREL provides health economic benefits that play an important role in formulary decision making and these health economic benefits are an often over-looked factor in planning for the commercial success of a pharmaceutical product. Several members of our management team have extensive experience applying health economic outcomes research to support the launch of successful commercial products. Our strategy is to work directly with managed care payers, quality improvement organizations, KOLs in the field of postsurgical pain management and leading influence hospitals with registry programs to demonstrate the economic benefits of EXPAREL.

EXPAREL is designed as a single postsurgical injection intended to replace the current use of clumsy and expensive PCA systems and elastomeric bag systems, reduce the consumption of opioids, and their related side effects, and reduce the length of stay in the hospital, all factors that negatively impact patient outcomes and hospital economics. For example, in our Phase 2 hemorrhoidectomy trial, 300 mg of EXPAREL reduced pain by 47%, as measured by the AUC of the NRS-R pain scores, with a 66% reduction in opioid consumption and a corresponding 89% reduction in opioid related adverse events through 72 hours, compared to the standard 75 mg dose of bupivacaine.

We intend to expand upon the results of this Phase 2 hemorrhoidectomy trial with commercial registry programs designed to confirm that the administration of EXPAREL in the surgical setting improves patient outcomes while consuming fewer resources. We intend to develop publications, abstracts, clinical pharmacology newsletters and meeting presentations that demonstrate the value of EXPAREL as the foundation for effective multimodal postsurgical pain management. In addition, we plan to develop new treatment protocols for postsurgical pain management overall and in specific patient populations.

Reimbursement for surgical procedures is typically capitated, or fixed by third-party payers based on the specific surgical procedure performed regardless of the cost or amount of treatments provided. However, many patients, including those who are elderly, obese, suffer from sleep apnea or are opioid tolerant, are likely to have a high incidence of opioid-related adverse events, increasing the length of stay and the cost relative to the capitated reimbursement. We intend to conduct commercial registry studies to demonstrate reduced opioid use, reduced opioid-related adverse effects, lower total resource consumption, reduced length of stay and greater patient satisfaction. Furthermore, the use of EXPAREL to reduce opioid consumption may also present the opportunity to move selected hospital procedures to the ambulatory setting.

EXPAREL Regulatory Plan

In September 2010, we filed an NDA for EXPAREL with the FDA, which was accepted by the FDA for review on December 10, 2010, using a 505(b)(2) application. We are initially seeking FDA approval of EXPAREL for postsurgical analgesia by local administration into the surgical wound, or infiltration, a procedure commonly employing bupivacaine. Under the PDUFA guidelines, the FDA has a goal of ten months from the date of an NDA filing to make a decision regarding the approval of our filing. Section 505(b)(2) of the Federal Food, Drug and Cosmetic Act, or the FFDCA, permits the submission of an NDA where at least some of the information required for approval comes from studies not conducted by or for the applicant, and for which the applicant has not obtained a right of reference. Supportive information may also include scientific literature and publicly available information contained in the labeling of other medications.

EXPAREL consists of bupivacaine encapsulated in DepoFoam, both of which are used in FDA-approved products:

- Bupivacaine, a well-characterized generic anesthetic/analgesic, has an established safety profile and over 20 years of use in the United States.
- DepoFoam, modified to meet the requirements of each product, is used to extend the release of the active drug substances in the marketed products DepoCyt(e) and DepoDur.

We have requested a clinical trial waiver for children under two years of age. We have also requested and currently expect to receive a deferral for patients 2-18 years of age until patients in these groups can be studied in an appropriate step-wise manner. Three Phase 2/3 trials are planned, first in children 12-18 years old, then 6-11 years old, then 2-5 years old. The waiver and deferral, if granted, will allow us to conduct these trials after the approval of our NDA.

Additional Indications

We are pursuing several additional indications for EXPAREL and expect to submit a supplemental NDA, or sNDA, for nerve block and epidural administration. We believe that these additional indications for EXPAREL present a low-risk, low-cost opportunity for clinical development and will allow us to fully leverage our manufacturing and commercial infrastructure.

Nerve Block. Nerve block is a general term used to refer to the injection of local anesthetic onto or near nerves for control of pain. Nerve blocks can be single injections but have limited duration of action. When extended pain management is required, a catheter is used to deliver bupivacaine continuously using an external pump. According to Thomson Data over eight million nerve block procedures were conducted in the United States in 2008, with over four million of these procedures utilizing bupivacaine. EXPAREL is designed to provide extended pain management with a single injection utilizing a narrow gauge needle.

We have completed two Phase 2 clinical trials in which 40 patients received EXPAREL for nerve block. EXPAREL demonstrated efficacy and was safe and well tolerated in these clinical trials. We expect to conduct additional clinical trials in this indication.

Epidural Administration. An epidural is a form of regional anesthesia involving injection of anesthetic drugs into the outermost part of the spinal canal, or the epidural space. Epidurals can be single injections but have limited duration of action. When extended pain management is required, a catheter is placed into the epidural space and the anesthetic drug is delivered continuously using an external pump. According to IMS and Thomson Data, over six million epidural procedures were conducted in the United States in 2007, with over 590,000 of these procedures utilizing local anesthetics, including bupivacaine. EXPAREL is designed to provide extended pain management with a single injection utilizing a narrow gauge needle.

We have completed one Phase 1 clinical trial in which 24 subjects received EXPAREL by epidural administration that demonstrated proof of concept for this indication. EXPAREL was safe and well tolerated in this clinical trial. We expect to conduct additional clinical trials in this indication.

Sales and Marketing

We currently intend to develop and commercialize EXPAREL and our other product candidates in the United States while out-licensing commercialization rights for other territories. Our goal is to retain significant control over the development process and commercial execution for our product candidates, while participating in a meaningful way in the economics of all drugs that we bring to the market.

The members of our management team who will lead the commercialization of EXPAREL, if it is approved, have successfully commercialized multiple products in the hospital market, including Rocephin, Versed, Zantac IV and Angiomax. We are currently developing our commercialization strategy, with the input of KOLs in the field of postsurgical pain management as well as healthcare practitioner and quality improvement organizations. We continue to expand our pre-commercialization activities including EXPAREL positioning and messaging, publication strategy, Phase 3b/4 clinical trials and registry trials, initiatives with payer organizations, and distribution and national accounts strategies.

If EXPAREL is approved, we intend to hire our own dedicated field sales force, consisting of approximately 40 representatives at the time of the commercial launch, to commercialize the product. Within three years of launch we expect to have approximately 100 representatives, which we estimate can effectively cover our hospital and ambulatory surgery customers in the United States. We believe a typical sales representative focused on office-based healthcare practitioners can effectively reach five to seven healthcare practitioners per day; whereas, a typical hospital-focused sales representative can reach many more healthcare practitioners. Notably, a hospital-focused sales representative faces significantly less travel time between sales calls and less wait time in healthcare practitioner offices as a large number of prescribers can be found in a single location. Our sales force will be supported by marketing as well as several teams of healthcare professionals who will support our formulary approval and customer education initiatives.

The target audience for EXPAREL is healthcare practitioners who influence pain management decisions, including surgeons, anesthesiologists, pharmacists and nurses. Our commercial sales force will focus on reaching the top 1,000 U.S. hospitals performing surgical procedures (based on Thomson Reuters benchmark obstetrician and gynecological, general and orthopedic surgical procedures performed within these hospitals), which represent approximately 70% of the market opportunity for EXPAREL. If we obtain regulatory approvals for additional indications for EXPAREL and our other product candidates, our targeted audience may change to reflect new market opportunities.

DepoFoam—Our Proprietary Drug Delivery Technology

Our current product development activities utilize our proprietary DepoFoam drug delivery technology. DepoFoam consists of microscopic spherical particles composed of a honeycomb-like structure of numerous internal aqueous chambers containing an active drug ingredient. Each chamber is separated from adjacent chambers by lipid membranes. Following injection, the DepoFoam particles release drug over an extended period of time by erosion and/or reorganization of the particles' lipid membranes. Release rates are determined by the choice and relative amounts of lipids in the formulation.

Our DepoFoam formulation provides several technical, regulatory and commercial advantages over competitive technologies, including:

- Convenience. Our DepoFoam products are ready to use and do not require reconstitution or mixing with another solution, and can be used with patient friendly narrow gauge needles and pen systems;
- Multiple regulatory precedents. Our DepoFoam products, DepoCyt(e) and DepoDur, have been approved in the United States and Europe, making regulatory authorities familiar with our DepoFoam technology;
- Extensive safety history. Our DepoFoam products have over ten years of safety data as DepoCyt(e) has been sold in the United States since 1999;
- Administration into privileged sites. Our DepoFoam products are approved for epidural administration (DepoDur) and intrathecal injection (DepoCyt(e)) and may potentially be used for intraocular and intratumoral administration;
- Proven manufacturing capabilities. We continue to make DepoFoam-based products in our cGMP facilities on a daily basis as we prepare for the launch of EXPAREL;
- Flexible time release. Encapsulated drug releases over a desired period of time, from 1 to 30 days;
- Favorable pharmacokinetics. Decrease in adverse events associated with high peak blood levels, thereby improving the utility of the product;
- Shortened development timeline. Does not alter the native molecule potentially enabling the filing of a 505(b)(2) application; and
- Aseptic manufacturing and filling. Enables use with proteins, peptides, nucleic acids, vaccines and small molecules.

Other Products

Depocyt(e)

DepoCyt(e) is a sustained-release liposomal formulation of the chemotherapeutic agent cytarabine utilizing our DepoFoam technology. Depocyt(e) is indicated for the intrathecal treatment of lymphomatous meningitis, a life-threatening complication of lymphoma, a cancer of the immune system. Lymphomatous meningitis can be controlled with conventional cytarabine, but because of the drug's short half-life, a spinal injection is required twice per week, whereas DepoCyt(e) is dosed once every two weeks in an outpatient setting. DepoCyt(e) was granted accelerated approval by the FDA in 1999 and full approval in 2007. We received revenue from DepoCyt(e) of $9.6 million from our commercial partners in 2009.

DepoDur

DepoDur is an extended-release injectable formulation of morphine utilizing our DepoFoam technology. DepoDur is indicated for epidural administration for the treatment of pain following major surgery. DepoDur is designed to provide effective pain relief of up to 48 hours and has demonstrated improved patient mobility and freedom from indwelling catheters. DepoDur was approved by the FDA in 2004. We received revenue from DepoDur of $0.8 million from our commercial partners in 2009.

Other Product Candidates

DepoNSAID

Our preclinical product candidates, extended release formulations of NSAIDs, are designed to provide the benefits of injectable NSAIDs with a prolonged duration of action in order to improve patient care and ease of use in the acute pain environment. Currently available injectable products provide a four to six hour duration of action. We believe that there is an unmet medical need for a product which could provide a longer duration of

action, especially for postsurgical pain management as part of a multimodal pain regimen. Prolonged intra-articular delivery of NSAIDs is also being evaluated for acute pain in major joints due to injury or arthritis. We have DepoFoam formulations for several NSAIDs, and we expect to select a lead product candidate in 2011.

DepoMethotrexate

Our preclinical product candidate, an extended release formulation of methotrexate, is designed to improve the market utility of methotrexate, the most commonly used disease modifying anti-rheumatic drug currently being prescribed for over 500,000 patients globally. While methotrexate is the established standard of care for first line therapy in rheumatoid arthritis, this agent is commonly associated with nausea, vomiting and drowsiness due to high peak blood levels immediately following traditional administration. Our product candidate is designed to address the medical need for a patient friendly and cost effective formulation which can be utilized to improve patient compliance and the ability to tolerate methotrexate therapy. We believe DepoMethotrexate will also allow healthcare providers to treat these patients more aggressively, improve efficacy outcomes and avoid the progression to more expensive alternatives such as biologic therapies. We currently have one year of stability data for our desired product formulation.

Commercial Partners and Agreements

SkyePharma

In connection with the stock purchase agreement related to the Acquisition, we agreed to pay SkyePharma Holdings, Inc., or SPHI, a specified contingent milestone payment related to EXPAREL sales. Additionally, we agreed to pay to SPHI a 3% royalty of our sales of EXPAREL in the United States, Japan, the United Kingdom, France, Germany, Italy and Spain. Such obligations to make contingent milestone payments and royalties will continue for the term in which such sales related to EXPAREL are covered by a valid claim in certain patent rights related to EXPAREL and other biologics products.

We have the right to cease paying royalties in the event that SPHI breaches certain covenants not to compete contained in the stock purchase agreement. In the event that we cease to sell EXPAREL and begin marketing a similar replacement product for EXPAREL, we would no longer be obligated to make royalty payments, but we may be required to make certain milestone payments upon reaching certain sales milestones.

Research Development Foundation

Pursuant to an agreement with one of our stockholders, the Research Development Foundation, or RDF, we are required to pay RDF a low single-digit royalty on our gross revenues, as defined in our agreement with RDF, from our DepoFoam-based products, for as long as certain patents assigned to us under the agreement remain valid. RDF has the right to terminate the agreement for an uncured material breach by us, in connection with our bankruptcy or insolvency or if we directly or indirectly oppose or dispute the validity of the assigned patent rights.

Sigma-Tau Pharmaceuticals

In December 2002, we entered into a supply and distribution agreement with Enzon Pharmaceuticals Inc. regarding the sale of DepoCyt. Pursuant to the agreement, Enzon was appointed the exclusive distributor of DepoCyt in the United States and Canada for a ten year term. In January 2010, Sigma-Tau Pharmaceuticals, Inc., or Sigma-Tau, acquired the rights to sell DepoCyt from Enzon Pharmaceuticals for the United States and Canada. Under the supply and distribution agreement, we supply unlabeled DepoCyt vials to Sigma-Tau for finished packaging. Under these agreements, we receive a fixed payment for manufacturing the vials of DepoCyt and a royalty in the thirties on sales by Sigma-Tau in the United States and Canada.

We and Sigma-Tau have the right to terminate the agreement for an uncured material breach by the other party or in the event that a generic pharmaceutical product that is therapeutically equivalent to DepoCyt is

commercialized. We may terminate the agreement if certain minimum sales targets are not met by Sigma-Tau. Sigma-Tau may terminate the agreement if, as a result of a settlement or a final court or regulatory action, the manufacture, use or sale of DepoCyt in the United States is prohibited.

Mundipharma International Holdings Limited

In June 2003, we entered into an agreement granting Mundipharma International Holdings Limited, or Mundipharma, exclusive marketing and distribution rights to DepoCyte in the European Union and certain other European countries. This agreement continues in force for 15 years, and after that term expires, continues year to year unless terminated by us or by Mundipharma upon no less than 12 months written notice.

Under the agreement, as amended, and a separate supply agreement, we receive a fixed payment for manufacturing the vials of DepoCyte, as well as a royalty comprised of a fixed sum per vial supplied to Mundipharma, an additional sum payable if Mundipharma's quarterly net sales exceed a certain amount, and a mid single-digit royalty on all sales exceeding a certain amount. We are also entitled to receive up to €10 million in milestone payments from Mundipharma upon the achievement by Mundipharma of certain milestone events, of which we have already received €2.5 million and we do not expect to receive the remaining €7.5 million.

We and Mundipharma have the right to terminate the agreement for an uncured material breach by the other party, in connection with the other party's bankruptcy or insolvency or the repossession of all or any material part of the other party's business or assets. Mundipharma has the right to terminate the agreement if its marketing authorization is cancelled or withdrawn for a certain period, or if it is prevented from selling DepoCyte in any three countries in the territory covered in the agreement by a final non-appealable judgment in respect of infringement by DepoCyte of any third party intellectual property rights.

EKR Therapeutics Inc.

In August 2007, we entered into a licensing, distribution and marketing agreement with EKR Therapeutics, Inc., or EKR, granting them exclusive distribution rights to DepoDur in North America, South America and Central America. Under this agreement, as amended, we received nonrefundable license fees of $5.0 million upon execution of the agreement in August 2007, $5.0 million in 2008, and $5.0 million in 2009. At the time we entered into the agreement we had the right to receive aggregate milestone payments of up to $20 million, but we do not expect any additional milestone payments under the agreement. This agreement continues in force for the longer of 15 years from the first commercial sale of DepoDur in the territory covered by the agreement or until the expiration of the last valid claim in our patents covering DepoDur in such territory. After that term, the agreement continues for consecutive periods of two years, unless terminated earlier by EKR.

Under this agreement, as amended, we receive a fixed payment for manufacturing the vials of DepoDur and a royalty comprised of a fixed amount per vial, a single-digit royalty on any incremental price increase implemented by EKR over the base price specified in the agreement and a fixed advanced royalty payment that was made within three days of the agreement date, which is offset against EKR's future payment obligations.

We and EKR have the right to terminate the agreement for an uncured material breach by the other party, an uncured material misrepresentation in any representation or warranty made in the agreement, in connection with the other party's bankruptcy or insolvency, in connection with the threat of or actual cessation of all or any material part of the other party's business, if the other Party is prevented from performing any of its material obligations by any law, governmental or other action for a period of 120 days, or if force majeure prevents other party from performing any of its material obligations for six months. We have the right to terminate the agreement if EKR fails to make its first commercial sale of DepoDur within a fixed period from the receipt of marketing authorization for any country in the territory covered by the agreement, or if we terminate the supply agreement upon written notice to EKR and all royalties paid by EKR to us in any one year period following the date of such termination are less than a certain amount, unless the difference between that amount and the actual royalties paid by EKR is paid to us within 30 days of notice of such termination. EKR has the right to terminate

the agreement at any time without cause upon written notice to us within a specified timeframe. EKR has the right to terminate the agreement as to any country if DepoDur is withdrawn from the market in such country as a result of regulatory action by FDA or other governmental entities or there are significant adverse reactions from use of DepoDur.

Flynn Pharma Limited

In September 2007, we entered into a marketing agreement with Flynn Pharma Limited, or Flynn, granting them exclusive distribution rights to DepoDur in the European Union, certain other European countries, South Africa and the Middle East. This agreement continues in force for the longer of five years from first commercial sale of DepoDur in the territory covered by the agreement or until the expiration of the last valid claim in our patents covering DepoDur for a maximum term of 15 years from the date of first commercial sale in such territory.

Under this agreement and a separate supply agreement with Flynn, we provide DepoDur manufacturing supply of finished product for sale in the territories licensed by Flynn, and we receive a fixed payment for manufacturing the vials and if net sales of DepoDur in the territory covered by the agreement exceed a certain amount, an additional payment. We are also entitled to receive milestone payments from Flynn upon the achievement by Flynn of certain milestone events.

We and Flynn have the right to terminate the agreement for an uncured material breach by the other party, in connection with the other party's bankruptcy or insolvency or the repossession of all or any material part of the other party's business or assets, or if force majeure prevents other party from performing any of its material obligations for 180 days. We have the right to terminate the agreement if Flynn fails to make its first commercial sale of DepoDur in specified countries covered by the agreement by one year from the later of Flynn's receipt of marketing authorization or pricing approval for DepoDur, or if first commercial sale has not been made within 18 months of Flynn's receipt of marketing authorization or pricing approval for DepoDur.

Novo Nordisk

In January 2011, we entered into an agreement with Novo Nordisk A/S, or Novo, pursuant to which we granted non-exclusive rights to Novo under certain of our patents and know-how to develop, manufacture and commercialize formulations of a Novo proprietary drug using our DepoFoam drug delivery technology. Under this agreement, we agreed to undertake specified development and technology transfer activities and to manufacture pre-clinical and certain clinical supplies of such DepoFoam formulated Novo product until the completion of such technology transfer activities. Novo is obligated to pay for all costs incurred by us in conducting such development, manufacturing and technology transfer activities. We received a one-time upfront payment of $1.5 million from Novo. We are also entitled to receive single-digit royalties on sales of such Novo product for up to twelve years following the first commercial sale of such Novo product. In addition, we are entitled to receive up to $24 million in milestone payments based on achievement of specified development events, and up to an additional $20 million in milestone payments based on sales of such Novo product exceeding specified amounts. Each party has the right to terminate the agreement for an uncured material breach by the other party or in connection with the other party's bankruptcy or similar event. In addition, Novo has the right to terminate the agreement for convenience at any time upon sixty (60) days notice prior to commercialization of such Novo product and upon ninety (90) days notice thereafter, subject to Novo's payment of a specified termination fee if, after initiation of the technology transfer but prior to commercialization, Novo terminates the agreement other than for certain specified reasons. We also have the right to terminate the agreement if (1) Novo decides to discontinue or terminate the development or commercialization of such Novo product, (2) such Novo product no longer has regulatory approval in any market, or (3) Novo or any of its affiliates or sublicensees of such Novo product challenges the validity or enforceability of any of the licensed patents.

Paul Capital

On March 23, 2007, we entered into an amended and restated royalty interests assignment agreement with Paul Capital, pursuant to which we assigned to Paul Capital the right to receive a portion of our royalty payments from DepoCyt(e) and DepoDur. The original agreement was entered into prior to the Acquisition by the Predecessor in order to monetize certain royalty payments from DepoCyt(e) and DepoDur. In connection with the Acquisition, the original agreement with Paul Capital was amended and restated and the responsibility to pay the royalty interest in product sales of DepoCyt(e) and DepoDur was transferred to us and we were required to make payments to Paul Capital upon the occurrence of certain events. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Royalty Interests Assignment Agreement" and "Risk Factors—Risks Related to Our Financial Condition and Capital Requirements—Under our financing arrangement with Paul Capital, upon the occurrence of certain events, Paul Capital may require us to repurchase the right to receive royalty payments that we assigned to it, or may foreclose on certain assets that secure our obligations to Paul Capital. Any exercise by Paul Capital of its right to cause us to repurchase the assigned right or any foreclosure by Paul Capital would adversely affect our results of operations and our financial condition."

Feasibility Agreements with Third Parties

In the ordinary course of our business activities, we enter into feasibility agreements with third parties who desire access to our proprietary DepoFoam technology to conduct research, feasibility and formulation work. Under these agreements, we are compensated to perform feasibility testing on a third-party product to determine the likelihood of developing a successful formulation of that product using our proprietary DepoFoam technology. If successful in the feasibility stage, these programs can advance to a full development contract. Currently, we are actively engaged in two feasibility assessments for third parties.

Manufacturing

We manufacture DepoCyt(e) and DepoDur for our various commercial partners. We also manufacture all of our clinical supplies of EXPAREL. We manufacture our products in two manufacturing facilities. These facilities are designated as Building 1 and Building 6 and are located within two miles of each other on two separate and distinct sites in San Diego, California. Both of our facilities are inspected regularly and approved for pharmaceutical manufacturing by the FDA, the European Medicines Agency, or the EMA, the Medicines and Healthcare Products Regulatory Agency, or the MHRA, the Drug Enforcement Administration, or the DEA, and the Environmental Protection Agency, or the EPA.

We provide DepoCyt(e) and DepoDur to our commercial partners on a set cost basis as established by each specific licensing contract. All manufacturing of products, initial product release and stability testing are conducted by us in accordance with cGMP.

Building 1 is an approximately 80,000 square foot concrete structure located on a five acre site. It was custom built as a pharmaceutical R&D and manufacturing facility in August 1995. Activities in this facility include the manufacture of EXPAREL bulk pharmaceutical product candidate in a dedicated production line and its fill/finish into vials, the manufacture of the DepoDur bulk commercial pharmaceutical product, microbiological and quality control testing, product storage, development of analytical methods, research and development, the coordination of clinical and regulatory functions, and general administrative functions. We are renovating the dedicated EXPAREL production line to expand its capacity and expect it to be available for the FDA's pre-approval inspection in 2011. This production line is designed to meet forecasted market demands after initial launch of EXPAREL, if it is approved. We have current plans to further expand our manufacturing capacity to meet future demand.

Building 6 is located in a 17-acre pharmaceutical industrial park. It is a two story concrete masonry structure built in 1977 that we and our predecessors have leased since August 1993. We occupy approximately 22,000

square feet of the first floor. Building 6 houses the current manufacturing process for DepoCyt(e), the fill/finish of DepoCyt(e) and DepoDur into vials, a pilot plant suite for new product development and early stage clinical product production, a microbiology laboratory and miscellaneous support and maintenance areas.

Distribution of our DepoFoam products, including EXPAREL, requires cold-chain distribution, whereby a product must be maintained between specified temperatures. We have validated processes for continuous monitoring of temperature from manufacturing through delivery to the end-user. We and our partners have utilized similar cold-chain processes for DepoCyt(e) and DepoDur.

Intellectual Property and Exclusivity

We seek to protect our product candidates and our technology through a combination of patents, trade secrets, proprietary know-how, regulatory exclusivity and contractual restrictions on disclosure.

Patents and Patent Applications

We seek to protect the proprietary position of our product candidates by, among other methods, filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business. As of September 30, 2010, there are over 15 families of patents and patent applications relating to various aspects of the DepoFoam delivery technology. Patents have been issued in numerous countries, with an emphasis on the North American, European and Japanese markets. These patents generally have a term of 20 years from the date of the nonprovisional filing unless referring to an earlier filed application. Some of our U.S. patents have a term from 17 years from the grant date. Our issued patents expire at various dates in the future, with the last currently issued patent expiring in 2019. All of these patent families are assigned solely to us, with the exception of one family relating to DepoFoam formulations of insulin-like growth factor I, which is jointly assigned to us and Novartis Vaccines and Diagnostics, Inc. (formerly Chiron Corporation). In addition, two provisional patents have been filed within the last year relating to either DepoFoam-based products or processes for making DepoFoam.

In regard to patents providing protection for EXPAREL, issued patents in the United States relating to the composition of the product candidate and methods for modifying the rate of drug release of the product candidate expire in November 2013 and January 2017, respectively. Pending U.S. applications relating to the composition of the product candidate and the process for making the product candidate, if granted, would expire in September 2018 and November 2018, respectively. In Europe, granted patents related to the composition of the product candidate expire in November 2014 and September 2018. Pending applications in Europe relating to methods of modifying the rate of drug release of the product candidate and the process for making the product candidate, if granted, would expire in January 2018 and November 2018, respectively. Recently, a provisional patent was filed relating to a new process to manufacture EXPAREL and other DepoFoam-based products. The process offers many advantages to the current process, including larger scale production and lower manufacturing costs. A strategic decision will be made within the next year as to whether this process will be kept as a trade secret (provisional patents are not publicly disclosed if a subsequent non-provisional application is not filed) or pursued as a non-provisional application. The provisional patent, if granted, could prevent others from using this process until 2031. Furthermore, a non-exclusively licensed patent of ours relating to EXPAREL was allowed in Europe with an expiration date in October 2021 and was extended in the United States until October 2023.

Trade Secrets and Proprietary Information

Trade secrets play an important role in protecting DepoFoam-based products and provide protection beyond patents and regulatory exclusivity. The scale-up and commercial manufacture of DepoFoam products involves processes, custom equipment, and in-process and release analytical techniques that we believe are unique to us. The expertise and knowledge required to understand the critical aspects of DepoFoam manufacturing steps requires knowledge of both traditional and non-traditional emulsion processing and traditional pharmaceutical

production, overlaid with all of the challenges presented by aseptic manufacturing. We seek to protect our proprietary information, including our trade secrets and proprietary know-how, by requiring our employees, consultants and other advisors to execute proprietary information and confidentiality agreements upon the commencement of their employment or engagement. These agreements generally provide that all confidential information developed or made known during the course of the relationship with us be kept confidential and not be disclosed to third parties except in specific circumstances. In the case of our employees, the agreements also typically provide that all inventions resulting from work performed for us, utilizing our property or relating to our business and conceived or completed during employment shall be our exclusive property to the extent permitted by law. Where appropriate, agreements we obtain with our consultants also typically contain similar assignment of invention obligations. Further, we require confidentiality agreements from entities that receive our confidential data or materials.

Competition

The pharmaceutical and biotechnology industries are intensely competitive and subject to rapid and significant technological change. Our competitors include organizations such as major multinational pharmaceutical companies, established biotechnology companies, specialty pharmaceutical companies and generic drug companies. Many of our competitors have greater financial and other resources than we have, such as more commercial resources, larger research and development staffs and more extensive marketing and manufacturing organizations. As a result, these companies may obtain marketing approval more rapidly than we are able and may be more effective in selling and marketing their products. Smaller or early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies.

Our competitors may succeed in developing, acquiring or licensing on an exclusive basis technologies and drug products that are more effective or less costly than EXPAREL or any other products that we are currently selling through partners or developing or that we may develop, which could render our products obsolete and noncompetitive. We expect any products that we develop and commercialize to compete on the basis of, among other things, efficacy, safety, convenience of administration and delivery, price and the availability of reimbursement from government and other third-party payers. We also expect to face competition in our efforts to identify appropriate collaborators or partners to help commercialize our product candidates in our target commercial markets.

We anticipate EXPAREL will compete with currently marketed bupivacaine and opioid analgesics such as morphine. We also expect to compete with an extended release bupivacaine product in development by Durect Corporation which has been licensed to Hospira in North America (Posidur) and to Nycomed for Europe (Optesia).

We also anticipate that EXPAREL will compete with elastomeric bag/catheter devices intended to provide bupivacaine over several days. I-FLOW Corporation (acquired by Kimberly-Clark Corporation in 2009) has marketed these medical devices in the United States since 2004.

Government Regulation

Federal Food, Drug and Cosmetic Act

Prescription drug products are subject to extensive pre- and post-market regulation by the FDA, including regulations that govern the testing, manufacturing, distribution, safety, efficacy, approval, labeling, storage, record keeping, reporting, advertising and promotion of such products under the FDCA, and its implementing regulations, and by comparable agencies and laws in foreign countries. Failure to comply with applicable FDA or other regulatory requirements may result in, among other things, warning letters, clinical holds, civil or criminal penalties, recall or seizure of products, injunction, debarment, partial or total suspension of production or withdrawal of the product from the market. The FDA must approve any new drug, including a new dosage form

or new use of a previously approved drug, prior to marketing in the United States. All applications for FDA approval must contain, among other things, information relating to safety and efficacy, pharmaceutical formulation, stability, manufacturing, processing, packaging, labeling and quality control.

New Drug Applications

Generally, the FDA must approve any new drug before marketing of the drug occurs in the United States. This process generally involves:

- completion of preclinical laboratory and animal testing and formulation studies in compliance with the FDA's Good Laboratory Practice, or GLP, regulations;
- submission to the FDA of an IND application for human clinical testing, which must become effective before human clinical trials may begin in the United States;
- approval by an independent institutional review board, or IRB, at each clinical trial site before each trial may be initiated;
- performance of human clinical trials, including adequate and well-controlled clinical trials in accordance with good clinical practices, or GCP, to establish the safety and efficacy of the proposed drug product for each intended use;
- submission of an NDA to the FDA;
- satisfactory completion of an FDA pre-approval inspection of the product's manufacturing facility or facilities to assess compliance with the FDA's cGMP regulations, and to ensure that the facilities, methods and controls are adequate to preserve the drug's identity, quality and purity;
- satisfactory completion of an FDA advisory committee review, if applicable; and
- approval by the FDA of the NDA.

The preclinical and clinical testing and approval process requires substantial time, effort and financial resources, and we cannot be certain that the FDA will grant approvals for any of our product candidates on a timely basis, if at all. Preclinical tests include laboratory evaluation of product chemistry, formulation and stability, as well as studies to evaluate toxicity in animals. The results of preclinical tests, together with manufacturing information, analytical data and a proposed clinical trial protocol and other information, are submitted as part of an IND application to the FDA. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA, within the 30-day time period, places the trial on a clinical hold because of, among other things, concerns about the conduct of the clinical trial or about exposure of human research subjects to unreasonable health risks. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Our submission of an IND may not result in FDA authorization to commence a clinical trial. In addition, the FDA requires sponsors to amend an existing IND for each successive clinical trial conducted during product development. Further, an independent institutional review board, or IRB, covering each medical center proposing to conduct the clinical trial must review and approve the plan for any clinical trial and informed consent information for subjects before the clinical trial commences at that center, and it must monitor the clinical trial until completed. The FDA, the IRB or the sponsor may suspend a clinical trial at any time, or from time to time, on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

Clinical trials involve the administration of the investigational new drug to human subjects under the supervision of qualified investigators in accordance with GCP requirements, which include the requirement that all research subjects provide their informed consent for their participation in any clinical trial. For purposes of an NDA submission and approval, typically, the conduct of human clinical trials occurs in the following three pre-market sequential phases, which may overlap:

- *Phase 1:* sponsors initially conduct clinical trials in a limited population to test the product candidate for safety, dose tolerance, absorption, metabolism, distribution and excretion in healthy humans or, on occasion, in patients, such as cancer patients.
- *Phase 2:* sponsors conduct clinical trials generally in a limited patient population to identify possible adverse effects and safety risks, to determine the efficacy of the product for specific targeted indications and to determine dose tolerance and optimal dosage. Sponsors may conduct multiple Phase 2 clinical trials to obtain information prior to beginning larger and more extensive Phase 3 clinical trials.
- *Phase 3:* these include expanded controlled and uncontrolled trials, including pivotal clinical trials. When Phase 2 evaluations suggest the effectiveness of a dose range of the product and acceptability of such product's safety profile, sponsors undertake Phase 3 clinical trials in larger patient populations to obtain additional information needed to evaluate the overall benefit and risk balance of the drug and to provide an adequate basis to develop labeling.

In addition, sponsors may elect to conduct, or be required by the FDA to conduct, Phase 4 clinical trials to further assess the drug's safety or effectiveness after NDA approval. Such post approval trials are typically referred to as Phase 4 clinical trials.

Sponsors submit the results of product development, preclinical studies and clinical trials to the FDA as part of an NDA. NDAs must also contain extensive information relating to the product's pharmacology, chemistry, manufacture, controls and proposed labeling, among other things. In addition, 505(b)(2) applications must contain a patent certification for each patent listed in FDA's "Orange Book" that covers the drug referenced in the application and upon which the third-party studies were conducted. For some drugs, the FDA may require risk evaluation and mitigation strategies, or REMS, which could include medication guides, physician communication plans, or restrictions on distribution and use, such as limitations on who may prescribe the drug or where it may be dispensed or administered. Upon receipt, the FDA has 60 days to determine whether the NDA is sufficiently complete to initiate a substantive review. If the FDA identifies deficiencies that would preclude substantive review, the FDA will refuse to accept the NDA and will inform the sponsor of the deficiencies that must be corrected prior to resubmission. If the FDA accepts the submission for substantive review, the FDA typically reviews the NDA in accordance with established timeframes. Under PDUFA, the FDA agrees to specific goals for NDA review time through a two-tiered classification system, Priority Review and Standard Review. A Priority Review designation is given to drugs that offer major advances in treatment, or provide a treatment where no adequate therapy exists. For a Priority Review application, the FDA aims to complete the initial review cycle in six months. Standard Review applies to all applications that are not eligible for Priority Review. The FDA aims to complete Standard Review NDAs within a ten-month timeframe. We anticipate that the FDA will grant our product candidate a Standard Review. Review processes often extend significantly beyond anticipated completion dates due to FDA requests for additional information or clarification, difficulties scheduling an advisory committee meeting, negotiations regarding REMS, or FDA workload issues. The FDA may refer the application to an advisory committee for review, evaluation and recommendation as to the application's approval. The recommendations of an advisory committee do not bind the FDA, but the FDA generally follows such recommendations.

Under PDUFA, NDA applicants must pay significant NDA user fees upon submission. In addition, manufacturers of approved prescription drug products must pay annual establishment and product user fees.

Before approving an NDA, the FDA may inspect the facility or facilities where the product is manufactured. The FDA will not approve an application unless it determines that the manufacturing processes and facilities are

in compliance with cGMP requirements and are adequate to ensure consistent production of the product within required specifications. Additionally, the FDA will typically inspect one or more clinical sites to ensure compliance with GCP before approving an NDA.

After the FDA evaluates the NDA and the manufacturing facilities, it may issue an approval letter or a Complete Response Letter, or CRL, to indicate that the review cycle for an application is complete and that the application is not ready for approval. CRLs generally outline the deficiencies in the submission and may require substantial additional testing or information in order for the FDA to reconsider the application. Even if such additional information is submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Data from clinical trials are not always conclusive and the FDA may interpret data differently than we do. The FDA could also require a REMS plan to mitigate risks, which could include medication guides, physician communication plans, or elements to assure safe use, such as restricted distribution methods, patient registries and other risk minimization tools. The FDA also may condition approval on, among other things, changes to proposed labeling, a commitment to conduct one or more post-market studies or clinical trials and the correction of identified manufacturing deficiencies, including the development of adequate controls and specifications. If and when the deficiencies have been addressed to the FDA's satisfaction, the FDA will typically issue an approval letter. An approval letter authorizes commercial marketing of the drug with specific prescribing information for specific indications.

Section 505(b)(2) New Drug Applications

As an alternate path to FDA approval, particularly for modifications to drug products previously approved by the FDA, an applicant may submit an NDA under Section 505(b)(2) of the FDCA. Section 505(b)(2) was enacted as part of the Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, and permits the submission of an NDA where at least some of the information required for approval comes from clinical trials not conducted by or for the applicant and for which the applicant has not obtained a right of reference. The FDA interprets Section 505(b)(2) of the FDCA to permit the applicant to rely upon the FDA's previous findings of safety and effectiveness for an approved product. The FDA may also require companies to perform additional clinical trials or measurements to support any change from the previously approved product. The FDA may then approve the new product candidate for all or some of the label indications for which the referenced product has been approved, as well as for any new indication sought by the Section 505(b)(2) applicant.

Section 505(b)(2) applications are subject to any non-patent exclusivity period applicable to the referenced product, which may delay approval of the 505(b)(2) application even if FDA has completed its substantive review and determined the drug should be approved. In addition, 505(b)(2) applications must include patent certifications to any patents listed in the Orange Book as covering the referenced product. If the 505(b)(2) applicant seeks to obtain approval before the expiration of an applicable listed patent, the 505(b)(2) applicant must provide notice to the patent owner and NDA holder of the referenced product. If the patent owner or NDA holder bring a patent infringement lawsuit within 45 days of such notice, the 505(b)(2) application cannot be approved for 30 months or until the 505(b)(2) applicant prevails, whichever is sooner. If the 505(b)(2) applicant loses the patent infringement suit, FDA may not approve the 505(b)(2) application until the patent expires, plus any period of pediatric exclusivity.

In the NDA submissions for our product candidates, we intend to follow the development and approval pathway permitted under the FDCA that we believe will maximize the commercial opportunities for these product candidates.

Post-Approval Requirements

After approval, the NDA sponsor must comply with comprehensive requirements governing, among other things, drug listing, recordkeeping, manufacturing, marketing activities, product sampling and distribution, annual reporting and adverse event reporting. There are also extensive U.S. Drug Enforcement Agency, or DEA, regulations applicable to marketed controlled substances.

If new safety issues are identified following approval, the FDA can require the NDA sponsor to revise the approved labeling to reflect the new safety information; conduct post-market studies or clinical trials to assess the new safety information; and implement a REMS program to mitigate newly-identified risks. The FDA may also require post-approval testing, including Phase 4 studies, and surveillance programs to monitor the effect of approved products which have been commercialized, and the FDA has the authority to prevent or limit further marketing of a product based on the results of these post-marketing programs. Drugs may be marketed only for approved indications and in accordance with the provisions of the approved label. Further, if we modify a drug, including any changes in indications, labeling or manufacturing processes or facilities, the FDA may require us to submit and obtain FDA approval of a new or supplemental NDA, which may require us to develop additional data or conduct additional preclinical studies and clinical trials.

In addition, drug manufacturers and other entities involved in the manufacture and distribution of approved drugs are required to register their establishments with the FDA and state agencies, and are subject to periodic unannounced inspections by the FDA and these state agencies for compliance with cGMP requirements. Changes to the manufacturing process are strictly regulated and often require prior FDA approval before being implemented. FDA regulations also require investigation and correction of any deviations from cGMP and impose reporting and documentation requirements upon us and any third-party manufacturers that we may decide to use.

If after approval the FDA determines that the product does not meet applicable regulatory requirements or poses unacceptable safety risks, the FDA may take other regulatory actions, including initiating suspension or withdrawal of the NDA approval. Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, complete withdrawal of the product from the market or product recalls;
- fines, warning letters or holds on post-approval clinical trials;
- refusal of the FDA to approve pending applications or supplements to approved applications, or suspension or revocation of product license approvals;
- product seizure or detention, or refusal to permit the import or export of products; or
- injunctions or the imposition of civil or criminal penalties.

The FDA strictly regulates marketing, labeling, advertising and promotion of products that are placed on the market. These regulations include standards and restrictions for direct-to-consumer advertising, industry-sponsored scientific and educational activities, promotional activities involving the internet, and off-label promotion. While physicians may prescribe for off label uses, manufacturers may only promote for the approved indications and in accordance with the provisions of the approved label. The FDA has very broad enforcement authority under the FDCA, and failure to abide by these regulations can result in penalties, including the issuance of a warning letter directing entities to correct deviations from FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA, and state and federal civil and criminal investigations and prosecutions.

In addition, the distribution of prescription pharmaceutical products is subject to the Prescription Drug Marketing Act, or PDMA, which regulates the distribution of drugs and drug samples at the federal level, and sets minimum standards for the registration and regulation of drug distributors by the states. Both the PDMA and state laws limit the distribution of prescription pharmaceutical product samples and impose requirements to ensure accountability in distribution, including a drug pedigree which tracks the distribution of prescription drugs.

DEA Regulation

One of our marketed products, DepoDur, is regulated as a "controlled substance" as defined in the Controlled Substances Act of 1970, or CSA, which establishes registration, security, recordkeeping, reporting, storage, distribution and other requirements administered by the DEA. The DEA is concerned with the control of handlers of controlled substances, and with the equipment and raw materials used in their manufacture and packaging, in order to prevent loss and diversion into illicit channels of commerce.

The DEA regulates controlled substances as Schedule I, II, III, IV or V substances. Schedule I substances by definition have no established medicinal use, and may not be marketed or sold in the United States. A pharmaceutical product may be listed as Schedule II, III, IV or V, with Schedule II substances considered to present the highest risk of abuse and Schedule V substances the lowest relative risk of abuse among such substances. DepoDur, a sustained-release injectable morphine sulfate, is listed as a Schedule II controlled substance under the CSA. Consequently, its manufacture, shipment, storage, sale and use is subject to a high degree of regulation. For example, generally, all Schedule II drug prescriptions must be signed by a physician, physically presented to a pharmacist and may not be refilled without a new prescription.

Annual registration is required for any facility that manufactures, tests, distributes, dispenses, imports or exports any controlled substance. Except for certain defined co-incident activities, each registration is specific to the particular location, activity and controlled substance schedule. For example, separate registrations are needed for import and manufacturing, and each registration must specify which schedules of controlled substances are authorized.

The DEA typically inspects a facility to review its security measures prior to issuing a registration and, thereafter, on a periodic basis. Security requirements vary by controlled substance schedule, with the most stringent requirements applying to Schedule I and Schedule II substances. Required security measures include background checks on employees and physical control of inventory through measures such as vaults, cages, surveillance cameras and inventory reconciliations. Records must be maintained for the handling of all controlled substances, and periodic reports made to the DEA, for example distribution reports for Schedule I and II controlled substances, Schedule III substances that are narcotics, and other designated substances. Reports must also be made for thefts or significant losses of any controlled substance, and to obtain authorization to destroy any controlled substance. In addition, special authorization, notification and permit requirements apply to imports and exports.

In addition, a DEA quota system controls and limits the availability and production of controlled substances in Schedule I or II. Distributions of any Schedule I or II controlled substance must also be accomplished using special order forms, with copies provided to the DEA. Because DepoDur, a sustained-release injectable morphine sulfate, is regulated as a Schedule II controlled substance, it is subject to the DEA's production and procurement quota scheme. The DEA establishes annually an aggregate quota for how much morphine may be produced in total in the United States based on the DEA's estimate of the quantity needed to meet legitimate scientific and medicinal needs. This limited aggregate amount of morphine that the DEA allows to be produced in the United States each year is allocated among individual companies, who must submit applications annually to the DEA for individual production and procurement quotas. We must receive an annual quota from the DEA in order to produce or procure any Schedule I or Schedule II substance, including morphine sulfate for use in manufacturing DepoDur. The DEA may adjust aggregate production quotas and individual production and procurement quotas from time to time during the year, although the DEA has substantial discretion in whether or not to make such adjustments. Our quota of an active ingredient may not be sufficient to meet commercial demand or complete the manufacture or purchase of material required for clinical trials. Any delay or refusal by the DEA in establishing our quota for controlled substances could delay or stop our clinical trials or product launches, or interrupt commercial sales of our products which could have a material adverse effect on our business, financial position and results of operations.

The DEA conducts periodic inspections of registered establishments that handle controlled substances. Failure to maintain compliance with applicable requirements, particularly as manifested in loss or diversion, can

result in enforcement action that could have a material adverse effect on our business, results of operations and financial condition. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to revoke those registrations. In certain circumstances, violations could eventuate in criminal proceedings.

Individual states also regulate controlled substances, and we are subject to such regulation by several states with respect to the manufacture and distribution of these products.

International Regulation

In addition to regulations in the United States, we are subject to a variety of foreign regulations governing clinical trials and the commercial sales and distribution of our products. Whether or not we obtain FDA approval for a product, we must obtain approval by the comparable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country, and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country.

For example, in the EEA (which is comprised of the 27 Member States of the EU plus Norway, Iceland and Liechtenstein), medicinal products can only be commercialized after obtaining a Marketing Authorization (MA). There are two types of marketing authorizations:

- The Community MA, which is issued by the European Commission through the Centralized Procedure, based on the opinion of the Committee for Medicinal Products for Human Use (CHMP) of the EMA, and which is valid throughout the entire territory of the EEA. The Centralized Procedure is mandatory for certain types of products, such as biotechnology medicinal products, orphan medicinal products, and medicinal products containing a new active substance indicated for the treatment of AIDS, cancer, neurodegenerative disorders, diabetes, auto-immune and viral diseases. The Centralized Procedure is optional for products containing a new active substance not yet authorized in the EEA, or for products that constitute a significant therapeutic, scientific or technical innovation or which are in the interest of public health in the EU.
- National MAs, which are issued by the competent authorities of the Member States of the EEA and only cover their respective territory, are available for products not falling within the mandatory scope of the Centralized Procedure. Where a product has already been authorized for marketing in a Member State of the EEA (the Reference Member State or RMS), this National MA can be recognized in other Member States (the Concerned Member States or CMS) through the Mutual Recognition Procedure. If the product has not received a National MA in any Member State at the time of application, it can be approved simultaneously in various Member States through the Decentralized Procedure. Under the Decentralized Procedure, an identical dossier is submitted to the competent authorities of each of the Member States in which the MA is sought, one of which is selected by the applicant as the RMS. The competent authority of the RMS prepares a draft assessment report, a draft summary of the product characteristics, or SPC, and a draft of the labeling and package leaflet, which are sent to the CMS for their approval. If the CMS raise no objections, based on a potential serious risk to public health, to the assessment, SPC, labeling, or packaging proposed by the RMS, the product is subsequently granted a national MA in all the Member States (i.e. in the RMS and the CMS). If one or more CMS raise objections based on a potential serious risk to public health, the application is referred to the Coordination group for mutual recognition and decentralized procedure for human medicinal products (the CMDh), which is composed of representatives of the EEA Member States. If a consensus cannot be reached within the CMDh the matters is referred for arbitration to the CHMP, which can reach a final decision binding on all EEA Member States. A similar process applies to disputes between the RMS and the CMS in the Mutual Recognition Procedure.

As with FDA approval we may not be able to secure regulatory approvals in Europe in a timely manner, if at all. Additionally, as in the United States, post-approval regulatory requirements, such as those regarding product

manufacture, marketing, or distribution, would apply to any product that is approved in Europe, and failure to comply with such obligations could have a material adverse effect on our ability to successfully commercialize any product.

The conduct of clinical trials in the EU is governed by the EU Clinical Trials Directive (Directive 2001/20/EC of 4 April 2001, of the European Parliament and of the Council on the approximation of the laws, regulations and administrative provisions of the Member States relating to implementation of good clinical practice in the conduct of clinical trials on medicinal products for human use). The provisions of the EU Clinical Trials Directive were required to be implemented and applied by the EEA Member States before May 2004. The EU Clinical Trials Directive harmonizes the regulatory requirements of the Member States of the EEA for the conduct of clinical trials in their respective territories. The EU Clinical Trials Directive requires sponsors of clinical trials to submit formal applications to, and to obtain the approval of, national ethics committees and regulatory authorities prior to the initiation of clinical trials.

In addition to regulations in Europe and the United States, we will be subject to a variety of foreign regulations governing clinical trials and commercial distribution of any future products.

Third Party Payer Coverage and Reimbursement

The commercial success of our product candidates will depend, in part, upon the availability of coverage and reimbursement from third-party payers at the federal, state and private levels. Government payer programs, including Medicare and Medicaid, private health care insurance companies and managed care plans may deny coverage or reimbursement for a product or therapy in whole or in part if they determine that the product or therapy is not medically appropriate or necessary. Also, third-party payers have attempted to control costs by limiting coverage and the amount of reimbursement for particular procedures or drug treatments. The United States Congress and state legislatures from time to time propose and adopt initiatives aimed at cost containment, which could impact our ability to sell our products profitably.

For example, in March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, which we refer to collectively as the Health Care Reform Law, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms. Effective October 1, 2010, the Health Care Reform Law revises the definition of "average manufacturer price" for reporting purposes, which could increase the amount of Medicaid drug rebates owed to states by pharmaceutical manufacturers. The Health Reform Law also establishes a new Medicare Part D coverage gap discount program, in which drug manufacturers must provide 50% point-of-sale discounts on products covered under Part D beginning in 2011. Further, also beginning in 2011, the new law imposes a significant annual, nondeductible fee on companies that manufacture or import branded prescription drug products. Substantial new provisions affecting compliance have also been enacted, which may require us to modify our business practices with healthcare practitioners. We will not know the full effects of the Health Care Reform Law until applicable federal and state agencies issue regulations or guidance under the new law. Although it is too early to determine the effect of the Health Care Reform Law, the new law appears likely to continue the pressure on pharmaceutical pricing, especially under the Medicare program, and may also increase our regulatory burdens and operating costs. Moreover, in the coming years, additional changes could be made to governmental healthcare programs that could significantly impact the success of our products.

The cost of pharmaceuticals continues to generate substantial governmental and third-party payer interest. We expect that the pharmaceutical industry will experience pricing pressures due to the trend toward managed healthcare, the increasing influence of managed care organizations and additional legislative proposals. Our results of operations could be adversely affected by current and future healthcare reforms.

Some third-party payers also require pre-approval of coverage for new or innovative devices or drug therapies before they will reimburse healthcare providers that use such therapies. While we cannot predict whether any proposed cost-containment measures will be adopted or otherwise implemented in the future, the announcement or adoption of these proposals could have a material adverse effect on our ability to obtain adequate prices for our product candidates and to operate profitably.

In international markets, reimbursement and healthcare payment systems vary significantly by country, and many countries have instituted price ceilings on specific products and therapies. There can be no assurance that our products will be considered medically reasonable and necessary for a specific indication, that our products will be considered cost-effective by third-party payers, that an adequate level or reimbursement will be available so that the third-party payers' reimbursement policies will not adversely affect our ability to sell our products profitably.

Marketing/Data Exclusivity

The FDA may grant three or five years of marketing exclusivity in the United States for the approval of new or supplemental NDAs, including Section 505(b)(2) NDAs, for, among other things, new indications, dosages or dosage forms of an existing drug, if new clinical investigations that were conducted or sponsored by the applicant are essential to the approval of the application. Additionally, six months of marketing exclusivity in the United States is available under Section 505A of the FDCA if, in response to a written request from the FDA, a sponsor submits and the agency accepts requested information relating to the use of the approved drug in the pediatric population. This six month pediatric exclusivity period is not a standalone exclusivity period, but rather is added to any existing patent or non-patent exclusivity period for which the drug product is eligible. Based on our clinical trial program for EXPAREL, we plan to seek at least three years of marketing exclusivity upon receipt of FDA approval for EXPAREL (anticipated exclusivity through at least the third quarter of 2014). We may also seek an additional period of six months exclusivity from the FDA if the FDA requests, and we successfully complete, pediatric clinical trials for EXPAREL.

Manufacturing Requirements

We must comply with applicable FDA regulations relating to FDA's cGMP regulations. The cGMP regulations include requirements relating to organization of personnel, buildings and facilities, equipment, control of components and drug product containers and closures, production and process controls, packaging and labeling controls, holding and distribution, laboratory controls, records and reports, and returned or salvaged products. The manufacturing facilities for our products must meet cGMP requirements to the satisfaction of the FDA pursuant to a pre-approval inspection before we can use them to manufacture our products. We and any third-party manufacturers are also subject to periodic inspections of facilities by the FDA and other authorities, including procedures and operations used in the testing and manufacture of our products to assess our compliance with applicable regulations. Failure to comply with these and other statutory and regulatory requirements subjects a manufacturer to possible legal or regulatory action, including warning letters, the seizure or recall of products, injunctions, consent decrees placing significant restrictions on or suspending manufacturing operations and civil and criminal penalties. Adverse experiences with the product must be reported to the FDA and could result in the imposition of market restrictions through labeling changes or in product removal. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product occur following approval.

Healthcare Fraud and Abuse Laws

We are subject to various federal, state and local laws targeting fraud and abuse in the healthcare industry. For example, in the United States, there are federal and state anti-kickback laws that prohibit the payment or receipt of kickbacks, bribes or other remuneration intended to induce the purchase or recommendation of healthcare products and services or reward past purchases or recommendations. Violations of these laws can lead

to civil and criminal penalties, including fines, imprisonment and exclusion from participation in federal healthcare programs. These laws are potentially applicable to manufacturers of products regulated by the FDA, such as us, and hospitals, physicians and other potential purchasers of such products.

In particular, the federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, receiving, offering or providing remuneration, directly or indirectly, to induce either the referral of an individual, or the furnishing, recommending, or arranging for a good or service, for which payment may be made under a federal healthcare program such as the Medicare and Medicaid programs. The term "remuneration" is not defined in the federal Anti-Kickback Statute and has been broadly interpreted to include anything of value, including for example, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payments, ownership interests and providing anything at less than its fair market value. In addition, the recently enacted Health Care Reform Law, among other things, amends the intent requirement of the federal Anti-Kickback Statute and the applicable criminal healthcare fraud statutes contained within 42 U.S.C. § 1320a-7b effective March 23, 2010. Pursuant to the statutory amendment, a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it in order to have committed a violation. In addition, the PPACA provides that the government may assert that a claim including items or services resulting from a violation of 42 U.S.C. § 1320a-7b constitutes a false or fraudulent claim for purposes of the civil False Claims Act (discussed below) or the civil monetary penalties statute, which imposes a penalty of $5000 against any person who is determined to have presented or caused to be presented claims to a federal health care program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent. Moreover, the lack of uniform court interpretation of the Anti-Kickback Statute makes compliance with the law difficult.

Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous or beneficial arrangements within the healthcare industry, the U.S. Department of Health and Human Services' Office of Inspector General, or OIG, issued regulations in July of 1991, and periodically since that time, which the OIG refers to as "safe harbors." These safe harbor regulations set forth certain provisions which, if met in form and substance, will assure pharmaceutical companies, healthcare providers and other parties that they will not be prosecuted under the federal Anti-Kickback Statute. Additional safe harbor provisions providing similar protections have been published intermittently since 1991. Although full compliance with these provisions ensures against prosecution under the federal Anti-Kickback Statute, the failure of a transaction or arrangement to fit within a specific safe harbor does not necessarily mean that the transaction or arrangement is illegal or that prosecution under the federal Anti-Kickback Statute will be pursued. However, conduct and business arrangements that do not fully satisfy each applicable safe harbor may result in increased scrutiny by government enforcement authorities, such as the OIG or federal prosecutors. Additionally, there are certain statutory exceptions to the federal Anti-Kickback Statute, one or more of which could be used to protect a business arrangement, although we understand that OIG is of the view that an arrangement that does not meet the requirements of a safe harbor cannot satisfy the corresponding statutory exception, if any, under the federal Anti-Kickback Statute.

Additionally, many states have adopted laws similar to the federal Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for healthcare items or services reimbursed by any third-party payer, not only the Medicare and Medicaid programs, and do not contain identical safe harbors. Government officials have focused their enforcement efforts on marketing of healthcare services and products, among other activities, and have brought cases against numerous pharmaceutical and medical device companies, and certain sales and marketing personnel for allegedly offering unlawful inducements to potential or existing customers in an attempt to procure their business or reward past purchases or recommendations.

Another development affecting the healthcare industry is the increased use of the federal civil False Claims Act and, in particular, actions brought pursuant to the False Claims Act's "whistleblower" or "qui tam" provisions. The civil False Claims Act imposes liability on any person or entity who, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment by a federal healthcare program. The qui tam provisions of the False Claims Act allow a private individual to bring civil actions on

behalf of the federal government alleging that the defendant has submitted a false claim to the federal government, and to share in any monetary recovery. In recent years, the number of suits brought by private individuals has increased dramatically. In addition, various states have enacted false claim laws analogous to the False Claims Act. Many of these state laws apply where a claim is submitted to any third-party payer and not merely a federal healthcare program. When an entity is determined to have violated the False Claims Act, it may be required to pay up to three times the actual damages sustained by the government, plus civil penalties of $5,500 to $11,000 for each separate false claim. There are many potential bases for liability under the False Claims Act. Liability arises, primarily, when an entity knowingly submits, or causes another to submit, a false claim for reimbursement to the federal government. The False Claims Act has been used to assert liability on the basis of inadequate care, kickbacks and other improper referrals, improperly reported government pricing metrics such as Best Price or Average Manufacturer Price, improper use of Medicare numbers when detailing the provider of services, improper promotion of off-label uses (i.e., uses not expressly approved by FDA in a drug's label), and allegations as to misrepresentations with respect to the services rendered. Our activities relating to the reporting of discount and rebate information and other information affecting federal, state and third-party reimbursement of our products, and the sale and marketing of our products and our service arrangements or data purchases, among other activities, may be subject to scrutiny under these laws. We are unable to predict whether we would be subject to actions under the False Claims Act or a similar state law, or the impact of such actions. However, the cost of defending such claims, as well as any sanctions imposed, could adversely affect our financial performance.

Also, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, created several new federal crimes, including health care fraud, and false statements relating to health care matters. The health care fraud statute prohibits knowingly and willfully executing a scheme to defraud any health care benefit program, including private third-party payers. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for health care benefits, items or services.

In addition, under California law, pharmaceutical companies must adopt a comprehensive compliance program that is in accordance with both the April 2003 Office of Inspector General Compliance Program Guidance for Pharmaceutical Manufacturers, or OIG Guidance, and the Pharmaceutical Research and Manufacturers of America Code on Interactions with Healthcare Professionals, or the PhRMA Code. The PhRMA Code seeks to promote transparency in relationships between health care professionals and the pharmaceutical industry and to ensure that pharmaceutical marketing activities comport with the highest ethical standards. The PhRMA Code contains strict limitations on certain interactions between health care professionals and the pharmaceutical industry relating to gifts, meals, entertainment and speaker programs, among others. Also, certain states, such as Massachusetts and Minnesota, have imposed restrictions on the types of interactions that pharmaceutical and medical device companies or their agents (e.g., sales representatives) may have with health care professionals, including bans or strict limitations on the provision of meals, entertainment, hospitality, travel and lodging expenses, and other financial support, including funding for continuing medical education activities.

Healthcare Privacy and Security Laws

We may be subject to, or our marketing activities may be limited by, HIPAA, and its implementing regulations, which established uniform standards for certain "covered entities" (healthcare providers, health plans and healthcare clearinghouses) governing the conduct of certain electronic healthcare transactions and protecting the security and privacy of protected health information. The American Recovery and Reinvestment Act of 2009, commonly referred to as the economic stimulus package, included sweeping expansion of HIPAA's privacy and security standards called the Health Information Technology for Economic and Clinical Health Act, or HITECH, which became effective on February 17, 2010. Among other things, the new law makes HIPAA's privacy and security standards directly applicable to "business associates"—independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also increased the civil and criminal penalties that may be imposed against covered

entities, business associates and possibly other persons, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions.

Employees

As of December 31, 2010, we employed 83 employees, with 8 in research and development, 56 in operations, and 19 in general and administrative. All of our employees are located in the United States. None of our employees are represented by a labor union, and we consider our current employee relations to be good.

Facilities

Our research and development and manufacturing facilities are located in San Diego, California, where we occupy two facilities totaling approximately 106,000 square feet under leases expiring in July 2015. We use these facilities for research and development, manufacturing and general and administrative purposes. In addition, we maintain our executive offices, commercial and business development facility in Parsippany, New Jersey.

We believe that our manufacturing facilities are sufficient for our current needs. We intend to add new facilities or expand existing facilities as we add employees or expand our geographic markets, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Legal Proceedings

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

MANAGEMENT

Executive Officers and Directors

Our executive officers and directors, their current positions and their ages as of December 31, 2010 are set forth below:

Name	Age	Position(s)
David Stack	59	President and Chief Executive Officer, Director
James Scibetta	46	Chief Financial Officer
Gary Patou, M.D.	52	Chief Medical Officer
William Lambert, Ph.D.	52	Senior Vice President, Pharmaceutical Development
Mark Walters	55	Senior Vice President, Technical Operations
Fred Middleton (2)	61	Chairman of the Board of Directors
Luke Evnin, Ph.D. (2)	47	Director
Carl Gordon, Ph.D. (1)	46	Director
John Longenecker, Ph.D. (1) (2) (3)	63	Director
Gary Pace, Ph.D. (1) (3)	63	Director
Andreas Wicki, Ph.D.	52	Director

(1) Member of audit committee upon completion of this offering.
(2) Member of compensation committee upon completion of this offering.
(3) Member of nominating and corporate governance committee upon completion of this offering.

David Stack has served as our president and chief executive officer and as a director since November 2007. Mr. Stack has been a managing director of MPM Capital since 2005 and a managing partner of Stack Pharmaceuticals, Inc. since 1998. From 2001 to 2004, he was president and chief executive officer of The Medicines Company (NASDAQ: MDCO). Previously, Mr. Stack was president and general manager at Innovex, Inc. He was vice president, business development/marketing at Immunomedics from 1993 until 1995. Prior to that, he was with Roche Laboratories in positions of increasing responsibility from 1981 until 1993, including therapeutic world leader in infectious disease and director, business development and planning, infectious disease, oncology, and virology. He currently serves as a member of the board of directors of PepTx, Inc., and Molecular Insight Pharmaceuticals, Inc. (NASDAQ: MIPI). Mr. Stack holds a B.S. in pharmacy from Albany College of Pharmacy and a B.S. in Biology from Siena College. We believe Mr. Stack's qualifications to sit on our board of directors include his extensive experience with pharmaceutical companies, his financial expertise and his years of experience providing strategic and financial advisory services to pharmaceutical and biotechnology organizations, including evaluating business plans involving clinical trials.

James Scibetta has served as our chief financial officer since August 2008. Prior to that, Mr. Scibetta was chief financial officer of Bioenvision, Inc. (NASDAQ: BIVN) from 2006 until its acquisition by Genzyme, Inc. in 2007. From 2001 to 2006, Mr. Scibetta was executive vice president and chief financial officer of Merrimack Pharmaceuticals, Inc., and he was a member of the board of directors of Merrimack from 1998 to 2004. Mr. Scibetta formerly served as a senior investment banker at Shattuck Hammond Partners, LLC and PaineWebber Inc., providing capital acquisition, merger and acquisition, and strategic advisory services to healthcare companies. He currently serves as chairman of the board and audit committee of Nephros, Inc. (NASDAQ: NEPH). Mr. Scibetta holds a B.S. in physics from Wake Forest University, and an M.B.A. in finance from the University of Michigan. He completed executive education studies in the Harvard Business School Leadership & Strategy in Pharmaceuticals and Biotechnology program.

Gary Patou, M.D. has served as our chief medical officer since March 2009. Dr. Patou has been a managing director of MPM Capital since 2005. He has served as chief medical officer of the following MPM Capital portfolio companies: Peplin, Ltd. (ASX: PLI), from July 2006 to April 2007 and from June 2008 to May 2009, Cerimon Pharmaceuticals, Inc., from June 2005 to June 2006, and Oscient Pharmaceuticals, Inc., from

February 2004 to April 2005. Dr. Patou currently spends part of his time as the acting chief executive officer of Cerimon Pharmaceuticals, Inc. From 2001 to 2004, he was president of Genesoft and from 1995 to 2000, Dr. Patou worked at SmithKline Beecham Pharmaceuticals, now a unit of GlaxoSmithKline (LSE: GSK), where he held positions of increasing responsibility including senior vice president and director, project and portfolio management. From 1991 to 1995, he held increasing senior, director level positions at Vernalis (LSE:VER), formerly British Biotechnology. He currently serves as a member of the board of directors of Xenon Pharmaceuticals, Inc. Dr. Patou has held a number of academic appointments at University College & Middlesex School of Medicine in London and holds an M.D. from University College, London.

William Lambert, Ph.D. has served as our senior vice president, pharmaceutical development since the Acquisition in March 2007. Dr. Lambert has served as senior vice president pharmaceutical development since he joined SkyePharma, Inc. in January 2006. From July 1997 until January 2006, Dr. Lambert held director positions at Eisai Inc., in drug delivery technology and pharmaceutical and analytical research and development, for almost ten years. Prior to Eisai, Dr. Lambert worked at Pfizer Inc. (NYSE: PFE) and The Upjohn Company (now Pfizer Inc.) as a research investigator with increasing levels of responsibility. Dr. Lambert is on the advisory council for the National Institute for Pharmaceutical Technology and Education, a U.S. Pharmacopeia Expert Committee, and on the advisory boards of the Journal of Pharmaceutical Sciences and the Handbook of Pharmaceutical Excipients. Dr. Lambert received his Ph.D. in pharmaceutics from the University of Utah and his B.S. in pharmacy from the University of Rhode Island.

Mark Walters has served as our senior vice president, technical operations since February 2008, and served as our vice president, business and commercial development since the Acquisition in March 2007. From January 2001 until March 2007, Mr. Walters was with SkyePharma, Inc. (LSE: SKP) serving as the vice president of business and commercial development and as director of both strategic sourcing and product management. From 1989 until 2001 Mr. Walters served in the positions of program director, project director and product director in the imaging and liquid ventilation areas for Alliance Pharmaceutical Corp. Mr. Walters received his B.A. in biology from Hamilton College.

Fred Middleton has served as our director since our inception in December 2006. Since 1987, he has been a general partner/managing director of Sanderling Ventures, a firm specializing in biomedical venture capital. From 1984 through 1986, he was the managing general partner of Morgan Stanley Ventures, an affiliate of Morgan Stanley & Co. Earlier in his career, Mr. Middleton was part of the of the founding management team at Genentech, Inc., a biotechnology company, serving there from 1978 through 1984 as vice president of finance and corporate development, and chief financial officer. During the last 30 years, he has participated in active management roles and as an investor and director in over 20 start-up biomedical companies. He currently serves as chairman of the board of Stereotaxis, Inc. (NASDAQ: STXS), a medical device company that markets magnetically guided robotic surgery systems in cardiology. He also currently serves as a board member of Cardionet, Inc. (NASDAQ: BEAT), a company that markets devices and services for wireless 24/7 real time monitoring of patients. He also serves as a director of seven other privately-held biomedical companies, engaged in the development of therapeutic and diagnostic products in healthcare. Mr. Middleton received a B.S. degree in chemistry from the Massachusetts Institute of Technology and an M.B.A. from Harvard Business School. We believe Mr. Middleton's qualifications to sit on our board of directors include his extensive experience with biopharmaceutical and biotechnology companies, his financial expertise and his years of experience providing strategic advisory services to diverse companies.

Luke Evnin, Ph.D. has served as our director since our inception in December 2006. Dr. Evnin has served as a general partner or managing director at MPM Capital since co-founding the firm in 1998. Prior to joining MPM, Dr. Evnin was at Accel Partners from 1990 to 1997 serving as general partner from 1994 to 1997. Dr. Evnin has served as director of several public companies, including Epix Medical, Inc. (NASDAQ: EPIX), Metabasis Therapeutics, Inc., Oscient Pharmaceuticals Company, Restore Medical, Inc., Otix Global, Inc. (NASDAQ: OTIX), formerly known as Sonic Innovations, Inc. and Signal Pharmaceuticals, Inc. and is currently or has been a director of several private healthcare companies in both the medical device and biopharmaceutical

sectors. Dr. Evnin earned his Ph.D. in biochemistry from the University of California, San Francisco and his A.B. in molecular biology from Princeton University. We believe Dr. Evnin's qualifications to sit on our board of directors include his extensive experience with biopharmaceutical and biotechnology companies, his financial expertise and his years of experience providing strategic advisory services to diverse companies.

Carl Gordon, Ph.D. has served as our director since our inception in December 2006. Dr. Gordon is a founding general partner of OrbiMed Advisors. Dr. Gordon is active in both private equity and small-capitalization public equity investments. Prior to founding OrbiMed Advisors in January 1998, Dr. Gordon was a senior biotechnology analyst at Mehta & Isaly from 1995 to 1997. He was a fellow at The Rockefeller University from 1993 to 1995. Dr. Gordon received a Ph.D. in molecular biology from the Massachusetts Institute of Technology where his doctoral work involved studies of protein folding and assembly. He received a B.S. from Harvard College. We believe Dr. Gordon's qualifications to sit on our board of directors include his extensive experience with biopharmaceutical and biotechnology companies, his financial expertise and his years of experience providing strategic advisory services to diverse companies.

John Longenecker, Ph.D. has served as our director since July 2007. From February 2002 to January 2009, Dr. Longenecker was the president and chief executive officer of Favrille, Inc. In 1992, Dr. Longenecker joined DepoTech as senior vice president of research, development and operations and then served as president and chief operating officer from February 1998 to March 1999. Under Dr. Longenecker's leadership, DepoTech took its lead product, DepoCyt(e), from early pre-clinical research and development through to commercial launch. Following SkyePharma PLC's acquisition of DepoTech in 1999, Dr. Longenecker served as president for the U.S. operations of SkyePharma, Inc. and as a member of the executive committee for SkyePharma PLC. From 1982 to 1992, Dr. Longenecker was at Scios Inc. (Cal Bio), a biotechnology company where he served as vice-president and director of development. Dr. Longenecker was also a director of a number of Cal Bio subsidiaries during this period including Meta Bio and Karo Bio. Dr. Longenecker holds a B.S. in chemistry from Purdue University and a Ph.D. in biochemistry from The Australian National University. He was a post doctoral fellow at Stanford University from 1980 to 1982. Dr. Longenecker's experience as the chief executive officer of a public company, demonstrates his leadership capability and extensive knowledge of complex financial and operational issues that public companies face and a thorough understanding of our business and industry and business acumen to our board of directors. We believe Dr. Longenecker's extensive experience in the pharmaceutical and biotechnology industries provides valuable background and insight to our board of directors.

Gary Pace, Ph.D. has served as our director since June 2008. He is currently founder and chairman of the privately held Sova Pharmaceuticals Inc., founded in 2010, founder, director and consultant to QRxPharma Ltd. (ASX:QRX) founded in 2001, a Director of ResMed (NYSE:RMD) since 1994 and Transition Therapeutics Inc. (CDNX:TTH) since 2002. From 2002 to 2007, Dr. Pace was founder, chairman and chief executive officer of QRxPharma Ltd. and from 1995 to 2001, he was president and chief executive officer of RTP Pharma and from 2000 to 2002, Dr. Pace was chairman and chief executive officer of Waratah Pharmaceuticals Inc., a spin-off company from RTP Pharma. From 1993 to 1994, he was the founding president and chief executive officer of Transcend Therapeutics Inc. (formerly Free Radical Sciences Inc.), a biopharmaceutical company. From 1989 to 1993, he was senior vice president of Clintec International, Inc., a Baxter/Nestle joint venture and manufacturer of clinical nutritional products. Dr. Pace holds a B.S. with honors from the University of New South Wales and a Ph.D. from Massachusetts Institute of Technology. We believe Dr. Pace's qualifications to sit on our board of directors include his financial expertise and his years of experience providing strategic advisory services to complex organizations, including as a public company director.

Andreas Wicki, Ph.D. has served as our director since our inception in December 2006. Dr. Wicki is a life sciences entrepreneur and investor with over 16 years of experience in the pharmaceutical and biotechnology industries. Dr. Wicki has been chief executive officer of HBM Partners AG and HBM BioVentures AG since 2001. From 1998 to 2001, Dr. Wicki was the senior vice president of the European Analytical Operations at MDS Inc. From 1990 to 1998, he was co-owner and chief executive officer of ANAWA Laboratorien AG and Clinserve AG, two life sciences contract research companies. Dr. Wicki holds an M.Sc. and Ph.D. in chemistry

and biochemistry from the University of Bern, Switzerland. He currently serves on the board of directors of Buchler GmbH, HBM BioPharma India Ltd., HBM BioVentures (Cayman) Ltd., HBM Partners Ltd. and PharmaSwiss SA. We believe Dr. Wicki's qualifications to sit on our board of directors include his extensive experience with pharmaceutical companies, his financial expertise and his years of experience providing strategic and advisory services to pharmaceutical and biotechnology organizations.

Family Relationships

There are no family relationships among any of our directors or executive officers.

Board Composition

Our board of directors currently consists of seven members, all of whom were elected as directors pursuant to a voting agreement that we have entered into with the holders of our Series A convertible preferred stock. The voting agreement will terminate upon the completion of this offering and there will be no further contractual obligations regarding the election of our directors. Our directors hold office until their successors have been elected and qualified or until the earlier of their resignation or removal.

In accordance with the terms of our restated certificate of incorporation and bylaws that will become effective upon the completion of this offering, our board of directors will be divided into three classes, class I, class II and class III, with each class serving staggered three-year terms. Upon the expiration of the term of a class of directors, directors in that class will be eligible to be elected for a new three-year term at the annual meeting of stockholders in the year in which their term expires.

Our restated certificate of incorporation and amended and restated bylaws that will become effective upon the completion of this offering provide that the authorized number of directors may be changed only by resolution of the board of directors. Our restated certificate of incorporation and amended and restated bylaws that will become effective upon the completion of this offering also provide that our directors may be removed only for cause by the affirmative vote of the holders of at least 75% of the votes that all our stockholders would be entitled to cast in an annual election of directors, and that any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may be filled only by vote of a majority of our directors then in office.

We have no formal policy regarding board diversity. Our priority in selection of board members is identification of members who will further the interests of our stockholders through his or her established record of professional accomplishment, the ability to contribute positively to the collaborative culture among board members, knowledge of our business and understanding of the competitive landscape.

Director Independence

Under The NASDAQ Marketplace Rules, a director will only qualify as an "independent director" if, in the opinion of our board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Our board of directors has determined that each of our directors, with the exception of David Stack, is an "independent director" as defined under Rule 5605(a)(2) of The NASDAQ Marketplace Rules. In making such independence determination, the board of directors considered the relationships that each such non-employee director has with us and all other facts and circumstances that the board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director. In considering the independence of the directors listed above, our board of directors considered the association of our directors with the holders of more than 5% of our common stock.

Board Committees

Our board of directors has established an audit committee, a compensation committee and, upon the completion of this offering, a nominating and corporate governance committee. Each of these committees will operate under a charter that has been approved by our board of directors.

Audit Committee

Upon completion of this offering, the members of our audit committee will be John Longenecker, Gary Pace and Carl Gordon, and Dr. Gordon will chair the audit committee. Our board of directors has determined that Dr. Longenecker and Dr. Pace, two of the three directors serving on our audit committee, are independent within the meaning of The NASDAQ Marketplace Rules and Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. In addition, our board of directors has determined that Dr. Gordon qualifies as an audit committee financial expert within the meaning of SEC regulations and The NASDAQ Marketplace Rules. In making this determination, our board has considered the formal education and nature and scope of his previous experience, coupled with past and present service on various audit committees. Our audit committee assists our board of directors in its oversight of our accounting and financial reporting process and the audits of our financial statements.

Upon the completion of this offering, our audit committee's responsibilities will include:

- appointing, evaluating, retaining and, when necessary, terminating the engagement of our independent registered public accounting firm;
- overseeing the independence of our independent registered public accounting firm, including obtaining and reviewing reports from the firm;
- setting the compensation of our independent registered public accounting firm;
- overseeing the work of our independent registered public accounting firm, including receiving and considering reports made by our independent registered public accounting firm regarding accounting policies and procedures, financial reporting and disclosure controls;
- reviewing and discussing with management and our independent registered public accounting firm our audited financial statements and related disclosures;
- preparing the annual audit committee report required by SEC rules;
- coordinating internal control over financial reporting, disclosure controls and procedures and code of conduct;
- reviewing our policies with respect to risk assessment and risk management;
- establishing procedures related to the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters;
- reviewing our policies and procedures for reviewing and approving or ratifying related person transactions, including our related person transaction policy; and
- meeting independently with management and our independent registered public accounting firm.

All audit services to be provided to us and all non-audit services, other than de minimis non-audit services, to be provided to us by our independent registered public accounting firm must be approved in advance by our audit committee.

Compensation Committee

Upon completion of this offering, the members of our compensation committee will be Luke Evnin, John Longenecker and Fred Middleton, and Dr. Longenecker will be the chair of the compensation committee. Our compensation committee assists our board of directors in the discharge of its responsibilities relating to the compensation of our executive officers. Upon the completion of the offering, our compensation committee's responsibilities will include:

- reviewing and recommending to the board of directors our chief executive officer's compensation, and approving the compensation of our other executive officers reporting directly to our chief executive officer;
- overseeing the evaluation of our senior executives;
- overseeing, administering, reviewing and making recommendations to the board of directors with respect to our incentive compensation and equity-based plans;
- reviewing and making recommendations to the board of directors with respect to director compensation;
- reviewing and discussing with management the compensation discussion and analysis required by SEC rules; and
- preparing the annual compensation committee report required by SEC rules.

Nominating and Corporate Governance Committee

Upon completion of this offering, the members of our nominating and corporate governance committee will be John Longenecker and Gary Pace, and Dr. Pace will be the chair of the nominating and corporate governance committee. Upon the completion of the offering, the nominating and corporate governance committee's responsibilities will include:

- recommending to the board of directors the persons to be nominated for election as directors or to fill any vacancies on the board of directors, and to be appointed to each of the board's committees;
- developing and recommending to the board of directors corporate governance guidelines; and
- overseeing an annual self-evaluation of the board of directors.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves, or in the past has served, as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who serve as members of our board of directors or our compensation committee. None of the members of our compensation committee is an officer or employee of our company. Other than John Longenecker, who was the president and chief operating officer of DepoTech, the predecessor to PPI-California, none of the members of our compensation committee have ever been an officer or employee of our company.

Code of Business Conduct and Ethics

Prior to the completion of this offering, we will adopt a written code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Following the completion of this offering, a current copy of the code will be posted on the Corporate Governance section of our website, which is located at www.pacira.com. If we make any substantive amendments to, or grant any waivers from, the code of business conduct and ethics for any officer or director, we will disclose the nature of such amendment or waiver on our website or in a current report on Form 8-K.

Board Leadership Structure and Board's Role in Risk Oversight

The positions of our chairman of the board and chief executive officer are separated. Separating these positions allows our chief executive officer to focus on our day-to-day business, while allowing the chairman of the board to lead the board of directors in its fundamental role of providing advice to and independent oversight of management. Our board of directors recognizes the time, effort and energy that the chief executive officer must devote to his position in the current business environment, as well as the commitment required to serve as our chairman, particularly as the board of directors' oversight responsibilities continue to grow. Our board of directors also believes that this structure ensures a greater role for the independent directors in the oversight of our company and active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of our board of directors. This leadership structure also is preferred by a significant number of our stockholders. Our board of directors believes its administration of its risk oversight function has not affected its leadership structure.

Although our bylaws that will be in effect upon the completion of this offering will not require our chairman and chief executive officer positions to be separate, our board of directors believes that having separate positions is the appropriate leadership structure for us at this time and demonstrates our commitment to good corporate governance.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including those described under "Risk Factors." Our board of directors is actively involved in oversight of risks that could affect us. This oversight is conducted primarily by our full board of directors, which has responsibility for general oversight of risks.

Following the completion of this offering, our board of directors will satisfy this responsibility through full reports by each committee chair regarding the committee's considerations and actions, as well as through regular reports directly from officers responsible for oversight of particular risks within our company. Our board of directors believes that full and open communication between management and the board of directors is essential for effective risk management and oversight.

Director Compensation

Non-Employee Director Compensation Policy

Our board of directors has approved a compensation policy for our non-employee directors that will become effective upon the completion of this offering. This policy provides for the following compensation to our non-employee directors following the completion of this offering:

- each non-employee director is entitled to receive an annual fee from us of $35,000 and an additional $25,000 fee if the non-employee director is the chairman of our board of directors;
- the chair of our audit committee will receive an annual fee from us of $15,000 and other members of our audit committee will receive $7,500;
- the chair of our compensation committee will receive an annual fee from us of $15,000 and other members of our compensation committee will receive $7,500;
- the chair of our nominating and corporate governance committee will receive an annual fee from us of $10,000 and other members will receive $5,000; and
- each non-employee director will be entitled to an annual grant of options to purchase 2,325 shares of our common stock under our 2007 Stock Option/Issuance Plan, or the 2007 Plan, or any other equity incentive plan we may adopt in the future.

In addition, certain of our non-employee directors received option grants to purchase 6,043 shares of our common stock and certain of our non-employee directors received option grants to purchase 4,649 shares of our common stock, each of which will begin vesting upon the effective date of the registration statement for this offering. Fifty percent of the shares underlying these options will vest on each anniversary of the completion of this offering, such that all of the shares underlying such options will have vested on the second anniversary of the completion of this offering. Upon a change in control of us, as defined in the 2007 Plan, 100% of the shares underlying these options shall become vested and exercisable immediately prior to such change in control.

Each non-employee director that joins our board of directors following the completion of this offering will also receive an initial option grant to purchase 6,043 shares of our common stock. Fifty percent of the shares underlying each of these options will vest each year on the anniversary of the grant date, such that all of the shares underlying such options will have vested on the second anniversary of the grant date. Upon a change in control of us, as defined in the 2007 Plan, 100% of the shares underlying these options shall become vested and exercisable immediately prior to such change in control.

All fees under the director compensation policy will be paid on a rolling annual basis and no per meeting fees will be paid. We will also reimburse non-employee directors for reasonable expenses incurred in connection with attending board of director and committee meetings.

Director Compensation Table - 2010

The following table sets forth a summary of the compensation earned by our directors for the year ended December 31, 2010, with the exception of Mr. Stack, whose compensation is included in the "Summary Compensation Table" below.

Name	Option Awards[1] ($)	Total ($)
Fred Middleton	10,464	10,464
Luke Evnin, Ph.D.	10,464	10,464
Carl Gordon, Ph.D.	10,464	10,464
John Longenecker, Ph.D.	18,614	18,614
Gary Pace, Ph.D.	18,745	18,745
Andreas Wicki, Ph.D.	—	—

(1) Represents the grant date fair value of option awards granted in 2010 in accordance with ASC Topic 718, or ASC 718, formerly Statement of Financial Accounting Standards No. 123(R). Our directors will only realize compensation to the extent the fair value of our common stock is greater than the exercise price of such stock options. For information regarding assumptions underlying the valuation of equity awards, see note 11 to our financial statements included elsewhere in this prospectus.

EXECUTIVE COMPENSATION

This section discusses the material elements of our executive compensation policies and decisions and the most important factors relevant to an analysis of these policies and decisions. It provides qualitative information regarding the manner and context in which compensation is awarded to and earned by our executive officers named in the "Summary Compensation Table," or our "named executive officers," and is intended to place in perspective the data presented in the tables and the narrative that follows.

In preparing to become a public company, we have begun a thorough review of all elements of our executive compensation program, including the function and design of our equity incentive programs. We have begun, and we expect to continue in the coming months, to evaluate the need for revisions to our executive compensation program to ensure our program is competitive with the companies with which we compete for executive talent and is appropriate for a public company.

Overview of our Executive Compensation Process

Roles of Our Board, Chief Executive Officer and Compensation Committee in Compensation Decisions. As a private company, our chief executive officer and compensation committee have historically overseen our executive compensation program. Our compensation committee, either as a committee or together with the other independent directors, makes all compensation decisions regarding our chief executive officer. Our chief executive officer may make recommendations to the compensation committee regarding the compensation of our executive officers other than the chief executive officer, but the compensation committee either makes all compensation decisions regarding our other executive officers or makes recommendations concerning executive compensation to our board of directors, with the independent directors making such decisions. In his role, our chief executive officer has reviewed all compensation decisions relating to our executive officers other than himself. He has annually reviewed the performance of each of our other executive officers, and, based on these reviews, has made recommendations to our compensation committee regarding salary adjustments, annual incentive bonus payments and equity incentive awards for our executive officers.

Competitive Market Data and Use of Compensation Consultants . Historically, we have not formally benchmarked our executive compensation against compensation data of a peer group of companies, but rather have relied on the business judgment and experience in the pharmaceutical industry of our chief executive officer and members of our compensation committee. We have developed substantial information about compensation practices and levels at comparable companies through extensive recruiting, networking and industry research. Our compensation committee may in the future elect to engage an independent compensation consulting firm to provide advice regarding our executive compensation program and general information regarding executive compensation practices in our industry. Although the compensation committee would consider such a compensation consulting firm's advice in establishing and approving the various elements of our executive compensation program, our chief executive officer and the compensation committee would ultimately make their own decisions, or make recommendations to our board of directors, about these matters.

Objectives and Philosophy of Our Executive Compensation Program . Our primary objective with respect to executive compensation is to attract, retain and motivate highly talented individuals who have the skills and experience to successfully execute our business strategy. Our executive compensation program is designed to:

- reward the achievement of our annual and long-term operating and strategic goals;
- recognize individual contributions;
- align the interests of our executives with those of our stockholders by rewarding performance that meets or exceeds established goals, with the ultimate objective of increasing stockholder value; and
- retain and build our executive management team.

To achieve these objectives, our executive compensation program ties a portion of each executive's overall compensation to key corporate financial goals and to individual goals. We have also provided a portion of our

executive compensation in the form of option awards that vest over time, which we believe helps to retain our executive officers and aligns their interests with those of our stockholders by allowing them to participate in our long-term performance as reflected in the trading price of shares of our common stock.

Elements of Our Executive Compensation Program. The primary elements of our executive compensation program are:

- base salaries;
- annual incentive bonuses;
- company sale bonus plan;
- equity incentive awards; and
- other employee benefits.

We have not adopted any formal or informal policies or guidelines for allocating compensation among these elements.

Base Salaries. We use competitive base salaries to attract and retain qualified candidates to help us achieve our growth and performance goals. Base salaries are intended to recognize an executive officer's immediate contribution to our organization, as well as his or her experience, knowledge and responsibilities.

Historically, our chief executive officer (with respect to executive officers other than himself) and our vice president, human resources have annually evaluated and recommended adjustments to executive officer base salary levels to our compensation committee or board of directors based on factors determined to be relevant, including:

- the executive officer's skills and experience;
- the particular importance of the executive officer's position to us;
- the executive officer's individual performance;
- the executive officer's growth in his or her position; and
- base salaries for comparable positions within our company and at other companies.

Our chief executive officer's base salary has been determined by the non-management members of our board of directors, taking into account these same factors.

We have historically made annual base salary adjustments at the end of each year, with the adjustments taking effect at the beginning of the following year. In 2010, we made no adjustments to the base salaries for our chief executive officer or any of our other named executive officers.

Following the completion of this offering, our compensation committee will perform such annual evaluations, and we expect that it will consider similar factors, as well as perhaps the input of a compensation consulting firm and peer group benchmarking data, in making any adjustments to executive officer base salary levels.

Annual Incentive Bonuses. In addition to the corporate goals described below, members of management, including each of our executive officers, were assigned personal achievement goals near the beginning of fiscal 2007. For our executive officers other than our chief executive officer, these individual goals were set by our chief executive officer in collaboration with our executive management team and the individual goals for our chief executive officer were set by our board of directors, taking into account discussions with our chief executive officer.

We do not currently have a formal annual incentive bonus program. The company did pay cash bonuses based on the achievement of approved operational milestones in 2007. The 2007 bonus program was targeted at

75% based on the achievement of corporate goals and 25% based on personal achievement goals. A total pool of $57,570 was shared equally between six executives. The compensation committee did not establish a formal annual incentive bonus program in 2009 or 2010 and we have not paid any bonuses based on corporate goals or personal achievement goals in 2009 or 2010. Although our 2009 and 2010 corporate goals were informal, they were focused on the achievement of certain objectives. In 2009, the objectives were (1) successful completion of additional Phase 3 clinical trials of EXPAREL and (2) obtaining additional financing. In 2010, the objectives were (1) filing our NDA for EXPAREL, (2) obtaining additional financing, (3) converting our current clinical manufacturing suite to a commercial manufacturing suite and (4) filing this registration statement. For 2009 and 2010, our compensation committee made the decision not to pay annual bonuses based on the need to manage expenses and allocate resources to our clinical development programs, and did not formally evaluate whether our 2009 or 2010 corporate goals had been achieved. We did not have additional individual performance goals for our executive officers in 2009 or 2010. Our compensation committee has the authority to award discretionary performance-based cash bonuses to our executive officers and certain non-executive employees. Our compensation committee considers awarding such discretionary bonuses in the event of extraordinary short-term efforts and achievements by our executives and employees, as recommended by management. No such discretionary bonuses were awarded in 2009 or 2010. We do expect that our compensation committee will establish a formal cash incentive program in the future, and that our executive officers will participate in that program.

Company Sale Bonus Plan. In March 2009, we adopted a company sale bonus plan, amended and restated in March 2010, that provides for a potential cash bonus payment to specified employees and consultants, including our executive officers, and our non-employee directors, in the event of a sale of our company. The purpose of the company sale bonus plan is to provide these employees, consultants and directors with an additional incentive in connection with a transaction that is in our and our stockholders' best interests, but which may otherwise create personal uncertainties. Under the company sale bonus plan, upon the closing of a sale transaction that satisfies specified criteria, each participant in the company sale plan would receive either a bonus in an amount equal to a portion of the sale proceeds multiplied by a specified percentage for that participant or a fixed bonus payment. As a condition to becoming participants under the plan, most of the participants, including all of our executive officers and non-employee directors, agreed to have their existing option grants cancelled. The participants in the bonus plan were determined by our board of directors. This bonus plan terminates upon the completion of this offering. As a condition to becoming a participant under the Company Sale Bonus Plan, most of the participants under the plan, including all of our executive officers and non-employee directors, agreed to have their existing option grants cancelled in March 2009.

Equity Incentive Compensation. We believe that our long-term performance is enhanced through equity awards. Equity awards reward executives and employees for maximizing stockholder value over time and align the interests of our employees and management with those of the stockholders. We granted stock options to our employees, including our named executive officers, in connection with their initial employment with us. In connection with the adoption of our company sale bonus plan, most of the participants under the plan, including all of our executive officers and non-employee directors, agreed to have their existing option grants cancelled. Subsequent to the cancellation, in September 2010, our board of directors granted new options to all of our employees, including our executive officers, and our non-employee directors, including options to purchase an aggregate of 809,390 shares of common stock to our named executive officers. The following table sets forth the number of shares underlying stock options granted to our named executive officers in September 2010:

Name	Number of Shares of Common Stock Underlying Stock Option
David Stack, Chief Executive Officer	441,655
James Scibetta, Chief Financial Officer	147,373
Gary Patou, Chief Medical Officer	118,084
Mark Walters, Senior Vice President	51,139
William Lambert, Senior Vice President	51,139

In December 2010, our board of directors granted options to all of our employees, including our named executive officers and our non-employee directors. Options to purchase an aggregate of 290,407 shares of common stock were granted to our named executive officers. The following table sets forth the number of shares underlying stock options granted to our named executive officers in December 2010:

Name	Number of Shares of Common Stock Underlying Stock Option
David Stack, Chief Executive Officer	158,466
James Scibetta, Chief Financial Officer	52,877
Gary Patou, Chief Medical Officer	42,368
Mark Walters, Senior Vice President	18,348
William Lambert, Senior Vice President	18,348

Equity Incentive Awards. Our equity incentive award program is the primary vehicle for offering long-term incentives to our executive officers. To date, equity incentive awards to our executive officers have been made in the form of stock options. We believe that equity incentive awards:

- provide our executive officers with a strong link to our long-term performance by enhancing their accountability for long-term decision making;
- create an ownership culture by aligning the interests of our executive officers with the creation of value for our stockholders; and
- further our goal of executive retention.

Employees who are considered important to our long-term success are eligible to receive equity incentive awards. Equity incentive awards have been granted to all of our current employees and certain of our non-employee directors. On September 2, 2010, we granted options to purchase an aggregate of 809,390 shares of common stock to our named executive officers. On December 29, 2010, we granted options to purchase an aggregate of 290,407 shares of common stock to our named executive officers.

Historically, all equity incentive awards granted to our executive officers have been approved by our board of directors, with input from our chief executive officer, our executive management team and our compensation committee. In determining the size of equity incentive awards to executive officers, our board and chief executive officer have generally considered the executive's experience, skills, level and scope of responsibilities, existing equity holdings, and comparisons to comparable positions in our company.

Our compensation committee has the authority to make equity awards to our executive officers and to administer our equity incentive plans.

We do not have any equity ownership guidelines or requirements for our executive officers.

Other Employee Benefits. We maintain broad-based benefits that are provided to all employees, including our 401(k) retirement plan, flexible spending accounts, medical and dental care plans, life insurance, short- and long-term disability policies, vacation and company holidays. Our executive officers are eligible to participate in each of these programs on the same terms as non-executive employees; however, employees at the director level and above are eligible for life insurance coverage equal to three times (rather than twice) their annual base salary.

Severance and Change of Control Arrangements. We have entered into employment agreements with David Stack, our chief executive officer, James Scibetta, our chief financial officer, Gary Patou, our chief medical officer, Mark Walters, our senior vice president, technical operations and William Lambert, our senior vice president, pharmaceutical development. Each of these agreements provides the executive officer with certain severance benefits in connection with certain terminations of the executive's employment or, in the case of Dr. Patou, consulting arrangement, both before and after a change of control of us. See "Executive Compensation—Employment Agreements, Severance and Change in Control Arrangements" below.

Risk Considerations in our Compensation Program. We have reviewed and evaluated the standards on which our compensation plans have been developed and implemented across our company. It is our belief that our compensation programs do not encourage inappropriate actions by our executive officers. Specifically, we believe that our compensation policies and practices avoid:

- a compensation mix overly weighted toward annual bonus awards;
- an excessive focus on stock option awards that would cause behavior to drive short-term stock price gains in lieu of long-term value creation; and
- unreasonable financial goals or thresholds that would encourage efforts to generate near-term revenue with an adverse impact on long-term success.

We believe that our current business process and planning cycle fosters the following behaviors and controls that would mitigate the potential for adverse risk caused by the action of our executives.

- Annual review of corporate and individual objectives of the executive officers to align these goals with our annual operating and strategic plans and do not encourage unnecessary or excessive risk taking.
- Incentive awards are based on a review of a variety of indicators, including both financial performance and strategic achievements, reducing the potential to concentrate on one indicator as the basis of an annual incentive award.
- The mixes between fixed and variable and cash and equity compensation are designed to encourage strategies and actions that are in our long-term best interests.
- Discretionary authority by the compensation committee to adjust annual bonus funding and payments reduces business risk associated with our cash bonus program.
- Stock option awards vest over a period of time. As a result of the longer time horizon to receive the value of a stock option award, the prospect of short-term or risky behavior is mitigated.

As a result, we do not believe that any risks arising from our employee compensation policies and practices are reasonably likely to have a material adverse effect on us. In addition, we do not believe that the mix and design of the components of our executive compensation program encourage management to assume excessive risks.

Tax Considerations. Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended, which we refer to as the Code, generally disallows a tax deduction for compensation in excess of $1.0 million paid by a public company to its chief executive officer and to each other officer (other than its chief financial officer) whose compensation is required to be reported to stockholders by reason of being among the three other most highly paid executive officers. Qualifying performance-based compensation is not subject to the deduction limitation if specified requirements are met. We will periodically review the potential consequences of Section 162(m) on the various elements of our executive compensation program, and we generally intend to structure the equity incentives component of our executive compensation program, where feasible, to comply with exemptions in Section 162(m) so that the compensation remains tax deductible to us. However, our board of directors or compensation committee may, in its judgment, authorize compensation payments that do not comply with the exemptions in Section 162(m) when it believes that such payments are appropriate to attract and retain executive talent.

Section 409A of the Code applies to plans, agreements and arrangements that provide for the deferral of compensation, and imposes penalty taxes on employees if those plans, agreements and arrangements do not comply with Section 409A. We have sought to structure our executive compensation arrangements to be exempt from, or comply with, Section 409A.

Summary Compensation Table

The following table sets forth information regarding compensation earned by our chief executive officer, our chief financial officer and each of our three other most highly compensated executive officers during our fiscal years ended December 31, 2009 and 2010. We refer to these individuals as our named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus [1] ($)	Option Awards [2] ($)	All Other Compensation [3] ($)	Total ($)
David Stack	2010	400,000	—	1,112,323	1,504	1,513,827
Chief Executive Officer	2009	400,000	—	—	1,504	401,504
James Scibetta	2010	270,000	—	370,735	1,504	642,239
Chief Financial Officer	2009	270,000	—	—	1,504	271,504
Gary Patou	2010	317,608	300,000	295,018	—	912,626
Chief Medical Officer [4]	2009	317,604	—	—	—	317,604
Mark Walters	2010	250,000	—	127,595	1,600	393,595
Senior Vice President	2009	250,000	—	—	1,600	251,600
William Lambert	2010	220,000	—	127,595	1,487	349,082
Senior Vice President	2009	220,000	—	—	1,483	221,483

(1) Represents a bonus paid to Dr. Patou upon the successful completion of the NDA submission for EXPAREL pursuant to the Services Agreement with MPM Asset Management LLC, or MPM AM, and Dr. Patou.

(2) Represents the grant date fair value of option awards granted in 2010 in accordance with ASC 718. Our named executive officers will only realize compensation to the extent the fair value of our common stock is greater than the exercise price of such stock options. For information regarding assumptions underlying the valuation of equity awards, see note 11 to our financial statements included elsewhere in this prospectus.

(3) Amounts represent the value of perquisites and other personal benefits which are further detailed in the table below:

Name	2009 Group Life Insurance ($)	2010 Group Life Insurance ($)
David Stack	1,504	1,504
James Scibetta	1,504	1,504
Gary Patou	—	—
Mark Walters	1,600	1,600
William Lambert	1,483	1,487

(4) Dr. Patou, a managing director at MPM, is a consultant to us and provided the services customarily expected of a chief medical officer. Pursuant to the Services Agreement with MPM AM and Dr. Patou, we paid a service fee of $26,467 per month to MPM AM for the services provided by Dr. Patou and MPM AM. For more information, see “Executive Compensation—Services Agreement with MPM and Gary Patou.”

Grants of Plan-Based Awards in 2010

The following table sets forth information for the year ended December 31, 2010 regarding grants of stock options made during 2010 to our named executive officers.

2010 Grants of Plan-Based Awards

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards [1]
David Stack	9/02/10	441,655	$ 1.61	$495,195
	12/29/10	158,466	5.49	617,128
James Scibetta	9/02/10	147,373	1.61	164,809
	12/29/10	52,877	5.49	205,926
Gary Patou	9/02/10	118,084	1.61	130,018
	12/29/10	42,368	5.49	165,001
Mark Walters	9/02/10	51,139	1.61	56,138
	12/29/10	18,348	5.49	71,457
William Lambert	9/02/10	51,139	1.61	56,138
	12/29/10	18,348	5.49	71,457

(1) Represents the grant date fair value of option awards granted in 2010 in accordance with ASC 718.

Outstanding Equity Awards at Year End

The following table sets forth certain information with respect to outstanding options held by our named executive officers at December 31, 2010.

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price ($)	Option Expiration Date
David Stack	104,602	81,358[1]	$1.61	9/2/20
	—	255,695[2]	1.61	9/2/20
	—	158,466[3]	5.49	12/29/20
James Scibetta	41,841	32,543[1]	1.61	9/2/20
	—	72,989[2]	1.61	9/2/20
	—	52,877[3]	5.49	12/29/20
Gary Patou	33,211	25,831[1]	1.61	9/2/20
	—	59,042[2]	1.61	9/2/20
	—	42,368[3]	5.49	12/29/20
Mark Walters	30,218	6,974[4]	1.61	9/2/20
	—	13,947[2]	1.61	9/2/20
	—	18,348[3]	5.49	12/29/20
William Lambert	30,218	6,974[4]	1.61	9/2/20
	—	13,947[2]	1.61	9/2/20
	—	18,348[3]	5.49	12/29/20

(1) This option vested with respect to 50% of the shares subject to the option on September 2, 2010 and with respect to the remaining shares in approximately equal successive monthly installments over the next 24 months provided that the named executive officer continues to provide services to us over such period.

(2) This option vests with respect to 25% of the shares subject to the option on September 2, 2011 and will vest in approximately equal successive monthly installments over the next 36 months provided that the named executive officer continues to provide services to us over such period.

(3) This option vests with respect to 25% of the shares subject to the option on December 29, 2011 and will vest in approximately equal successive monthly installments over the next 36 months provided that the named executive officer continues to provide services to us over such period.

(4) This option vested with respect to 75% of the shares subject to the option on September 2, 2010 and with respect to the remaining shares in approximately equal successive monthly installments over the next 12 months provided that the named executive officer continues to provide services to us over such period.

Option Exercises and Stock Vested

None of our named executive officers exercised any options during the year ended December 31, 2010.

Potential Payments Upon Termination or Change of Control

The tables below summarize the potential payments to each of our named executive officers if he were to be terminated without cause or resigned for good reason on December 31, 2010, the last business day of the fiscal year ended December 31, 2010, under the following circumstances.

	Not in Connection with a Change of Control			
Name	Cash Severance Payments ($)	Value of Continuation of Benefits ($)	Value of Stock Vesting Upon Termination ($) (1)	Total ($)
David Stack	400,000	9,305	894,375	1,303,680
James Scibetta	202,500	6,979	286,650	496,129
Gary Patou	238,206(2)	—	228,600(3)	466,806
Mark Walters	187,500	4,637	160,875	353,012
William Lambert	165,000	6,979	160,875	332,854

(1) This amount is equal to (i) the number of option shares that would vest as a direct result of the employment termination without cause or for good reason, assuming a December 31, 2010 employment termination, multiplied by (ii) the excess of fair market value of our common stock as of December 31, 2010, over the exercise price of the option. For a discussion of our methodology for determining the fair market value of our common stock, see the "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Use of Estimates—Stock Based Compensation."

(2) Pursuant to the Services Agreement with MPM AM and Dr. Patou, we are required to make certain payments to MPM in the case of a termination of the agreement. For more information, see "Executive Compensation—Services Agreement with MPM and Gary Patou."

(3) Pursuant to the Services Agreement with MPM AM and Dr. Patou, Dr. Patou is entitled to accelerated vesting of his options in the case of a termination of the agreement. For more information, see "Executive Compensation—Services Agreement with MPM and Gary Patou."

	30 days Prior to, or One Year After, a Change of Control			
Name	Cash Severance Payments ($)	Value of Continuation of Benefits ($)	Value of Stock Vesting Upon Termination ($)(1)	Total ($)
David Stack	400,000	9,305	1,710,000	2,119,305
James Scibetta	202,500	6,979	570,600	780,079
Gary Patou	238,206(2)	—	457,200(3)	695,406
Mark Walters	187,500	4,637	198,000	390,137
William Lambert	165,000	6,979	198,000	369,979

(1) This amount is equal to (i) the number of option shares that would vest as a direct result of the employment termination without cause or for good reason in connection with a change in control, assuming a December 31, 2010 employment termination, multiplied by (ii) the excess of fair market value of our common stock as of December 31, 2010, over the exercise price of the option. For a discussion of our methodology for determining the fair market value of our common stock, see the "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Use of Estimates—Stock Based Compensation."

(2) Pursuant to the Services Agreement with MPM AM and Dr. Patou, we are required to make certain payments to MPM in the case of a termination of the agreement. For more information, see "Executive Compensation—Services Agreement with MPM and Gary Patou."

(3) Pursuant to the Services Agreement with MPM AM and Dr. Patou, Dr. Patou is entitled to accelerated vesting of his options in the case of a termination of the agreement. For more information, see "Executive Compensation—Services Agreement with MPM and Gary Patou."

In addition, each of our named executive officers would be entitled to payments under our company sale bonus plan. See "Executive Compensation —Company Sale Bonus Plan" below.

Employment Agreements, Severance and Change in Control Arrangements

We entered into employment agreements with each of our named executive officers other than Gary Patou. The agreements with each of our named executive officers provide for "at will" employment which means we or the executive can terminate his or her employment at any time, with or without cause. Pursuant to the agreements, each of our named executive officers will be entitled to a base salary and certain benefits as previously described.

If any of our named executive officers, other than our chief executive officer, (i) is terminated for any reason other than for "cause," or (ii) terminates his or her employment for "good reason," then such executive officer will be entitled to:

- earned and accrued base salary, bonus, vacation time and other benefits;
- monthly salary continuation payments for a period of nine months from the effective date of the release required to be provided as a condition to receiving these payments;
- health insurance coverage, subject to cost sharing, for nine months following the effective date of the release required to be provided as a condition to receiving this coverage; and
- immediate vesting of the portion of the unvested options granted to him or her in connection with the agreement that would have become vested during the nine month period following the date of termination.

If our chief executive officer (i) is terminated for any reason other than for "cause," or (ii) terminates his employment for "good reason," then he will be entitled to:

- earned and accrued base salary, bonus, vacation time and other benefits;
- monthly salary continuation payments for a period of 12 months from the effective date of the release required to be provided as a condition to receiving these payments;
- health insurance coverage, subject to cost sharing, for 12 months following the effective date of the release required to be provided as a condition to receiving this coverage; and
- immediate vesting of the portion of the unvested options granted to him in connection with the agreement that would have become vested during the 12 month period.

If, within 30 days prior to, or 12 months following, a "change in control," any of our named executive officers, including our chief executive officer, (i) is terminated for any reason other than for "cause," or (ii) terminates his or her employment during the agreement term for "good reason," then, in addition to the severance payments described above, such executive officer will also be entitled to immediate vesting of the entire unvested portion of all equity compensation granted to him or her.

Our obligation to make the severance payments described above will be conditioned upon the executive officer's continued compliance with the non-competition and confidentiality obligations set forth in his or her employment agreement and the executive officer's execution of a general release of claims against us.

Under the employment agreements, "cause" means: (i) failure to substantially perform the duties owed to us after receiving written notice that sets forth in detail the specific respects in which our board of directors believes that the duties have not been substantially performed, and failure to correct the failure within 30 days after receiving a demand for substantial performance and opportunity to cure; (ii) fraud, misconduct, dishonesty, gross negligence or other acts either injurious to us or conducted with intentional disregard for our best interests;

(iii) failure to follow reasonable and lawful instructions from our board of directors and failure to cure such failure after receiving 20 days advance written notice; (iv) material breach of the terms of the employment agreement or our employee proprietary information and inventions assignment agreement or any other similar agreement that may be in effect from time to time; or (v) conviction of, or pleading guilty or nolo contendere to, any misdemeanor involving dishonesty or moral turpitude or related to our business, or any felony.

Under the employment agreements, "good reason" means, without the executive officer's prior written consent: (i) any material reduction of the executive officer's then effective base salary that is not in accordance with his employment agreement or related to a cross-executive team salary reduction; (ii) any material breach by us of the executive officer's employment agreement; or (iii) a material reduction in the executive officer's responsibilities or duties, not including a mere reassignment following a change of control to a position that is substantially similar to the position held prior to the change of control; provided, however, that no such event or condition shall constitute good reason unless (x) the executive officer gives us a written notice of termination for good reason not more than 90 days after the initial existence of the condition, (y) the grounds for termination (if susceptible to correction) are not corrected by us within 30 days of our receipt of such notice and (z) the termination date occurs within one (1) year following our receipt of such notice.

Under the employment agreements, a "change of control" means (i) a merger or consolidation of either us or PPI-California into another entity in which the stockholders of us or PPI-California (as applicable) do not control 50% or more of the total voting power of the surviving entity (other than a reincorporation merger); (ii) the sale, transfer or other disposition of all or substantially all of our assets in a liquidation or dissolution; or (iii) the sale or transfer of more than 50% of our outstanding voting stock. In the case of each of the foregoing clauses (i), (ii) and (iii), a change of control as a result of a financing transaction entered into by us or PPI-California shall not constitute a change of control for purposes of these agreements.

Services Agreement with MPM and Gary Patou

In March 2009, we entered into a services agreement with Dr. Patou and MPM Asset Management LLC, or MPM AM. Pursuant to the services agreement, Dr. Gary Patou provided the services to us customarily expected of a chief medical officer. Mr. Patou's principal duties were to manage and lead our clinical team as well as oversee development of protocols and clinical trials designed to provide a path for regulatory approval of EXPAREL. In March 2010, we amended and restated the services agreement to, among other things, extend the term of the services until the deadline for filing the NDA for EXPAREL to October 15, 2010 or until either party gives 10 days prior written notice. In consideration of the services performed under the services agreement, we paid a service fee of $26,467 per month to MPM AM. In addition, we paid a bonus to Dr. Patou upon the successful completion of an NDA submission for EXPAREL.

In October 2010, we entered into a new services agreement with Dr. Patou and MPM AM. Pursuant to this services agreement, Dr. Gary Patou continues to provide the services to us customarily expected of a chief medical officer. Dr. Patou's principal duties include obtaining approval for the EXPAREL NDA in the United States, filing the EXPAREL dossier in the European Union, developing additional clinical indications for EXPAREL and assisting with our product pipeline development. Under the new services agreement, we pay a service fee of $26,467 per month to MPM AM which is adjusted based on the total amount of time Dr. Patou devotes to us during the term of the services agreement. If we terminate our consulting relationship with Dr. Patou and MPM AM other than for "cause" or the consulting relationship is terminated by Dr. Patou and MPM AM for "good reason", then MPM AM will be entitled to continuation of the then effective monthly service fee for a period of nine months following the date of termination and Dr. Patou will be entitled to immediate vesting of the portion of the unvested options that would have vested during the nine month period following the date of termination, provided that the options granted to Dr. Patou in December 2010 are subject to additional vesting. In addition, if within 30 days prior to, or 12 months following, a "change of control," the consulting relationship is terminated other than for "cause" or for "good reason", then in addition to the service payments above, Dr. Patou will also be entitled to immediate vesting of the entire unvested portion of his stock options.

Stock Option and Other Compensation Plans

2007 Stock Option/Stock Issuance Plan

In January 2007, our board of directors approved our 2007 Stock Option/Stock Issuance Plan, or the 2007 Plan. The 2007 Plan was approved by our stockholders in June 2007.

We initially reserved 650,860 shares of our common stock for issuance under the 2007 Plan. In April 2008, our board of directors amended the 2007 Plan to, among other things, increase the number of authorized plan shares from 650,860 to 1,066,946 shares of our common stock. This increase was approved by our stockholders in May 2008. In September 2010, our board of directors further amended the 2007 Plan to increase the number of authorized plan shares from 1,066,946 to 1,729,498 shares of our common stock. This increase was approved by our stockholders in October 2010. In December 2010, our board of directors further amended the 2007 Plan to increase the number of authorized plan shares from 1,729,498 to 2,546,657 shares of our common stock. This increase was approved by our stockholders in December 2010.

The material terms of the 2007 Plan are summarized below. The 2007 Plan will be filed as an exhibit to the registration statement of which this prospectus is a part.

Administration. Our board of directors (or a committee of the board of directors) administers the 2007 Plan. Subject to the terms and conditions of the 2007 Plan, the administrator has the authority to select the persons to whom awards are to be made, to determine the type or types of awards to be granted to each person, determine the number of awards to grant, determine the number of shares to be subject to such awards, and the terms and conditions of such awards, and make all other determinations and decisions and to take all other actions necessary or advisable for the administration of the 2007 Plan. The plan administrator is also authorized to establish, adopt, amend or revise rules relating to administration of the 2007 Plan, subject to certain restrictions.

Eligibility. Options and restricted stock may be granted under the 2007 Plan to individuals who are then our employees, consultants or members of our board of directors or our subsidiaries. Only employees may be granted incentive stock options, or ISOs.

Awards. The 2007 Plan provides that our administrator may grant or issue stock options and restricted stock. The administrator considers each award grant subjectively, considering factors such as the individual performance of the recipient and the anticipated contribution of the recipient to the attainment of our long-term goals. Each award is set forth in a separate agreement with the person receiving the award and indicates the type, terms and conditions of the award.

- Non-qualified stock options, or NQSOs, provide for the right to purchase shares of our common stock at a specified price which may not be less than 85% of the fair market value of a share of stock on the date of grant, and usually will become exercisable (at the discretion of our compensation committee or the board of directors, in the case of awards to non-employee directors) in one or more installments after the grant date, subject to the participant's continued employment or service with us and/or subject to the satisfaction of performance targets established by our compensation committee (or the board of directors, in the case of awards to non-employee directors). NQSOs may be granted for any term specified by our compensation committee (or the board of directors, in the case of awards to non-employee directors), but the term may not exceed ten years.
- Incentive stock options, or ISOs, are designed to comply with the provisions of the Internal Revenue Code and are subject to specified restrictions contained in the Internal Revenue Code applicable to ISOs. Among such restrictions, ISOs must have an exercise price of not less than the fair market value of a share of common stock on the date of grant, may only be granted to employees, must expire within a specified period of time following the optionee's termination of employment, and must be exercised within ten years after the date of grant. In the case of an ISO granted to an individual who owns (or is deemed to own) more

than 10% of the total combined voting power of all classes of our capital stock on the date of grant, the 2007 Plan provides that the exercise price must be more than 110% of the fair market value of a share of common stock on the date of grant and the ISO must expire on the fifth anniversary of the date of its grant.

- Restricted stock may be granted to participants and made subject to such restrictions as may be determined by the administrator. Restricted stock may be repurchased by us at the original purchase price or, if no cash consideration was paid for such stock, forfeited for no consideration if the conditions or restrictions are not met, and the restricted stock may not be sold or otherwise transferred to third parties until restrictions are removed or expire. Recipients of restricted stock, unlike recipients of options, may have voting rights and may receive dividends, if any, prior to when the restrictions lapse.

Corporate Transactions. In the event of a change of control where the acquiror does not assume awards granted under the 2007 Plan, awards issued under the 2007 Plan may be subject to accelerated vesting (at the discretion of the plan administrator) such that 100% of the awards will become vested and exercisable or payable, as applicable, immediately prior to a change in control. Under the 2007 Plan, a change of control is generally defined as:

- a merger, consolidation or other reorganization approved by our stockholders, unless securities representing more than 50% of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned our outstanding voting securities immediately prior to such transaction;
- the acquisition, directly or indirectly by any person or related group of persons (other than us, our subsidiaries, or a person or entity that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, us), of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities possessing more than 50% of the total combined voting power of our outstanding securities pursuant to a tender or exchange offer made directly to our stockholders; or
- a stockholder-approved sale, transfer or other disposition of all or substantially all our assets in a complete liquidation or dissolution.

Amendment of the 2007 Plan. Our board of directors may amend or modify the 2007 Plan in any and all respects. However, stockholder approval of any amendment to the 2007 Plan must be obtained to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule, or for any amendment to the 2007 Plan that increases the number of shares available under the 2007 Plan. The administrator may, with the consent of the affected option holders, cancel any or all outstanding awards under the 2007 Plan and grant new awards in substitution. The 2007 Plan will terminate on the tenth anniversary of the date of its initial approval by our board of directors.

2011 Stock Incentive Plan

Our 2011 stock incentive plan, or the 2011 plan, which will become effective immediately prior to the completion of this offering, was adopted by our board of directors and approved by our stockholders in December 2010. The 2011 plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards and other stock-based awards. Upon effectiveness, the sum of (up to 2,546,657 shares) (x) the number of shares of our common stock reserved for issuance under the 2007 plan at such time, and (y) the number of shares of our common stock subject to awards granted under the 2007 plan that expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by us pursuant to a contractual repurchase right, will be reserved for issuance under the 2011 plan. In addition, the 2011 plan contains an “evergreen” provision, which allows for an increase in the number of shares available for issuance under the 2011 plan on the first day of each calendar year from 2012 through 2015. The annual increase in the number of shares shall be equal to the lesser of:

- 557,880 shares of our common stock;

- a number of shares equal to 3% of our outstanding shares as of such date; or
- an amount determined by our board of directors.

Our employees, officers, directors, consultants and advisors are eligible to receive awards under our 2011 plan. The 2011 plan permits the grant of options, stock appreciation rights (SARs), restricted stock, restricted stock units and other stock-based awards. The exercise price of all stock options granted under the 2011 plan cannot be less than 100% of the fair market value of the common stock on the date of grant. In general, stock options granted under the 2011 plan will have a term of up to ten years. The measurement (base) price of SARs granted under the 2011 plan cannot be less than 100% of the fair market value of the common stock on the date of grant. SARs will have a term of up to ten years.

The 2011 plan is administered by the board of directors or another committee designated by the board of directors. Subject to limitations specified in the plan, the board or applicable committee to whom authority is delegated will select the recipients of awards and determine:

- the number of shares of common stock covered by options and the dates upon which the options become exercisable;
- the exercise price of options;
- the duration of the options; and
- the number of shares of common stock subject to any SARs, restricted stock or other stock-based awards and the terms and conditions of such awards, including conditions for repurchase, issue price and repurchase price.

Upon a merger or other reorganization event, our board of directors, may, in its sole discretion, take any one or more of the following actions pursuant to the 2011 plan, as to some or all outstanding awards other than restricted stock awards:

- provide that all outstanding awards shall be assumed or substituted by the successor corporation;
- upon written notice to a participant, provide that the participant's unexercised options or awards will terminate immediately prior to the consummation of such transaction unless exercised by the participant;
- provide that outstanding awards will become exercisable, realizable or deliverable, or restrictions applicable to an award will lapse, in whole or in part, prior to or upon the reorganization event;
- in the event of a reorganization event pursuant to which holders of our common stock will receive a cash payment for each share surrendered in the reorganization event, make or provide for a cash payment to the participants equal to the excess, if any, of the acquisition price times the number of shares of our common stock subject to such outstanding awards (to the extent then exercisable (after giving effect to any acceleration of vesting) at prices not in excess of the acquisition price), over the aggregate exercise price of all such outstanding awards and any applicable tax withholdings, in exchange for the termination of such awards; and
- provide that, in connection with a liquidation or dissolution, awards convert into the right to receive liquidation proceeds.

Upon the occurrence of a reorganization event other than a liquidation or dissolution, the repurchase and other rights under each outstanding restricted stock award will continue for the benefit of the successor company and will, unless the board of directors may otherwise determine, apply to the cash, securities or other property into which our common stock is converted pursuant to the reorganization event. Upon the occurrence of a reorganization event involving a liquidation or dissolution, all conditions on each outstanding restricted stock award will automatically be deemed terminated or satisfied, unless otherwise provided in the agreement evidencing the restricted stock award.

No award may be granted under the 2011 plan after December 29, 2020. Our board of directors may amend, suspend or terminate the 2011 plan at any time, subject to stockholder approval to the extent required by applicable law or stock market requirements.

Company Sale Bonus Plan

In March 2009, we adopted a company sale bonus plan amended and restated in March 2010, that provides for a potential cash bonus payment to specified employees and consultants, including our executive officers, and our non-employee directors, in the event of a sale of our company. The purpose of the company sale bonus plan is to provide these employees and directors with an additional incentive in connection with a transaction that is in our and our stockholders' best interests, but which may otherwise create personal uncertainties. Under the company sale bonus plan, upon the closing of a sale transaction that satisfies specified criteria, each participant in the company sale bonus plan would receive either a bonus in an amount equal to a portion of the sale proceeds multiplied by a specified percentage for that participant or a fixed bonus payment. The participants in the bonus plan were determined by our board of directors. This bonus plan terminates upon the completion of this offering. As a condition to becoming participants under the plan, most of the participants, including all of our executive officers and non-employee directors, agreed to have their existing option grants cancelled.

401(k) Retirement Plan

We maintain a 401(k) retirement plan that is intended to be a tax-qualified defined contribution plan under Section 401(k) of the Internal Revenue Code. In general, all of our employees are eligible to participate, beginning on the first day of the month following commencement of their employment. The 401(k) plan includes a salary deferral arrangement pursuant to which participants may elect to reduce their current compensation by up to the statutorily prescribed limit, equal to $16,500 in 2009, and have the amount of the reduction contributed to the 401(k) plan.

Limitation of Liability and Indemnification

As permitted by Delaware law, our restated certificate of incorporation and restated bylaws, which will become effective upon the completion of this offering, limit or eliminate the personal liability of our directors. Our restated certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breaches of their fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock repurchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations do not apply to liabilities arising under federal securities laws and do not affect the availability of equitable remedies, including injunctive relief or rescission. If Delaware law is amended to authorize the further elimination or limiting of director liability, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law as so amended.

As permitted by Delaware law, our restated certificate of incorporation and restated bylaws that will become effective upon the completion of this offering also provide that:

- we will indemnify our directors and officers to the fullest extent permitted by law;

- we may indemnify our other employees and other agents to the same extent that we indemnify our officers and directors, unless otherwise determined by the board of directors; and
- we will advance expenses to our directors and executive officers in connection with legal proceedings to the fullest extent permitted by law.

The indemnification provisions contained in our restated certificate of incorporation and restated bylaws that will become effective upon the completion of this offering are not exclusive.

In addition to the indemnification provided for in our restated certificate of incorporation and restated bylaws, prior to completion of this offering we intend to enter into indemnification agreements with each of our directors and executive officers. Each indemnification agreement will provide that we will indemnify the director or executive officer to the fullest extent permitted by law for claims arising in his or her capacity as our director, officer, employee or agent, provided that he or she acted in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, our best interests and, with respect to any criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful. In the event that we do not assume the defense of a claim against a director or executive officer, we are required to advance his or her expenses in connection with his or her defense, provided that he or she undertakes to repay all amounts advanced if it is ultimately determined that he or she is not entitled to be indemnified by us.

We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling our company pursuant to the foregoing provisions, the opinion of the SEC is that such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

In addition, we maintain standard policies of insurance under which coverage is provided to our directors and officers against losses rising from claims made by reason of breach of duty or other wrongful act, and to us with respect to payments which may be made by us to such directors and officers pursuant to the above indemnification provisions or otherwise as a matter of law.

Rule 10b5-1 Sales Plans

Prior to the completion of this offering, our directors and executive officers may adopt written plans, known as Rule 10b5-1 plans, in which they will contract with a broker to buy or sell shares of our common stock on a periodic basis. Under a Rule 10b5-1 plan, a broker executes trades pursuant to parameters established by the director or executive officer when entering into the plan, without further direction from the director or executive officer. The director or executive officer may amend or terminate the plan in some circumstances. Our directors and executive officers may also buy or sell additional shares outside of a Rule 10b5-1 plan when they are not in possession of material, nonpublic information.

RELATED PERSON TRANSACTIONS

The following is a description of transactions since inception to which we have been a party, in which the amount involved in the transaction exceeds $120,000, and in which any of our directors, executive officers or beneficial owners of more than 5% of our voting securities, or affiliates or immediate family members of any of our directors, executive officers or beneficial owners of more than 5% of our voting securities, had or will have a direct or indirect material interest. We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, from unrelated third parties.

Debt Financings

2009 Convertible Note Financing

In January 2009, we sold $10.63 million in aggregate principal amount of convertible promissory notes, or the 2009 Convertible Notes, in a private placement to certain of our existing investors. In connection with the issuance of the 2009 Convertible Notes, we issued warrants to purchase an aggregate of 158,061 shares of our common stock with an exercise price of $2.69 per share. The 2009 Convertible Notes have an interest rate of 5% per year and all principal and accrued and unpaid interest on the 2009 Convertible Notes was due on December 31, 2010. In connection with entering into the Hercules Credit Facility, the maturity date was extended to the earliest of (1) a sale of us, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated. In connection with entering into the Hercules Credit Facility, the holders of the 2009 Convertible Notes entered into a subordination and intercreditor agreement with the lenders under the Hercules Credit Facility pursuant to which the 2009 Convertible Notes were subordinated to the Hercules Credit Facility. The holders of the 2009 Convertible Notes previously entered into a separate intercreditor agreement with the holders of the 2009 Secured Notes and the 2010 Secured Notes pursuant to which the 2009 Convertible Notes were subordinated to the 2009 Secured Notes and the 2010 Secured Notes, and the holders of the 2009 Secured Notes agreed to share payments pro rata with the holders of the 2010 Secured Notes.

All principal and interest due under the 2009 Convertible Notes will be converted into 871,635 shares of our common stock upon completion of this offering.

Purchasers of the 2009 Convertible Notes included certain holders of more than 5% of our capital stock, or entities affiliated with them. The following table sets forth the aggregate principal amount of 2009 Convertible Notes purchased by each such holder and the warrants received in connection with the purchase of the 2009 Convertible Notes.

Purchaser	Aggregate Principal Amount of Notes	Number of Warrant Shares
HBM BioVentures	$ 2,500,000	37,192
Entities affiliated with MPM Capital	2,500,000	37,190
Entities affiliated with OrbiMed Advisors	2,500,000	37,191
Entities affiliated with Sanderling Ventures	2,500,000	37,190

2009 Secured Debt Financing

In June 2009, we entered into an agreement with certain of our existing investors to issue $10.63 million in aggregate principal amount of secured notes, or the 2009 Secured Notes. To secure the performance of our obligations under the purchase agreement for the 2009 Secured Notes, we granted a security interest in substantially all of our assets, including our intellectual property assets, except the assets that secure our obligations under our agreement with Paul Capital. In connection with entering into the Hercules Credit Facility, the holders of the 2009 Secured Notes entered into a subordination and intercreditor agreement with the lenders

under the Hercules Credit Facility pursuant to which the 2009 Secured Notes were subordinated to the Hercules Credit Facility. The holders of the 2009 Secured Notes previously entered into a separate intercreditor agreement with the holders of the 2009 Convertible Notes and the 2010 Secured Notes pursuant to which the 2009 Convertible Notes were subordinated to the 2009 Secured Notes and the 2010 Secured Notes, and the holders of the 2009 Secured Notes agreed to share payments pro rata with the holders of the 2010 Secured Notes.

The 2009 Secured Notes have an interest rate of 12% per year and all principal and accrued and unpaid interest on the 2009 Secured Notes was due on December 31, 2010. In connection with entering into the Hercules Credit Facility, the maturity date was extended to the earliest of (1) a sale of the Company, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated.

All principal and interest due under the 2009 Secured Notes will be converted into 927,881 shares of our common stock upon completion of this offering. Purchasers of the 2009 Secured Notes included certain holders of more than 5% of our capital stock, or entities affiliated with them. The following table sets forth the amount of notes purchased by each such holder and the date of purchase:

Date of Purchase	Purchaser	Aggregate Principal Amount of Notes Purchased on Such Date
August 4, 2009	Entities affiliated with HBM BioVentures	$ 988,235
	Entities affiliated with MPM Capital	988,235
	Entities affiliated with OrbiMed Advisors	988,235
	Entities affiliated with Sanderling Ventures	988,235
September 1, 2009	Entities affiliated with HBM BioVentures	988,235
	Entities affiliated with MPM Capital	988,235
	Entities affiliated with OrbiMed Advisors	988,235
	Entities affiliated with Sanderling Ventures	988,235
October 22, 2009	Entities affiliated with HBM BioVentures	523,529
	Entities affiliated with MPM Capital	523,529
	Entities affiliated with OrbiMed Advisors	523,529
	Entities affiliated with Sanderling Ventures	523,529

2010 Secured Debt Financing

In March 2010, we entered into an agreement with certain of our existing investors to issue $15.0 million in aggregate principal amount of secured notes, or the 2010 Secured Notes, in a private placement and the investors purchased the entire $15.0 million of 2010 Secured Notes. To secure the performance of our obligations under the purchase agreement for the 2010 Secured Notes, we granted a subordinated security interest in substantially all of our assets, including our intellectual property assets, to the investors. In connection with entering into the Hercules Credit Facility, the holders of the 2010 Secured Notes entered into a subordination and intercreditor agreement with the lenders under the Hercules Credit Facility pursuant to which the 2010 Secured Notes were subordinated to the Hercules Credit Facility. The holders of the 2010 Secured Notes previously entered into a separate intercreditor agreement with the holders of the 2009 Convertible Notes and the 2009 Secured Notes pursuant to which the 2009 Convertible Notes were subordinated to the 2010 Secured Notes and the 2009 Secured Notes, and the holders of the 2010 Secured Notes agreed to share payments pro rata with the holders of the 2009 Secured Notes.

The 2010 Secured Notes have an interest rate of 5% per year and all principal and accrued and unpaid interest on the 2010 Secured Notes was due on December 31, 2010. In connection with entering into the Hercules Credit Facility, the maturity date was further extended to the earliest of (1) a sale of the Company, (2) the date

which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated.

All principal and interest due under the 2010 Secured Notes will be converted into 1,156,606 shares of our common stock upon completion of this offering. Purchasers of the 2010 Secured Notes included certain holders of more than 5% of our capital stock, or entities affiliated with them. The following table sets forth the amount of notes purchased by each such holder and the date of purchase.

Date of Purchase	Purchaser	Aggregate Principal Amount of Notes Purchased on Such Date
March 10, 2010	Entities affiliated with HBM BioVentures	$ 1,875,000
	Entities affiliated with MPM Capital	1,875,000
	Entities affiliated with OrbiMed Advisors	1,875,000
	Entities affiliated with Sanderling Ventures	1,875,000
June 30, 2010	Entities affiliated with HBM BioVentures	937,500
	Entities affiliated with MPM Capital	937,500
	Entities affiliated with OrbiMed Advisors	937,500
	Entities affiliated with Sanderling Ventures	937,500
September 1, 2010	Entities affiliated with HBM BioVentures	937,500
	Entities affiliated with MPM Capital	937,500
	Entities affiliated with OrbiMed Advisors	937,500
	Entities affiliated with Sanderling Ventures	937,500

HBM Term Loan

On April 30, 2010, we entered into a subordinated secured note purchase agreement with entities affiliated with HBM BioVentures, or HBM, to issue $3.75 million in aggregate principal amount of secured notes, or the HBM Secured Notes, in a private placement. HBM purchased the entire $3.75 million of the HBM Secured Notes. To secure the performance of our obligations under the purchase agreement for the HBM Secured Notes, we granted a subordinated security interest in substantially all of our assets, including our intellectual property assets, other than the assets that secure our obligations under the Amended and Restated Royalty Interests Assignment Agreement. The HBM Secured Notes carry an interest rate of approximately 10% per year. In addition, the HBM Secured Notes require a final payment fee if they are prepaid prior to the maturity date. The maturity date of the HBM Secured Notes is the earliest of (1) a sale of the Company, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated. In connection with entering into the Hercules Credit Facility, the holders of the HBM Secured Notes entered into a subordination and intercreditor agreement with the lenders under the Hercules Credit Facility pursuant to which the HBM Secured Notes were subordinated to the Hercules Credit Facility.

All principal and interest due under the HBM Secured Notes will be converted into 308,655 shares of our common stock upon completion of this offering. Purchasers of the HBM Secured Notes included certain holders of more than 5% of our capital stock, or entities affiliated with them.

December 2010 Convertible Notes

On December 29, 2010, we sold $15.0 million in aggregate principal amount of convertible promissory notes, or the December 2010 Convertible Notes, in a private placement to certain of our existing investors. 50% of the principal amount was funded on December 29, 2010. The remaining 50% of the principal amount will be

funded in a second closing to occur upon written request of holders of at least 75% of the outstanding principal amount of the December 2010 Convertible Notes on or before the earlier of the completion of this offering or March 31, 2011. In connection with the issuance and sale of the December 2010 Convertible Notes, we issued warrants to the holders of the December 2010 Convertible Notes to purchase an aggregate of 167,361 shares of our common stock with an exercise price of $13.44 per share. Pursuant to the terms of the agreement for the issuance and sale of the December 2010 Convertible Notes, in the event a second closing of the issuance and sale of the December 2010 Convertible Notes occurs, we will issue warrants to the holders of the December 2010 Convertible Notes to purchase an additional 167,361 shares of our common stock with an exercise price of $13.44 per share. The December 2010 Convertible Notes will have an interest rate of 5% per year from and after March 31, 2011 and all principal and accrued and unpaid interest on the December 2010 Convertible Notes is due and payable upon the earliest of: (1) a sale of us, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated.

Upon completion of this offering, all principal and interest due under the December 2010 Convertible Notes will be converted into shares of our common stock at a conversion price equal to the price per share of common stock sold in this offering. Purchasers of the December 2010 Convertible Notes included certain holders of more than 5% of our capital stock, or entities affiliated with them.

The following table sets forth the aggregate principal amount of December 2010 Convertible Notes purchased by each such holder and the warrants received in connection with the purchase of the December 2010 Convertible Notes, assuming that a second closing is not consummated.

Purchaser	Aggregate Principal Amount of Notes	Number of Warrant Shares
HBM BioVentures	$ 1,875,000	41,841
Entities affiliated with MPM Capital	$ 1,875,000	41,840
Entities affiliated with OrbiMed Advisors	$ 1,875,000	41,840
Entities affiliated with Sanderling Ventures	$ 1,875,000	41,840

Stockholder Guarantee under Hercules Credit Facility

On November 24, 2010, we entered into a $26.25 million credit facility with Hercules Technology Growth Capital, Inc. and Hercules Technology III, L.P., as lenders, or the Hercules Credit Facility. We borrowed under the Hercules Credit Facility an aggregate principal amount of $26.25 million.

The Hercules Credit Facility is guaranteed by MPM Capital, Sanderling Ventures and Orbimed Advisors, and entities affiliated with them, which are holders of more than 5% of our voting securities, on a several and not joint basis, which guarantee is limited to each such stockholder's pro rata portion of the outstanding principal and accrued and unpaid interest under the Hercules Credit Facility, but in no event to exceed $11.25 million in the aggregate. The obligations of these stockholders under the guarantee is not triggered until the earlier to occur of (i) 30 days after written notice from the agent that our obligations under the Hercules Credit Facility have been accelerated, and (ii) the occurrence of a bankruptcy or insolvency event with respect to the borrower under the Hercules Credit Facility, us or any of the guarantors. The guarantee by these stockholders of the Hercules Credit Facility also includes covenants that require each such investor to maintain at all times unfunded commitments from its fund investors in an amount equal to at least one and one-half times the maximum amount that the investor may be obligated for under the stockholder guarantee, and also includes certain control requirements with respect to such stockholders. The guarantee by these stockholders of the Hercules Credit Facility replaced the guarantee under the GECC Credit Facility which was terminated in November 2010.

Preferred Stock Issuances

In March 2007, we entered into a Series A Preferred Stock Purchase Agreement pursuant to which we issued and sold to investors an aggregate of 6,322,640 shares of Series A convertible preferred stock in four separate closings held in March 2007, February 2008, July 2008 and October 2008, at a purchase price of $13.44 per share. The aggregate consideration for the Series A convertible preferred stock was $85 million in cash.

The following table sets forth the shares of our Series A convertible preferred stock issued to our directors, officers or holders of more than 5% of our common stock and their affiliates:

Investor	Shares of Series A Convertible Preferred Stock
Entities affiliated with MPM Capital (1)	1,487,680
Entities affiliated with Sanderling Ventures (2)	1,487,680
Entities affiliated with OrbiMed Advisors (3)	1,487,680
Entities affiliated with HBM BioVentures (4)	1,487,680

(1) Consists of (i) 1,394,315 shares of Series A convertible preferred stock held by MPM BioVentures IV-QP, L.P., (ii) 53,717 shares of Series A convertible preferred stock held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, and (iii) 39,648 shares of Series A convertible preferred stock held by MPM Asset Management Investors BV4 LLC. Dr. Patou is a managing director of MPM Asset Management LLC. MPM Asset Management LLC is the management company of MPM BioVentures IV LLC. MPM BioVentures IV LLC is the managing member of MPM BioVentures IV GP LLC, which is the general partner of MPM BioVentures IV-QP, L.P. and the managing limited partner of MPM BioVentures IV GmbH & Co. Beteiligungs KG. MPM BioVentures IV LLC is the manager of MPM Asset Management Investors BV4 LLC. Dr. Evnin is a member of MPM BioVentures IV LLC. Dr. Evnin has a shared power to vote, acquire, hold and dispose of all shares and warrants. Dr. Evnin disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein.

(2) Consists of (i) 736,583 shares of Series A convertible preferred stock held by Sanderling Venture Partners VI, L.P.; (ii) 24,871 shares of Series A convertible preferred stock held by Sanderling VI Beteiligungs GmbH & Co. KG, (iii) 29,634 shares of Series A convertible preferred stock held by Sanderling VI Limited Partnership, (iv) 681,715 shares of Series A convertible preferred stock held by Sanderling Venture Partners VI Co-Investment Fund, L.P., and (v) 14,877 shares of Series A convertible preferred stock held by Sanderling Ventures Management VI. Mr. Middleton is a managing director of Middleton, McNeil, Mills & Associates VI, LLC, which has the ultimate voting and investment power over shares held of record by Sanderling Venture Partners VI, L.P., Sanderling VI Beteiligungs GmbH & Co. KG, Sanderling VI Limited Partnership and Sanderling Venture Partners VI Co-Investment Fund, L.P. and he may be deemed to have voting and investment power over shares held of record by Sanderling Venture Partners VI, L.P., Sanderling VI Beteiligungs GmbH & Co. KG, Sanderling VI Limited Partnership and Sanderling Venture Partners VI Co-Investment Fund, L.P. Mr. Middleton is the owner of Sanderling Ventures Management VI and he may be deemed to have voting and investment power over shares held of record by Sanderling Ventures Management VI. Mr. Middleton disclaims beneficial ownership over the shares held by Sanderling Ventures and its affiliates, except to the extent of his pecuniary interest therein.

(3) Consists of (i) 1,473,645 shares of Series A convertible preferred stock held by OrbiMed Private Investments III, LP, and (ii) 14,035 shares of Series A convertible preferred stock held by OrbiMed Associates III, LP. OrbiMed Capital GP III LLC is the general partner of OrbiMed Private Investments III, LP and OrbiMed Advisors LLC is the managing member of OrbiMed Capital GP III LLC. OrbiMed Advisors LLC is also the general partner of OrbiMed Associates III, LP. Samuel D. Isaly is the managing member of and owner of a controlling interest in OrbiMed Advisors LLC and may be deemed to have voting and investment power over the shares held by OrbiMed Private Investments III, LP and OrbiMed Associates III, LP noted above. Mr. Isaly disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. Dr. Gordon, a member of our board of directors, is an affiliate of the above-mentioned funds.

(4) Consists of 1,487,680 shares of Series A convertible preferred stock held by HBM BioVentures (Cayman) Ltd. The board of directors of HBM BioVentures (Cayman) Ltd. has sole voting and investment power with respect to the shares held by such entity and acts by majority vote. The board of directors of HBM BioVentures (Cayman) Ltd. is comprised of John Arnold, Richard Coles, Sophia Harris, Dr. Andreas Wicki and John Urquhart, none of whom has individual voting or investment power with respect to such shares.

Common Stock Issuances

In connection with our formation, we issued an aggregate of 464,900 shares of common stock for total aggregate consideration of $50,000. The following table sets forth the aggregate number of shares of common stock acquired by our directors, executive officers or holders of more than 5% of our common stock and their affiliates:

Investor	Shares of Common Stock
Entities affiliated with Sanderling Ventures (1)	185,960
Entities affiliated with MPM Capital (2)	92,980
Entities affiliated with OrbiMed Advisors (3)	92,980
Entities affiliated with HBM BioVenture (4)	92,980

(1) Consists of (i) 125,800 shares of common stock held by Sanderling Venture Partners VI, L.P.; (ii) 1,995 shares of common stock held by Sanderling VI Beteiligungs GmbH & Co. KG, (iii) 2,377 shares of common stock held by Sanderling VI Limited Partnership, and (iv) 55,788 shares of common stock held by Sanderling Ventures Management VI. Mr. Middleton is a managing director of Middleton, McNeil, Mills & Associates VI, LLC, which has the ultimate voting and investment power over shares held of record by Sanderling Venture Partners VI, L.P., Sanderling VI Beteiligungs GmbH & Co. KG, and Sanderling VI Limited Partnership and he may be deemed to have voting and investment power over shares held of record by Sanderling Venture Partners VI, L.P., Sanderling VI Beteiligungs GmbH & Co. KG, and Sanderling VI Limited Partnership. Mr. Middleton is the owner of Sanderling Ventures Management VI and he may be deemed to have voting and investment power over shares held of record by Sanderling Ventures Management VI. Mr. Middleton disclaims beneficial ownership over the shares held by Sanderling Ventures and its affiliates, except to the extent of his pecuniary interest therein.

(2) Consists of (i) 87,144 shares of common stock held by MPM BioVentures IV-QP, L.P., (ii) 3,357 shares of common stock held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, and (iii) 2,479 shares of common stock held by MPM Asset Management Investors BV4 LLC. Dr. Patou is a managing director of MPM Asset Management LLC. MPM Asset Management LLC is the management company of MPM BioVentures IV LLC. MPM BioVentures IV LLC is the managing member of MPM BioVentures IV GP LLC, which is the general partner of MPM BioVentures IV-QP, L.P. and the managing limited partner of MPM BioVentures IV GmbH & Co. Beteiligungs KG. MPM BioVentures IV LLC is the manager of MPM Asset Management Investors BV4 LLC. Dr. Evnin is a member of MPM BioVentures IV LLC. Dr. Evnin has a shared power to vote, acquire, hold and dispose of all shares and warrants. Dr. Evnin disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein.

(3) Consists of (i) 92,103 shares of common stock held by OrbiMed Private Investments III, LP, and (ii) 877 shares of common stock held by OrbiMed Associates III, LP. OrbiMed Capital GP III LLC is the general partner of OrbiMed Private Investments III, LP and OrbiMed Advisors LLC is the managing member of OrbiMed Capital GP III LLC. OrbiMed Advisors LLC is also the general partner of OrbiMed Associates III, LP. Samuel D. Isaly is the managing member of and owner of a controlling interest in OrbiMed Advisors LLC and may be deemed to have voting and investment power over the shares held by OrbiMed Private Investments III, LP and OrbiMed Associates III, LP noted above. Mr. Isaly disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. Dr. Gordon, a member of our board of directors, is an affiliate of the above-mentioned funds.

(4) Consists of 92,980 shares of common stock held by HBM BioVentures (Cayman) Ltd. The board of directors of HBM BioVentures (Cayman) Ltd. has sole voting and investment power with respect to the shares held by such entity and acts by majority vote. The board of directors of HBM BioVentures (Cayman) Ltd. is comprised of John Arnold, Richard Coles, Sophia Harris, Dr. Andreas Wicki and John Urquhart, none of whom has individual voting or investment power with respect to such shares.

Investors' Rights Agreement

In March 2007, we entered into an investors' rights agreement with purchasers of our Series A convertible preferred stock. This agreement provides the purchasers of our Series A convertible preferred stock with certain rights relating to the registration of their shares of common stock issuable upon conversion of their Series A convertible preferred stock, a right of first offer to purchase future securities sold by us and certain additional covenants made by us. Except for the registration rights, all rights under this agreement will terminate upon completion of this offering. The registration rights will continue following the completion of this offering and will terminate five years following the completion of this offering, or for any particular holder with registration rights, at such time following the completion of this offering when all securities held by that stockholder may be sold pursuant to Rule 144 under the Securities Act. All holders of our Series A convertible preferred stock are parties to this agreement. See "Description of Capital Stock—Registration Rights" for additional information.

Voting Agreement

In March 2007, we entered into a voting agreement with certain of our stockholders. Pursuant to the voting agreement the following directors were each elected to serve as members on our board of directors and, as of the date of this prospectus, continue to so serve: Luke Evnin, Carl Gordon, John Longenecker, Fred Middleton, Gary Pace, David Stack and Andreas Wicki. Pursuant to the voting agreement, Mr. Stack, as our chief executive officer, was initially selected to serve on our board of directors as a "CEO director." Messrs. Evnin, Gordon, Middleton, and Wicki were initially selected to serve on our board of directors as representatives of our Series A convertible preferred stockholders, as designated by MPM Capital, OrbiMed Advisors, Sanderling Ventures and HBM BioVentures, respectively.

The voting agreement will terminate upon completion of this offering, and members previously elected to our board of directors pursuant to this agreement will continue to serve as directors until they resign, are removed or their successors are duly elected by holders of our common stock. The composition of our board of directors after this offering is described in more detail under "Management—Board Composition."

Employment Agreements

We entered into employment agreements with the following executive officers and key employees: David Stack, our chief executive officer, James Scibetta, our chief financial officer, Mark Walters, our senior vice president, technical operations, William Lambert, our senior vice president, pharmaceutical development. For further information, see "Executive Compensation—Employment Agreements, Severance and Change in Control Arrangements."

Services Agreements

We entered into a services agreement with Gary Patou, our chief medical officer, and MPM AM. For further information, see "Executive Compensation —Services Agreement with MPM and Gary Patou."

In addition to the amounts paid to Gary Patou, MPM AM provides clinical management and subscription services to us. During the period from January 1, 2009 to December 31, 2010, we paid an aggregate of $33,999 to MPM AM for these services.

In February 2008, we entered into a services agreement with Stack Pharmaceuticals, Inc., or SPI, an entity controlled by David Stack, our chief executive officer. Pursuant to the agreement, SPI provided us with the use of SPI's office facilities which included the use of office space for our employees, office furnishings, phone system, internet connections, printers and other related office amenities such as conference rooms. The office facilities are located at 5 Sylvan Way, Parsippany, New Jersey. Pursuant to the agreement, we paid SPI $10,500 each month during the term of the services agreement. The term of the agreement was one year and was renewable upon consent of both parties and the agreement may be cancelled with 60 days written notice by either party. In February 2009, we renewed the agreement on a month-to-month basis.

In August 2010, we entered into a new services agreement with SPI that replaced the agreement that we entered into in February 2008. Pursuant to the new agreement, SPI provides us with the use of SPI's office facilities which includes the use of office space for our employees, office furnishings, phone system, internet connections, printers and other related office amenities such as conference rooms. In addition, SPI provides consulting services and commercial leadership related to EXPAREL regarding the development of strategic plans and analyses for the commercialization of EXPAREL, support in the development of documents, data and materials for investor and commercial partner presentations and documents, and commercial leadership in support of our website. SPI provides these services from time to time as we request from August 2010 through December 2010. We pay SPI $2,500 for each day of services provided by SPI up to a maximum of five days per week. We also reimburse SPI for travel expenses incurred by SPI personnel.

In addition, during 2008, 2009 and 2010, upon our request, SPI performed various projects, all of which have been completed by SPI. These projects included a business analysis and commercial recommendation for our DepoDur product, a market research project related to the development of a DepoMethotrexate product, market research and forecasting in support of clinical development of EXPAREL for the potential additional indications of nerve block and epidural administration and reimbursement for access to Datamonitor reports for commercial analysis and partnering discussions regarding EXPAREL.

During the period from January 1, 2009, through December 31, 2010, we have paid SPI an aggregate of $533,452 for the above services provided by SPI.

In April 2010, we signed a statement of work for a feasibility study with Rhythm Pharmaceuticals, Inc. We earned contract revenue of approximately $290,000 from this statement of work during the period from April 2010 through December 31, 2010. MPM Capital and its affiliates are holders of more than 5% of our capital stock. We have been informed that MPM Capital and its affiliates are holders of more than 10% of the capital stock of Rhythm Pharmaceuticals, Inc. and a managing director of MPM Capital is a member of the board of directors of Rhythm Pharmaceuticals, Inc.

Indemnification of Officers and Directors

Our amended and restated certificate of incorporation and amended and restated bylaws, which will become effective upon the completion of this offering, will provide that we will indemnify each of our directors and officers to the fullest extent permitted by the Delaware General Corporation Law. Further, we intend to enter into indemnification agreements with each of our directors and officers, and we have purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances. For further information, see "Executive Compensation—Limitation of Liability and Indemnification."

Policies and Procedures for Related Person Transactions

In connection with this offering, our board of directors will adopt a written related person transaction policy to set forth the policies and procedures for the review and approval or ratification of related person transactions. This policy will cover any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships in which we were or are to be a participant, the amount involved exceeds $120,000, and a related person had or will have a direct or indirect material interest, including, without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness, and employment by us of a related person.

Any related person transaction proposed to be entered into by us will be required to be reported to our chief financial officer and will be reviewed and approved by the audit committee in accordance with the terms of the policy, prior to effectiveness or consummation of the transaction, whenever practicable. If our chief financial officer determines that advance approval of a related person transaction is not practicable under the circumstances, the audit committee will review and, in its discretion, may ratify the related person transaction at the next meeting of the audit committee, or at the next meeting following the date that the related person transaction comes to the attention of our chief financial officer. Our chief financial officer, however, may present a related person transaction arising in the time period between meetings of the audit committee to the chair of the audit committee, who will review and may approve the related person transaction, subject to ratification by the audit committee at the next meeting of the audit committee.

In addition, any related person transaction previously approved by the audit committee or otherwise already existing that is ongoing in nature will be reviewed by the audit committee annually to ensure that such related person transaction has been conducted in accordance with the previous approval granted by the audit committee, if any, and that all required disclosures regarding the related person transaction are made.

Transactions involving compensation of executive officers will be reviewed and approved by the compensation committee in the manner specified in the charter of the compensation committee.

A related person transaction reviewed under this policy will be considered approved or ratified if it is authorized by the audit committee in accordance with the standards set forth in our related person transaction policy after full disclosure of the related person's interests in the transaction. As appropriate for the circumstances, the audit committee will review and consider:

- the related person's interest in the related person transaction;
- the approximate dollar value of the amount involved in the related person transaction;
- the approximate dollar value of the amount of the related person's interest in the transaction without regard to the amount of any profit or loss;
- whether the transaction was undertaken in the ordinary course of business;
- whether the transaction with the related person is proposed to be, or was, entered into on terms no less favorable to us than terms that could have been reached with an unrelated third party;
- the purpose of, and the potential benefits to us of, the transaction; and
- any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to stockholders in light of the circumstances of the particular transaction.

The audit committee will review all relevant information available to it about the related person transaction. The audit committee may approve or ratify the related person transaction only if the audit committee determines that, under all of the circumstances, the transaction is in, or is not inconsistent with, our best interests. The audit committee may, in its sole discretion, impose conditions as it deems appropriate on us or the related person in connection with approval of the related person transaction.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of December 31, 2010, by:

- each of our directors;
- each of our named executive officers;
- each person, or group of affiliated persons, who is known by us to beneficially own more than 5% of our common stock; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with SEC rules. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include shares of common stock issuable upon the exercise of stock options and warrants that are immediately exercisable or exercisable within 60 days after December 31, 2010. Except as otherwise indicated, all of the shares reflected in the table are shares of common stock and all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. The information is not necessarily indicative of beneficial ownership for any other purpose.

Percentage ownership calculations for beneficial ownership prior to this offering are based on 10,661,448 shares outstanding as of December 31, 2010, assuming the conversion of all of the outstanding Series A convertible preferred stock and assuming the conversion of $47.5 million aggregate principal amount and all accrued and unpaid interest outstanding under our secured and unsecured notes held by certain of our investors into common stock upon completion of this offering. Percentage ownership calculations for beneficial ownership after this offering also include the shares we are offering hereby. Except as otherwise indicated in the table below, addresses of named beneficial owners are in care of Pacira Pharmaceuticals, Inc., 5 Sylvan Way, Suite 125, Parsippany, New Jersey 07054.

In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed shares of common stock subject to options and warrants held by that person that are currently exercisable or exercisable within 60 days of December 31, 2010 to be outstanding. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Beneficial ownership representing less than 1% is denoted with an asterisk (*).

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Before the Offering	Percentage After the Offering
5% Stockholders			
HBM BioVentures (Cayman) Ltd. (1)	2,805,916	26.1%	18.7%
MPM Capital and its affiliates (2)	2,497,257	23.3%	16.7%
OrbiMed Advisors and its affiliates (3)	2,497,258	23.3%	16.7%
Sanderling Ventures and its affiliates (4).	2,590,237	24.1%	17.3%
Officers and Directors			
David Stack (5)	130,950	1.2%	*
James Scibetta (6)	44,940	*	*
Gary Patou (7)	35,671	*	*
William Lambert (8)	31,768	*	*
Mark Walters (9)	31,768	*	*
Luke Evnin (10)	2,497,257	23.3%	16.7%
Carl Gordon (11)	2,497,258	23.3%	16.7%
John Longenecker (12)	6,353	*	*
Fred Middleton (13).	2,590,237	24.1%	17.3%
Gary Pace (14)	4,494	*	*
Andreas Wicki (15)	2,805,916	26.1%	18.7%
All current executive officers and directors as a group (11 persons)	10,676,612	95.0%	57.8%

(1) The address for HBM BioVentures (Cayman) Ltd. is Centennial Towers, Suite 305, 2454 West Bay Road, Grand Cayman, Cayman Islands, B.V.I. Consists of (i) 1,487,680 shares of Series A convertible preferred stock held by HBM BioVentures (Cayman) Ltd., (ii) 92,980 shares of common stock held by HBM BioVentures (Cayman) Ltd., (iii) 79,033 shares of common stock issuable upon exercise of warrants held by HBM BioVentures (Cayman) Ltd., and (iv) 1,146,223 shares of common stock issuable upon conversion of notes held by HBM BioVentures (Cayman) Ltd. The board of directors of HBM BioVentures (Cayman) Ltd. has sole voting and investment power with respect to the shares held by such entity and acts by majority vote. The board of directors of HBM BioVentures (Cayman) Ltd. is comprised of John Arnold, Richard Coles, Sophia Harris, Dr. Andreas Wicki and John Urquhart, none of whom has individual voting or investment power with respect to such shares.

(2) The address for funds managed by MPM Capital is 200 Clarendon St., 54th Floor, Boston, MA 02116. Consists of (i) 1,394,315 shares of Series A convertible preferred stock held by MPM BioVentures IV-QP, L.P., (ii) 53,717 shares of Series A convertible preferred stock held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, (iii) 39,648 shares of Series A convertible preferred stock held by MPM Asset Management Investors BV4 LLC, (iv) 87,144 shares of common stock held by MPM BioVentures IV-QP, L.P., (v) 3,357 shares of common stock held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, (vi) 2,479 shares of common stock held by MPM Asset Management Investors BV4 LLC., (vii) 74,072 shares of common stock issuable upon exercise of warrants held by MPM BioVentures IV-QP, L.P., (viii) 2,852 shares of common stock issuable upon exercise of warrants held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, (ix) 2,106 shares of common stock issuable upon exercise of warrants held by MPM Asset Management Investors BV4 LLC, (x) 785,004 shares of common stock issuable upon conversion of notes held by MPM BioVentures IV-QP, L.P., (xi) 30,242 shares of common stock issuable upon conversion of notes held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, and (xii) 22,321 shares of common stock issuable upon conversion of notes held by MPM Asset Management Investors BV4 LLC. Dr. Patou is a Managing Director of MPM Asset Management LLC. MPM Asset Management LLC is the Management Company of MPM BioVentures IV LLC. MPM BioVentures IV LLC is the Managing Member of MPM BioVentures IV GP LLC, which is the General Partner of MPM BioVentures IV-QP, LP. and the Managing Limited Partner of MPM BioVentures IV GmbH & Co. Beteiligungs KG. MPM BioVentures IV LLC is the Manager of MPM Asset Management Investors BV4 LLC. Dr. Evnin is a Member of MPM BioVentures IV LLC. Dr. Evnin has a shared power to vote, acquire, hold and dispose of all shares and warrants. Dr. Evnin disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein.

(3) The address for funds managed by OrbiMed Advisors is 767 3rd Avenue, 30th Floor, New York, NY 10017. Consists of (i) 1,473,645 shares of Series A convertible preferred stock held by OrbiMed Private Investments III, LP, (ii) 14,035 shares of Series A convertible preferred stock held by OrbiMed Associates III, LP, (iii) 92,103 shares of common stock held by OrbiMed Private Investments III, LP, (iv) 877 shares of common stock held by OrbiMed Associates III, LP, (v) 78,287 shares of common stock issuable upon exercise of warrants held by OrbiMed Private Investments III, LP, (vi) 744 shares of common stock issuable upon exercise of warrants held by

OrbiMed Associates III, LP, (vii) 829,666 shares of common stock issuable upon conversion of notes held by OrbiMed Private Investments III, LP, and (viii) 7,901 shares of common stock issuable upon conversion of notes held by OrbiMed Associates III, LP. OrbiMed Capital GP III LLC is the general partner of OrbiMed Private Investments III, LP and OrbiMed Advisors LLC is the managing member of OrbiMed Capital GP III LLC. OrbiMed Advisors LLC is also the general partner of OrbiMed Associates III, LP. Samuel D. Isaly is the managing member of and owner of a controlling interest in OrbiMed Advisors LLC and may be deemed to have voting and investment power over the shares held by OrbiMed Private Investments III, LP and OrbiMed Associates III, LP noted above. Mr. Isaly disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein. Dr. Gordon, a member of our board of directors, is an affiliate of the above-mentioned funds.

(4) The address for funds managed by Sanderling Ventures is 400 South El Camino Real, Suite 1200, San Mateo, California 94402. Consists of (i) 736,583 shares of Series A convertible preferred stock held by Sanderling Venture Partners VI, L.P., (ii) 24,871 shares of Series A convertible preferred stock held by Sanderling VI Beteiligungs GmbH & Co. KG, (iii) 29,634 shares of Series A convertible preferred stock held by Sanderling VI Limited Partnership, (iv) 681,715 shares of Series A convertible preferred stock held by Sanderling Venture Partners VI Co-Investment Fund, L.P., (v) 14,877 shares of Series A convertible preferred stock held by Sanderling Ventures Management VI, (vi) 125,800 shares of common stock held by Sanderling Venture Partners VI, L.P., (vii) 1,995 shares of common stock held by Sanderling VI Beteiligungs GmbH & Co. KG, (viii) 2,377 shares of common stock held by Sanderling VI Limited Partnership, (ix) 55,788 shares of common stock held by Sanderling Ventures Management VI, (x) 38,193 shares of common stock issuable upon exercise of warrants held by Sanderling Venture Partners VI, L.P., (xi) 1,337 shares of common stock issuable upon exercise of warrants held by Sanderling VI Beteiligungs GmbH & Co. KG, (xii) 1,592 shares of common stock issuable upon exercise of warrants held by Sanderling VI Limited Partnership, (xiii) 37,908 shares of common stock issuable upon exercise of warrants held by Sanderling Venture Partners VI Co-Investment Fund, L.P., (xiv) 404,763 shares of common stock issuable upon conversion of notes held by Sanderling Venture Partners VI, L.P., (xv) 14,578 shares of common stock issuable upon conversion of notes held by Sanderling VI Beteiligungs GmbH & Co. KG, (xvi) 74,323 shares of common stock issuable upon conversion of notes held by Sanderling VI Limited Partnership, (xvii) 343,903 shares of common stock issuable upon conversion of notes held by Sanderling Venture Partners VI Co-Investment Fund, L.P. Mr. Middleton is a managing director of Middleton, McNeil, Mills & Associates VI, LLC, which has the ultimate voting and investment power over shares held of record by Sanderling Venture Partners VI, L.P., Sanderling VI Beteiligungs GmbH & Co. KG, Sanderling VI Limited Partnership and Sanderling Venture Partners VI Co-Investment Fund, L.P. and he may be deemed to have voting and investment power over shares held of record by Sanderling Venture Partners VI, L.P., Sanderling VI Beteiligungs GmbH & Co. KG, Sanderling VI Limited Partnership and Sanderling Venture Partners VI Co-Investment Fund, L.P. Mr. Middleton is the owner of Sanderling Ventures Management VI and he may be deemed to have voting and investment power over shares held of record by Sanderling Ventures Management VI. Mr. Middleton disclaims beneficial ownership over the shares held by Sanderling Ventures and its affiliates, except to the extent of his pecuniary interest therein.

(5) Consists of (i) 18,600 shares of common stock held by Stack Schroon Mohawk FLP and (ii) 112,350 shares of common stock issuable upon exercise of stock options within 60 days of December 31, 2010, including options that become exercisable upon completion of this offering. Mr. Stack is the general partner of Stack Schroon Mohawk FLP.

(6) Consists of 44,940 shares of common stock issuable upon exercise of stock options within 60 days of December 31, 2010, including options that become exercisable upon completion of this offering.

(7) Consists of 35,671 shares of common stock issuable upon exercise of stock options within 60 days of December 31, 2010, including options that become exercisable upon completion of this offering.

(8) Includes 31,768 shares of common stock issuable upon exercise of stock options within 60 days of December 31, 2010, including options that become exercisable upon completion of this offering.

(9) Includes 31,768 shares of common stock issuable upon exercise of stock options within 60 days of December 31, 2010, including options that become exercisable upon completion of this offering.

(10) Consists of (i) 1,394,315 shares of Series A convertible preferred stock held by MPM BioVentures IV-QP, L.P., (ii) 53,717 shares of Series A convertible preferred stock held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, (iii) 39,648 shares of Series A convertible preferred stock held by MPM Asset Management Investors BV4 LLC, (iv) 87,144 shares of common stock held by MPM BioVentures IV-QP, L.P., (v) 3,357 shares of common stock held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, (vi) 2,479 shares of common stock held by MPM Asset Management Investors BV4 LLC., (vii) 74,072 shares of common stock issuable upon exercise of warrants held by MPM BioVentures IV-QP, L.P., (viii) 2,852 shares of common stock issuable upon exercise of warrants held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, (ix) 2,106 shares of common stock issuable upon exercise of warrants held by MPM Asset Management Investors BV4 LLC., (x) 785,004 shares of common stock issuable upon conversion of notes held by MPM BioVentures IV-QP, L.P., (xi) 30,242 shares of common stock issuable upon conversion of notes held by MPM BioVentures IV GmbH & Co. Beteiligungs KG, and (xii) 22,321 shares of common stock issuable upon conversion of notes held by MPM Asset Management Investors BV4 LLC. Dr. Evnin is a Member of MPM BioVentures IV LLC. MPM BioVentures IV LLC is the Managing Member of MPM BioVentures IV GP LLC, which is the General Partner of MPM BioVentures IV-QP, LP and the Managing Limited Partner of MPM BioVentures IV GmbH & Co. Beteiligungs KG. MPM BioVentures IV LLC is the Manager of MPM Asset Management Investors BV4 LLC. Dr. Evnin has a shared power to vote, acquire, hold and dispose of all shares and warrants. Dr. Evnin disclaims beneficial ownership of the securities except to the extent of their pecuniary interest therein.

(11) Consists of the shares described in Note (3) above. Dr. Gordon disclaims beneficial ownership of the shares described in Note (3), except to the extent of his pecuniary interest therein.

(12) Consists of 6,353 shares of common stock issuable upon exercise of stock options within 60 days of December 31, 2010, including options that become exercisable upon completion of this offering.

(13) Consists of (i) 736,583 shares of Series A convertible preferred stock held by Sanderling Venture Partners VI, L.P., (ii) 24,871 shares of Series A convertible preferred stock held by Sanderling VI Beteiligungs GmbH & Co. KG, (iii) 29,634 shares of Series A convertible preferred stock held by Sanderling VI Limited Partnership, (iv) 681,715 shares of Series A convertible preferred stock held by Sanderling Venture Partners VI Co-Investment Fund, L.P., (v) 14,877 shares of Series A convertible preferred stock held by Sanderling Ventures Management VI, (vi) 125,800 shares of common stock held by Sanderling Venture Partners VI, L.P., (vii) 1,995 shares of common stock held by Sanderling VI Beteiligungs GmbH & Co. KG, (viii) 2,377 shares of common stock held by Sanderling VI Limited Partnership, (ix) 55,788 shares of common stock held by Sanderling Ventures Management VI, (x) 38,193 shares of common stock issuable upon exercise of warrants held by Sanderling Venture Partners VI, L.P., (xi) 1,337 shares of common stock issuable upon exercise of warrants held by Sanderling VI Beteiligungs GmbH & Co. KG, (xii) 1,592 shares of common stock issuable upon exercise of warrants held by Sanderling VI Limited Partnership, (xiii) 37,908 shares of common stock issuable upon exercise of warrants held by Sanderling Venture Partners VI Co-Investment Fund, L.P., (xiv) 404,763 shares of common stock issuable upon conversion of notes held by Sanderling Venture Partners VI, L.P., (xv) 14,578 shares of common stock issuable upon conversion of notes held by Sanderling VI Beteiligungs GmbH & Co. KG, (xvi) 74,323 shares of common stock issuable upon conversion of notes held by Sanderling VI Limited Partnership, (xvii) 343,903 shares of common stock issuable upon conversion of notes held by Sanderling Venture Partners VI Co-Investment Fund, L.P. Mr. Middleton is a managing director of Middleton, McNeil, Mills & Associates VI, LLC, which has the ultimate voting and investment power over shares held of record by Sanderling Venture Partners VI, L.P., Sanderling VI Beteiligungs GmbH & Co. KG, Sanderling VI Limited Partnership and Sanderling Venture Partners VI Co-Investment Fund, L.P. and he may be deemed to have voting and investment power over shares held of record by Sanderling Venture Partners VI, L.P., Sanderling VI Beteiligungs GmbH & Co. KG, Sanderling VI Limited Partnership and Sanderling Venture Partners VI Co-Investment Fund, L.P. Mr. Middleton is the owner of Sanderling Ventures Management VI and he may be deemed to have voting and investment power over shares held of record by Sanderling Ventures Management VI. Mr. Middleton disclaims beneficial ownership over the shares held by Sanderling Ventures and its affiliates, except to the extent of his pecuniary interest therein.

(14) Consists of 4,494 shares of common stock issuable upon exercise of stock options within 60 days of December 31, 2010, including options that become exercisable upon completion of this offering.

(15) Consists of (i) 1,487,680 shares of Series A convertible preferred stock held by HBM BioVentures (Cayman) Ltd., (ii) 92,980 shares of common stock held by HBM BioVentures (Cayman) Ltd., (iii) 79,033 shares of common stock issuable upon exercise of warrants held by HBM BioVentures (Cayman) Ltd., and (iv) 1,146,223 shares of common stock issuable upon conversion of notes held by HBM BioVentures (Cayman) Ltd. The board of directors of HBM BioVentures (Cayman) Ltd. has sole voting and investment power with respect to the shares by held by such entity and acts by majority vote. The board of directors of HBM BioVentures (Cayman) Ltd. is comprised of John Arnold, Richard Coles, Sophia Harris, Dr. Andreas Wicki and John Urquhart, none of whom has individual voting or investment power with respect to such shares.

DESCRIPTION OF CAPITAL STOCK

General

Following the completion of this offering, our authorized capital stock will consist of 250,000,000 shares of common stock, par value $0.001 per share, and 5,000,000 shares of preferred stock, par value $0.001 per share, all of which preferred stock will be undesignated.

The following description of our capital stock and provisions of our restated certificate of incorporation and bylaws are summaries and are qualified by reference to the certificate of incorporation and the bylaws that will be in effect upon completion of this offering. Copies of these documents will be filed with the SEC as exhibits to our registration statement, of which this prospectus forms a part. The descriptions of the common stock and preferred stock reflect changes to our capital structure that will occur upon the completion of this offering.

Preferred Stock

Under the terms of our restated certificate of incorporation that will be in effect upon completion of this offering, our board of directors is authorized to issue shares of preferred stock in one or more series without stockholder approval. Our board of directors has the discretion to determine the rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, of each series of preferred stock.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions, future financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or could discourage a third party from seeking to acquire, a majority of our outstanding voting stock.

Common Stock

As of December 31, 2010, there were 10,661,448 shares of our common stock outstanding, held of record by 35 stockholders, assuming the conversion of all outstanding shares of Series A convertible preferred stock and assuming the conversion of $47.5 million aggregate principal amount and all accrued and unpaid interest outstanding under our secured and unsecured notes held by certain of our investors into common stock upon completion of this offering.

Voting Rights. Each holder of common stock is entitled to one vote per share on all matters properly submitted to a vote of the stockholders, including the election of directors. Our restated certificate of incorporation and bylaws will not provide for cumulative voting rights. Because of this, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose. An election of directors by our stockholders is determined by a plurality of the votes cast by stockholders entitled to vote on the election.

Dividends. Subject to preferences that may be applicable to any then outstanding preferred stock, the holders of our outstanding shares of common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds.

Liquidation. In the event of our liquidation, dissolution or winding up, holders of common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities, subject to the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock.

Rights and Preferences. Holders of our common stock have no preemptive, conversion or subscription rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of holders of common stock are subject to and may be adversely affected by the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Series A Convertible Preferred Stock

In March 2007, we entered into a Series A Preferred Stock Purchase Agreement pursuant to which we issued and sold to investors an aggregate of 6,322,640 shares of Series A convertible preferred stock in four separate closings held in March 2007, February 2008, July 2008 and October 2008, at a purchase price of $13.44 per share. The aggregate consideration for the Series A Preferred Stock was $85 million in cash.

Each holder of our Series A convertible preferred stock has the right, at the option of the holder at any time, to convert its shares of Series A convertible preferred stock into shares of our common stock at a current conversion ratio of one-to-one, subject to adjustment for stock splits, certain capital reorganizations and dilutive stock issuances. Each share of our Series A convertible preferred stock will automatically convert into shares of our common stock, at the then effective applicable conversion ratio upon the earlier of: (i) the closing of the sale of our common stock pursuant to a firmly underwritten public offering in which the Company receives gross proceeds of at least $25,000,000 or (ii) the consent of the holders of at least 66 2/3% of the then outstanding shares of Series A convertible preferred stock.

The holders of our Series A convertible preferred stock are entitled to receive, when, as and if declared by our board of directors out of legally available funds, non-cumulative dividends in an amount to any dividends declared, paid or set aside on shares of our common stock. As of September 30, 2010, no dividends have been declared by our board of directors.

In the event of any liquidation, dissolution or winding up of the company, the holders of our Series A convertible preferred stock will be entitled to receive in preference to the holders of our common stock, the amount of their original purchase price per share, plus declared and unpaid dividends, if any. If the assets and funds available to be distributed among the holders of our Series A convertible preferred stock are insufficient to permit the payment to such holders of the full preference, then the entire assets and funds legally available for distribution to such holders shall be distributed ratably based on the total due each holder of our Series A convertible preferred stock. Any remaining assets of the Company will be distributed ratably among the holders of our common stock.

Holders of our Series A convertible preferred stock are entitled to the number of votes they would have upon conversion of their Series A convertible preferred stock into common stock at the then applicable conversion rate. The holders of Series A convertible preferred stock have been granted certain rights with regard to the election of board members and various other corporate actions.

Stock Options

As of December 31, 2010, options to purchase 2,073,864 shares of common stock at a weighted average exercise price of $2.69 per share were outstanding.

Warrants

Assuming no warrants have been exercised as of December 31, 2010, upon the completion of this offering there will be outstanding 11 warrants to purchase an aggregate of 158,061 shares of common stock, each at an exercise price of $2.69 per share and each of which expire on January 21, 2014 and two warrants to purchase an aggregate of 23,244 shares of common stock, each at an exercise price of $13.44 per share and each of which expires on the earlier of (i) July 2, 2016 or (ii) the fifth anniversary of the completion of this offering. In addition,

upon the completion of this offering, there will be an outstanding warrant to purchase 178,986 shares of common stock at an exercise price of $13.44 per share, which expires upon the earlier to occur of (i) November 24, 2020 or (ii) five years following the effective date of the registration statement of which this prospectus is a part. Furthermore, upon the completion of this offering, there will be additional outstanding warrants to purchase 167,361 shares of common stock at an exercise price of $13.44 per share, each of which expires on December 29, 2017.

The warrants to purchase Series A convertible preferred stock have a net exercise provision under which the warrant holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of our common stock at the time of exercise of the warrant after deduction of the aggregate exercise price. Each of the warrants also contains provisions for the adjustment of the exercise price and the aggregate number of shares issuable upon the exercise of the warrant in the event of stock dividends, split-ups, reclassifications, mergers, consolidations, combinations or exchanges of shares, separations, reorganizations or liquidations.

The holders of the warrants to purchase common stock are entitled to registration rights under our Investors' Rights Agreement, as described in more detail under "Description of Capital Stock—Registration Rights."

Registration Rights

Upon the completion of this offering, holders of a total of 11,056,725 shares of our common stock as of December 31, 2010, including shares of our common stock issuable upon exercise of outstanding warrants and shares issuable upon conversion of all of our outstanding secured and unsecured notes and accrued interest thereon will have the right to require us to register these shares under the Securities Act, under specified circumstances, pursuant to the terms of the Investor Rights Agreement. After registration pursuant to these rights, these shares will become freely tradable without restriction under the Securities Act. These registration rights will terminate upon the earlier of (i) the date that is five years following the completion of this offering or, (ii) for any particular holder with registration rights, at such time following this offering when all of our securities held by that stockholder may be sold pursuant to Rule 144 under the Securities Act.

Demand and Form S-3 Registration Rights. Subject to specified limitations, the holders of at least thirty percent of our Series A convertible preferred stock having registration rights may demand that we register all or a portion of their registrable shares under the Securities Act. We are not obligated to file a registration statement pursuant to this provision:

- until 180 days after the completion of this offering; and
- on more than three occasions.

In addition, the holders of our registrable shares may demand that we register on Form S-3 all or a portion of the registrable shares held by them. We are not obligated to file a Form S-3 pursuant to this provision on more than two occasions in any 12-month period.

Incidental Registration Rights. If at any time after the completion of this offering we propose to file a registration statement to register any of our securities under the Securities Act, either for our own account or for the account of any of our stockholders, the holders of our registrable shares are entitled to notice of registration and are entitled to include their shares of common stock in the registration.

Limitations and Expenses. In the event that any registration in which the holders of registrable shares participate pursuant to the Investor Rights Agreement is an underwritten public offering, the number of registrable shares to be included may, in specified circumstances, be limited due to market conditions. Pursuant to the Investor Rights Agreement, we are required to pay all registration expenses, including the fees and expenses of one counsel to represent the selling holders, other than any underwriting discounts, selling

commissions and similar discounts relating to underwriters or commissions related to sales, related to any demand or incidental registration. We are also required to indemnify each participating holder with respect to each registration of registrable shares that is effected.

Delaware Anti-Takeover Law and Provisions of Our Restated Certificate of Incorporation and Our Bylaws

Delaware Anti-Takeover Law. We are subject to Section 203 of the DGCL. Section 203 generally prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the interested stockholder attained such status with the approval of our board of directors, the business combination is approved in a prescribed manner or the interested stockholder acquired at least 85% of our outstanding voting stock in the transaction in which it became an interested stockholder. A "business combination" includes, among other things, a merger or consolidation involving us and the "interested stockholder" and the sale of more than 10% of our assets. In general, an "interested stockholder" is any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person.

Restated Certificate of Incorporation and Bylaws . Provisions of our restated certificate of incorporation and our bylaws, which will become effective upon the completion of this offering, may delay or discourage transactions involving an actual or potential change of control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our common stock. Among other things, our restated certificate of incorporation and our bylaws:

- authorize the issuance of "blank check" preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- divide our board of directors into three classes with staggered three-year terms;
- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- eliminate the ability of stockholders to call a special meeting of stockholders; and
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

The amendment of any of these provisions by the stockholders would require the approval of the holders at least 66 2/3% of our then outstanding common stock.

Listing on The NASDAQ Global Market

We have applied to have our common stock listed on The NASDAQ Global Market under the symbol "PCRX."

Authorized but Unissued Shares

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the Nasdaq Marketplace Rules. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make it more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and a liquid public trading market for our common stock may not develop or be sustained after this offering. Future sales of significant amounts of our common stock, including shares issued upon exercise of outstanding options or warrants, in the public market after this offering, or the anticipation of those sales, could adversely affect public market prices prevailing from time to time and could impair our ability to raise capital through sales of our equity securities. We have applied to have our common stock listed on The Nasdaq Global Market under the symbol "PCRX."

Upon the completion of this offering, we will have outstanding an aggregate of 14,911,448 shares of common stock, assuming the automatic conversion of all outstanding shares of our Series A convertible preferred stock and the conversion of $47.5 million aggregate principal amount and all accrued and unpaid interest outstanding under our secured and unsecured notes held by certain of our stockholders into an aggregate of 3,264,777 shares of common stock upon the completion of this offering and the issuance of shares of common stock offered by us in this offering. Of these shares, all 4,250,000 shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our "affiliates," as that term is defined in Rule 144 under the Securities Act, whose sales would be subject to the Rule 144 resale restrictions described below, other than the holding period requirement.

The remaining 10,661,448 shares of common stock will be "restricted securities," as that term is defined in Rule 144 under the Securities Act. Substantially all of these restricted securities will be subject to the 180-day lock-up period described below. After the 180 day lock-up period these restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below.

In addition, of the 2,073,864 shares of our common stock that were subject to stock options outstanding as of December 31, 2010, options to purchase 442,307 shares of common stock were exercisable as of December 31, 2010 and, upon exercise, these shares will be eligible for sale subject to the lock-up agreements and securities laws described below. The 527,652 shares of our common stock that were subject to warrants outstanding as of December 31, 2010, were exercisable as of December 31, 2010 and, assuming a cashless exercise, these shares will be eligible for sale subject to the lock-up agreements and securities laws described below.

Rule 144

In general, a person who has beneficially owned shares of our common stock for at least six months would be entitled to sell their shares of common stock in the public market provided that (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the three months preceding, a sale and (ii) we are and have been subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale and have filed all required reports during that time period. In addition, a person who has beneficially owned shares of our common stock for at least 12 months would be entitled to sell their shares of common stock in the public market provided that such person is not deemed to have been one of our affiliates at the time of, or at any time during the three months preceding, a sale. Persons who have beneficially owned shares of our common stock for at least six months but who are our affiliates at the time of, or any time during the three months preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of shares that does not exceed the greater of either of the following:

- 1% of the number of shares of our common stock then outstanding (approximately 149,114 shares immediately after this offering); or
- the average weekly trading volume in our common stock on The NASDAQ Global Market during the four calendar weeks immediately preceding the date on which the notice of sale is filed with the SEC;

provided, in each case, that we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale and have filed all required reports during that time period. Such sales by affiliates must also comply with the manner of sale, current public information and notice provisions of Rule 144.

Approximately 4,250,000 shares of our common stock that are not subject to the lock-up agreements described below will be eligible for sale immediately upon the completion of this offering.

Upon expiration of the 180-day lock-up period described below, approximately 14,911,448 shares of our common stock will be eligible for sale under Rule 144, including shares eligible for resale immediately upon the completion of this offering as described above. We cannot estimate the number of shares of our common stock that our existing stockholders will elect to sell under Rule 144.

Rule 701

In general, under Rule 701, any of an issuer's employees, directors, officers, consultants or advisors who purchases shares from the issuer in connection with a compensatory stock or option plan or other written agreement before the effective date of a registration statement under the Securities Act is entitled to sell such shares 90 days after such effective date in reliance on Rule 144. An affiliate of the issuer can resell shares in reliance on Rule 144 without having to comply with the holding period requirement, and non-affiliates of the issuer can resell shares in reliance on Rule 144 without having to comply with the current public information and holding period requirements.

The SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options, including exercises after an issuer becomes subject to the reporting requirements of the Exchange Act.

Lock-up Agreements

Our officers and directors and the holders of substantially all of our outstanding shares of capital stock have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock for a period through the date 180 days after the date of this prospectus, as modified as described below, except with the prior written consent of Barclays Capital Inc. and Piper Jaffray & Co. on behalf of the underwriters.

The 180-day restricted period will be automatically extended or reduced under the following circumstances: (1) during the last 17 days of the 180-day restricted period, if we issue an earnings release or announce material news or a material event, the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event; or (2) prior to the expiration of the 180-day restricted period, if we announce that we will release earnings results or other material news during the 16-day period following the last day of the 180-day period, the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or other material news.

Stock Options and Warrants

As of December 31, 2010, we had outstanding options to purchase 2,073,864 shares of common stock, of which options to purchase 442,307 shares of common stock were vested as of December 31, 2010. Following this offering, we intend to file registration statements on Form S-8 under the Securities Act to register all of the shares of common stock subject to outstanding options and options and other awards issuable pursuant to our 2007 Plan and any equity incentive plan we may adopt. As of December 31, 2010, we also had outstanding and exercisable warrants to purchase 325,422 shares of common stock and 202,230 shares of our Series A convertible preferred stock.

CERTAIN MATERIAL U.S. FEDERAL TAX CONSIDERATIONS

The following is a general discussion of the material U.S. federal income and estate tax considerations applicable to non-U.S. holders with respect to their ownership and disposition of shares of our common stock issued pursuant to this offering. This discussion is not tax advice. Accordingly, all prospective non-U.S. holders of our common stock should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership and disposition of our common stock. In general, a non-U.S. holder means a beneficial owner of our common stock who is not for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation or any other organization taxable as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate, the income of which is included in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (1) a U.S. court is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of the trust's substantial decisions or (2) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended, which we refer to as the Code, existing and proposed U.S. Treasury Regulations promulgated thereunder, current administrative rulings and judicial decisions, publicly available and in effect as of the date of this prospectus, all of which are subject to change and to differing interpretation, possibly with retroactive effect. Any change or differing interpretation could alter the tax consequences to non-U.S. holders described in this prospectus. We assume in this discussion that a non-U.S. holder holds shares of our common stock as a capital asset, generally property held for investment.

This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to a particular non-U.S. holder in light of that non-U.S. holder's individual circumstances nor does it address any aspects of U.S. state, local or non-U.S. taxes. This discussion also does not consider any specific facts or circumstances that may apply to a non-U.S. holder and does not address the special tax rules applicable to particular non-U.S. holders, such as:

- insurance companies;
- tax-exempt organizations;
- financial institutions;
- brokers or dealers in securities;
- pension plans;
- controlled foreign corporations;
- passive investors;
- owners that hold our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment; and
- certain U.S. expatriates.

In addition, this discussion does not address the tax treatment of partnerships or persons who hold their common stock through partnerships or other pass-through entities for U.S. federal income tax purposes. A partner in a partnership or other pass-through entity that will hold our common stock should consult his, her or its own tax advisor regarding the tax consequences of acquiring, holding and disposing of our common stock through a partnership or other pass-through entity, as applicable.

There can be no assurance that the Internal Revenue Service, which we refer to as the IRS, will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, an opinion of counsel with respect to the U.S. federal income or estate tax consequences to a non-U.S. holder of the purchase, ownership or disposition of our common stock.

Distributions on Our Common Stock

Distributions on our common stock generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits, the excess will be treated as a tax-free return of the non-U.S. holder's investment, up to such holder's tax basis in the common stock. Any remaining excess will be treated as capital gain, subject to the tax treatment described below in "Gain on Sale, Exchange or Other Disposition of Our Common Stock."

Dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty between the United States and such holder's country of residence. If we determine, at a time reasonably close to the date of payment of a distribution on our common stock, that the distribution will not constitute a dividend because we do not anticipate having current or accumulated earnings and profits, we intend not to withhold any U.S. federal income tax on the distribution as permitted by U.S. Treasury Regulations. If we or another withholding agent withholds tax on such a distribution, a non-U.S. holder may be entitled to a refund of any excess tax withheld, which the non-U.S. holder may claim by timely filing a U.S. tax return with the IRS.

Dividends that are treated as effectively connected with a trade or business conducted by a non-U.S. holder within the United States and, if an applicable income tax treaty so provides, that are attributable to a permanent establishment or a fixed base maintained by the non-U.S. holder within the United States, are generally exempt from the 30% withholding tax if the non-U.S. holder satisfies applicable certification and disclosure requirements. However, such U.S. effectively connected income, net of specified deductions and credits, is taxed at the same graduated U.S. federal income tax rates applicable to U.S. persons (as defined in the Code). Any U.S. effectively connected income received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty between the United States and such holder's country of residence.

A non-U.S. holder of our common stock who claims the benefit of an applicable income tax treaty between the United States and such holder's country of residence generally will be required to provide a properly executed IRS Form W-8BEN (or successor form) and satisfy applicable certification and other requirements. Non-U.S. holders are urged to consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

A non-U.S. holder that is eligible for a reduced rate of U.S. withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by timely filing a U.S. tax return with the IRS.

Gain on Sale, Exchange or Other Disposition of Our Common Stock

In general, a non-U.S. holder will not be subject to any U.S. federal income tax or withholding tax on any gain realized upon such holder's sale, exchange or other disposition of shares of our common stock unless:

- the gain is effectively connected with a U.S. trade or business and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or a fixed base maintained by such non-U.S. holder, in which case the non-U.S. holder generally will be taxed at the graduated U.S. federal income tax rates applicable to U.S. persons (as defined in the Code) and, if the non-U.S. holder is a foreign corporation, the branch profits tax described above in "Distributions on Our Common Stock" also may apply, unless an applicable tax treaty provides otherwise;

- the non-U.S. holder is a nonresident alien individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met, in which case the non-U.S. holder will be subject to a 30% tax (or such lower rate as may be specified by an applicable income tax treaty between the United States and such holder's country of residence) on the net gain derived from the disposition, which may be offset by U.S. source capital losses of the non-U.S. holder, if any; or
- we are, or have been, at any time during the five-year period preceding such disposition (or the non-U.S. holder's holding period, if shorter) a "U.S. real property holding corporation," unless (1) our common stock is regularly traded on an established securities market and (2) the non-U.S. holder holds no more than 5% of our outstanding common stock, directly or indirectly, actually or constructively, during the shorter of (i) the 5-year period ending on the date of the disposition or (ii) the period that the non-U.S. holder held our common stock. If we are determined to be a U.S. real property holding corporation, provided that our common stock is regularly traded on an established securities market, no U.S. withholding tax would apply to the proceeds payable to a non-U.S. holder from a sale of our common stock. However, in the event we are determined to be a U.S. real property holding corporation, if the non-U.S. holder holds more than 5% of our common stock as described above the non-U.S. holder generally will be taxed on its net gain derived from the disposition at the graduated U.S. federal income tax rates applicable to U.S. persons (as defined in the Code). Generally, a corporation is a U.S. real property holding corporation only if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. Although there can be no assurance, we do not believe that we are, or have been, a U.S. real property holding corporation, or that we are likely to become one in the future. No assurance can be provided that our common stock will be regularly traded on an established securities market for purposes of the rules described above.

U.S. Federal Estate Tax

Shares of our common stock that are owned or treated as owned at the time of death by an individual who is not a citizen or resident of the United States, as specifically defined for U.S. federal estate tax purposes, are considered U.S. situs assets and will be included in the individual's gross estate for U.S. federal estate tax purposes. Such shares, therefore, may be subject to U.S. federal estate tax, unless an applicable estate tax or other treaty provides otherwise.

Backup Withholding and Information Reporting

We must report annually to the IRS and to each non-U.S. holder the gross amount of the distributions on our common stock paid to such holder and the tax withheld, if any, with respect to such distributions. Non-U.S. holders may have to comply with specific certification procedures to establish that the holder is not a U.S. person (as defined in the Code) in order to avoid backup withholding at the applicable rate, currently 28%, with respect to dividends on our common stock. Dividends paid to non-U.S. holders subject to the U.S. withholding tax, as described above in "Distributions on Our Common Stock," generally will be exempt from U.S. backup withholding.

Information reporting and backup withholding will generally apply to the proceeds of a disposition of our common stock by a non-U.S. holder effected by or through the U.S. office of any broker, U.S. or foreign, unless the holder certifies its status as a non-U.S. holder and satisfies certain other requirements, or otherwise establishes an exemption. Generally, information reporting and backup withholding will not apply to a payment of disposition proceeds to a non-U.S. holder where the transaction is effected outside the United States through a non-U.S. office of a broker. However, for information reporting purposes, dispositions effected through a non-U.S. office of a broker with substantial U.S. ownership or operations generally will be treated in a manner similar to dispositions effected through a U.S. office of a broker. Non-U.S. holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them.

Copies of information returns may be made available to the tax authorities of the country in which the non-U.S. holder resides or is incorporated under the provisions of a specific treaty or agreement.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder can be refunded or credited against the non-U.S. holder's U.S. federal income tax liability, if any, provided that an appropriate claim is timely filed with the IRS.

New Legislation Relating to Foreign Accounts

Newly enacted legislation may impose withholding taxes on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities. Under this legislation, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to U.S. holders who own shares of our common stock through foreign accounts or foreign intermediaries and certain non-U.S. holders. The legislation imposes a 30% withholding tax on dividends on, or gross proceeds from the sale or other disposition of, our common stock paid to a foreign financial institution or to a foreign non-financial entity, unless (1) the foreign financial institution undertakes certain diligence and reporting obligations or (2) the foreign non-financial entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. In addition, if the payee is a foreign financial institution, it must enter into an agreement with the U.S. Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements. The legislation applies to payments made after December 31, 2012. Prospective investors should consult their tax advisors regarding this legislation.

UNDERWRITING

Barclays Capital Inc. and Piper Jaffray & Co. are acting as the representatives of the underwriters and the joint book-running managers of this offering. Under the terms of an underwriting agreement, which is filed as an exhibit to the registration statement, each of the underwriters named below has severally agreed to purchase from us the respective number of common stock shown opposite its name below:

Underwriters	Number of Shares
Barclays Capital Inc.	
Piper Jaffray & Co.	
Wedbush Securities Inc.	
Brean Murray, Carret & Co., LLC	
Total	4,250,000

The underwriting agreement provides that the underwriters' obligation to purchase shares of common stock depends on the satisfaction of the conditions contained in the underwriting agreement including:

- the obligation to purchase all of the shares of common stock offered hereby (other than those shares of common stock covered by their option to purchase additional shares as described below), if any of the shares are purchased;
- the representations and warranties made by us to the underwriters are true;
- there is no material change in our business or the financial markets; and
- we deliver customary closing documents to the underwriters.

Commissions and Expenses

The following table summarizes the underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. The underwriting fee is the difference between the initial price to the public and the amount the underwriters pay to us for the shares.

	No Exercise	Full Exercise
Per share		
Total		

The representatives of the underwriters have advised us that the underwriters propose to offer the shares of common stock directly to the public at the public offering price on the cover of this prospectus and to selected dealers, which may include the underwriters, at such offering price less a selling concession not in excess of $ per share. After the offering, the representatives may change the offering price and other selling terms. Sales of shares made outside of the United States may be made by affiliates of the underwriters.

The expenses of the offering that are payable by us are estimated to be $2.3 million (excluding underwriting discounts and commissions).

Option to Purchase Additional Shares

We have granted the underwriters an option exercisable for 30 days after the date of this prospectus, to purchase, from time to time, in whole or in part, up to an aggregate of 637,500 shares at the public offering price less underwriting discounts and commissions. This option may be exercised if the underwriters sell more than 4,250,00 shares in connection with this offering. To the extent that this option is exercised, each underwriter will

be obligated, subject to certain conditions, to purchase its pro rata portion of these additional shares based on the underwriter's underwriting commitment in the offering as indicated in the table at the beginning of this Underwriting section.

Lock-Up Agreements

We, all of our directors and executive officers and holders of more than 5% of our outstanding stock have agreed that, subject to certain exceptions, without the prior written consent of each of Barclays Capital Inc. and Piper Jaffray, we will not directly or indirectly, (1) offer for sale, sell, pledge, or otherwise dispose of (or enter into any transaction or device that is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any shares of our common stock (including, without limitation, shares of our common stock that may be deemed to be beneficially owned by them in accordance with the rules and regulations of the Securities and Exchange Commission and shares of common stock that may be issued upon exercise of any options or warrants) or securities convertible into or exercisable or exchangeable for our common stock, (2) enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of the shares of our common stock, (3) make any demand for or exercise any right or file or cause to be filed a registration statement, including any amendments thereto, with respect to the registration of any shares of our common stock or securities convertible, exercisable or exchangeable into shares of our common stock or any of our other securities, or (4) publicly disclose the intention to do any of the foregoing for a period of 180 days after the date of this prospectus.

The 180-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 180-day restricted period we issue an earnings release or material news or a material event relating to us occurs; or
- prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day restricted period,

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or occurrence of a material event, unless such extension is waived in writing by Barclays Capital Inc. and Piper Jaffray.

Our lock-up agreement permits us to offer, without the prior written consent of each of Barclays Capital Inc. and Piper Jaffray, (1) our common stock issued in this offering, (2) shares of our common stock or other securities issued pursuant to employee benefit plans, stock option plans or other employee compensation plans or arrangements existing as of the date of this prospectus or pursuant to currently outstanding options, warrants or rights whether or not issued under one of those plans, and (3) shares of our common stock or other securities issued in connection with acquisitions, strategic partnerships or lending, leasing or other commercial transactions, in each case, subject to the recipient of such shares of our common stock or other securities agreeing to be subject to substantially the same restrictions as those contained in lock-up agreements described above.

Barclays Capital Inc. and Piper Jaffray, in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice. When determining whether or not to release common stock and other securities from lock-up agreements, Barclays Capital Inc. and Piper Jaffray will consider, among other factors, the holder's reasons for requesting the release, the number of shares of common stock and other securities for which the release is being requested and market conditions at the time.

Offering Price Determination

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be negotiated between the representatives and us. In determining the initial public offering price of our common stock, the representatives will consider:

- the history and prospects for the industry in which we compete;
- our financial information;
- the ability of our management and our business potential and earning prospects;
- the prevailing securities markets at the time of this offering; and
- the recent market prices of, and the demand for, publicly traded shares of generally comparable companies.

Indemnification

We have agreed to indemnify the underwriters against certain liabilities under the Securities Act relating to losses or claims resulting from material misstatements in or omissions from this prospectus, the registration statement of which this prospectus forms a part, certain free writing prospectuses that may be used in the offering and in any marketing materials used in connection with the offering, and to contribute to payments that the underwriters may be required to make for these liabilities.

Stabilization, Short Positions and Penalty Bids

The representatives may engage in stabilizing transactions, short sales and purchases to cover positions created by short sales, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934, as amended:

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- A short position involves a sale by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase in the offering, which creates the syndicate short position. This short position may be either a covered short position or a naked short position. In a covered short position, the number of shares involved in the sales made by the underwriters in excess of the number of shares they are obligated to purchase is not greater than the number of shares that they may purchase by exercising their option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares in their option to purchase additional shares. The underwriters may close out any short position by either exercising their option to purchase additional shares and/or purchasing shares in the open market. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through their option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.
- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market

price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The NASDAQ Global Market or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make representation that the representatives will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Electronic Distribution

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's web site and any information contained in any other web site maintained by an underwriter or selling group member is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

The NASDAQ Global Market

We have applied to list our shares of common stock for quotation on The NASDAQ Global Market under the symbol "PCRX."

Discretionary Sales

The underwriters have informed us that they do not intend to confirm sales to discretionary accounts that exceed 5% of the total number of shares offered by them.

Stamp Taxes

If you purchase shares of common stock offered in this prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus.

Relationships

Certain of the underwriters and/or their affiliates may in the future engage in commercial and investment banking transactions with us in the ordinary course of their business. They expect to receive customary compensation and expense reimbursement for these commercial and investment banking transactions.

Selling Restrictions

European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus

Directive is implemented in that relevant member state (the relevant implementation date), an offer of securities described in this prospectus may not be made to the public in that relevant member state other than:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representative***s***; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive,

provided that no such offer of securities shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an "offer of securities to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

We have not authorized and do not authorize the making of any offer of securities through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the securities as contemplated in this prospectus. Accordingly, no purchaser of the securities, other than the underwriters, is authorized to make any further offer of the securities on behalf of us, or the underwriters.

United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 (Cth) of Australia ("Corporations Act")) in relation to the securities has been or will be lodged with the Australian Securities & Investments Commission ("ASIC"). This document has not been lodged with ASIC and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

(a) you confirm and warrant that you are either:

(i) a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act;

(ii) a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate to us which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;

(iii) a person associated with the company under section 708(12) of the Corporations Act; or

(iv) a "professional investor" within the meaning of section 708(11)(a) or (b) of the Corporations Act,

and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this document is void and incapable of acceptance; and

(b) you warrant and agree that you will not offer any of the securities for resale in Australia within 12 months of those securities being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

Hong Kong

The securities may not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32, Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the securities may be issued or may be in the possession of any person for the purpose of the issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the securities which are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) or any rules made under that Ordinance.

India

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies in India or with the Securities and Exchange Board of India. This prospectus or any other material relating to these securities is for information purposes only and may not be circulated or distributed, directly or indirectly, to the public or any members of the public in India and in any event to not more than 50 persons in India. Further, persons into whose possession this prospectus comes are required to inform themselves about and to observe any such restrictions. Each prospective investor is advised to consult its advisors about the particular consequences to it of an investment in these securities. Each prospective investor is also advised that any investment in these securities by it is subject to the regulations prescribed by the Reserve Bank of India and the Foreign Exchange Management Act and any regulations framed thereunder.

Japan

No securities registration statement ("SRS") has been filed under Article 4, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) ("FIEL") in relation to the securities. The securities are being offered in a private placement to "qualified institutional investors" (tekikaku-kikan-toshika) under Article 10 of the Cabinet Office Ordinance concerning Definitions provided in Article 2 of the FIEL (the Ministry of Finance Ordinance No. 14, as amended) ("QIIs"), under Article 2, Paragraph 3, Item 2 i of the FIEL. Any QII acquiring the securities in this offer may not transfer or resell those shares except to other QIIs.

Korea

The securities may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for reoffering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Korea Securities and Exchange Act and the Foreign Exchange Transaction Law and the decrees and regulations thereunder. The securities have not been registered

with the Financial Services Commission of Korea for public offering in Korea. Furthermore, the securities may not be resold to Korean residents unless the purchaser of the securities complies with all applicable regulatory requirements (including but not limited to government approval requirements under the Foreign Exchange Transaction Law and its subordinate decrees and regulations) in connection with the purchase of the securities.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Future Act, Chapter 289 of Singapore (the "SFA"), (ii) to a "relevant person" as defined in Section 275(2) of the SFA, or any person pursuant to Section 275 (1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the securities are subscribed and purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole whole purpose is to hold investments and each beneficiary is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the securities under Section 275 of the SFA except:

(i) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions, specified in Section 275 of the SFA;

(ii) (in the case of a corporation) where the transfer arises from an offer referred to in Section 275(1A) of the SFA, or (in the case of a trust) where the transfer arises from an offer that is made on terms that such rights or interests are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;

(iii) where no consideration is or will be given for the transfer; or

(iv) where the transfer is by operation of law.

By accepting this prospectus, the recipient hereof represents and warrants that he is entitled to receive it in accordance with the restrictions set forth above and agrees to be bound by limitations contained herein. Any failure to comply with these limitations may constitute a violation of law.

LEGAL MATTERS

The validity of the shares of common stock offered hereby is being passed upon for us by Wilmer Cutler Pickering Hale and Dorr LLP, Palo Alto, California. The underwriters are represented by Latham & Watkins LLP, New York, New York, in connection with certain legal matters related to this offering.

EXPERTS

The consolidated financial statements as of December 31, 2008 and 2009 and for each of the three years in the period ended December 31, 2009 included in this prospectus have been audited by J.H. Cohn LLP, an independent registered public accounting firm, as stated in their report, which includes an explanatory paragraph relating to our ability to continue as a going concern, appearing elsewhere in this prospectus. Such consolidated financial statements are included in reliance upon the report of such firm given on the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock to be sold in the offering. This prospectus, which constitutes part of the registration statement, does not include all of the information contained in the registration statement and the exhibits, schedules and amendments to the registration statement. Some items are omitted in accordance with the rules and regulations of the SEC. For further information with respect to us and our common stock, we refer you to the registration statement and to the exhibits and schedules to the registration statement filed as part of the registration statement. Statements contained in this prospectus about the contents of any contract or any other document filed as an exhibit are not necessarily complete, and, and in each instance, we refer you to the copy of the contract or other documents filed as an exhibit to the registration statement. Each of theses statements is qualified in all respects by this reference.

You may read and copy the registration statement of which this prospectus is a part at the SEC's public reference room, which is located at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You can request copies of the registration statement by writing to the SEC and paying a fee for the copying cost. Please call the SEC at 1-800-SEC-0330 for more information about the operation of the SEC's public reference room. In addition, the SEC maintains an Internet website, which is located at www.sec.gov, that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. You may access the registration statement of which this prospectus is a part at the SEC's Internet website.

Upon completion of the offering, we will become subject to the full informational and periodic reporting requirements of the Exchange Act. We will fulfill our obligations with respect to such requirements by filing periodic reports and other information with the SEC. We intend to furnish our stockholders with annual reports containing consolidated financial statements certified by an independent registered public accounting firm. We also maintain a website at www.pacira.com. Our website is not a part of this prospectus.

Pacira Pharmaceuticals, Inc.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Pacira Pharmaceuticals, Inc.

We have audited the consolidated balance sheets of Pacira Pharmaceuticals, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pacira Pharmaceuticals, Inc. and subsidiaries as of December 31, 2009 and 2008, and their results of operations and cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses and as of December 31, 2009 has a working capital and stockholders' deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ J.H. Cohn LLP

Roseland, New Jersey
November 1, 2010, except for the
effects of the matters discussed in Note 1
("Correction of Immaterial Errors")
which are as of December 3, 2010 and
("Reverse Stock Split") which are as of January 12, 2011

Pacira Pharmaceuticals, Inc.

Consolidated Balance Sheets
as of December 31, 2009 and 2008

	December 31, 2009	2008
	(in thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,077	$ 12,386
Restricted cash	1,216	1,182
Trade accounts receivable	1,455	2,585
Inventories, net	1,729	2,028
Prepaid expenses and other current assets	1,072	1,176
Total current assets	12,549	19,357
Fixed assets, net	19,560	18,037
Intangibles, net	11,178	13,084
Other assets, net	667	63
Total assets	$ 43,954	$ 50,541
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 6,994	$ 11,794
Accrued expenses	3,478	1,733
Current portion of royalty interest obligation	1,599	1,443
Current portion of deferred revenue	2,346	2,046
Total current liabilities	14,417	17,016
Related party debt, including accrued interest	22,173	—
Royalty interest obligation, excluding current portion	3,647	3,618
Deferred revenue, excluding current portion	20,387	16,894
Contingent purchase liability	2,042	2,042
Deferred rent	1,177	874
Other long-term liabilities	3,060	2,607
Total liabilities	66,903	43,051
Commitments and Contingencies		
Stockholders' equity (deficit):		
Preferred stock, par value $0.001, 88,000,000 shares authorized, 6,322,640 issued and outstanding at December 31, 2009 and 2008 (liquidation preference of $85,000,000)	6	6
Common stock, par value $0.001, 120,000,000 shares authorized, 573,920 and 572,164 shares issued and outstanding at December 31, 2009 and 2008, respectively	1	1
Additional paid-in capital	86,806	85,538
Accumulated deficit	(109,762)	(78,055)
Total stockholders' equity (deficit)	(22,949)	7,490
Total liabilities and stockholders' equity (deficit)	$ 43,954	$ 50,541

See accompanying notes to consolidated financial statements.

Pacira Pharmaceuticals, Inc.

Consolidated Statements of Operations
Years Ended December 31, 2009, 2008, and 2007

	Years Ended December 31,		
	2009	2008	2007
		(in thousands, except share and per share data)	
Revenues:			
Supply revenue	$ 6,324	$ 6,852	$ 5,444
Royalties	4,044	3,648	2,388
Collaborative licensing and development revenue	4,638	3,425	509
Total revenues	15,006	13,925	8,341
Operating expenses:			
Cost of revenues	12,301	17,463	9,492
Research and development	26,233	33,214	20,665
Selling, general and administrative	5,020	8,611	4,170
Acquired in-process research and development	—	—	12,400
Total operating expenses	43,554	59,288	46,727
Loss from operations	(28,548)	(45,363)	(38,386)
Other income (expense)	367	(224)	16
Interest:			
Interest income	77	235	491
Interest (expense)	(1,723)	—	—
Royalty interest obligation	(1,880)	3,490	1,686
Net loss	$ (31,707)	$ (41,862)	$ (36,193)
Net loss per common share:			
Basic and diluted net loss per share	$ (55.32)	$ (79.23)	$ (77.85)
Weighted average shares outstanding—basic and diluted	573,118	528,357	464,900

See accompanying notes to consolidated financial statements.

Pacira Pharmaceuticals, Inc.

Consolidated Statements of Stockholders' Equity (Deficit)
Years Ended December 31, 2009, 2008, and 2007

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
					(in thousands)		
Balances, January 1, 2007	—	$ —	—	$ —	$ —	$ —	$ —
Issuance of preferred stock	3,347	3			44,997		45,000
Issuance of common stock			465	1	49		50
Share-based compensation					80		80
Net loss						(36,193)	(36,193)
Balances, December 31, 2007	3,347	3	465	1	45,126	(36,193)	8,937
Issuance of preferred stock	2,975	3			39,997		40,000
Exercise of stock options			107	—	173		173
Share-based compensation					242		242
Net loss						(41,862)	(41,862)
Balances, December 31, 2008	6,322	6	572	1	85,538	(78,055)	7,490
Exercise of stock options			2	—	3		3
Share-based compensation					524		524
Issue of warrants to landlord					204		204
Debt discount from beneficial conversion features and issuance of warrants with convertible notes					537		537
Net loss						(31,707)	(31,707)
Balances, December 31, 2009	6,322	$ 6	574	$ 1	$ 86,806	$(109,762)	$(22,949)

See accompanying notes to consolidated financial statements.

Pacira Pharmaceuticals, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2009, 2008, and 2007

	Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
Operating activities:			
Net loss	$ (31,707)	$ (41,862)	$ (36,193)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	4,146	4,227	3,159
Amortization of other assets and unfavorable lease obligation	(314)	(396)	(297)
Amortization of note discounts and warrants	600	—	—
Write-off of in-process research and development	—	—	12,400
Impairment loss	—	125	—
Loss (gain) on disposal of fixed assets	1,707	301	(2)
Share-based compensation	524	242	80
Change in royalty interest obligation	185	(5,183)	(2,756)
Changes in operating assets and liabilities, net of acquisition:			
Restricted cash	(34)	248	(1,430)
Trade accounts receivable	1,130	(1,562)	(173)
Inventories	299	277	(623)
Other current assets	244	(40)	(573)
Accounts payable	(4,438)	4,807	3,528
Other liabilities	2,724	(2,122)	1,593
Deferred revenue	3,793	11,303	7,424
Deferred rent	303	446	428
Net cash used in operating activities	(20,838)	(29,189)	(13,435)
Investing activities:			
Purchase of fixed assets	(5,509)	(5,840)	(2,124)
Proceeds from sale of fixed assets	—	2	4
Acquisition of intangibles	—	—	(1,442)
Acquisition of SkyePharma, Inc., net of cash acquired of $175	—	—	(20,813)
Net cash used in investing activities	(5,509)	(5,838)	(24,375)
Financing activities:			
Proceeds from issuance of preferred stock	—	40,000	45,000
Proceeds from exercise of stock options and issuance of common stock	3	173	50
Proceeds from convertible notes	10,625	—	—
Proceeds from secured promissory notes	10,625	—	—
Financing costs	(215)	—	—
Net cash provided by financing activities	21,038	40,173	45,050
Net (decrease) increase in cash and cash equivalents	(5,309)	5,146	7,240
Cash and cash equivalents, beginning of year	12,386	7,240	—
Cash and cash equivalents, end of year	$ 7,077	$ 12,386	$ 7,240
Supplemental cash flow information:			
Cash paid for interest	$ 1,714	$ 1,692	$ 1,070
Non-cash investing and financing activities:			
Accrual for repurchase of intangibles	$ 323	$ 294	$ —
Accrued fixed asset purchases	$ 2,254	$ 3,682	$ —
Value of warrants issued with convertible debt and beneficial conversion feature	$ 537	$ —	$ —
Value of warrants issued to landlord	$ 204	$ —	$ —

See accompanying notes to consolidated financial statements.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements

1. BUSINESS

Pacira Pharmaceuticals, Inc., and its subsidiaries (collectively, the "Company" or "Pacira") is an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on its proprietary DepoFoam drug delivery technology, for use in hospitals and ambulatory surgery centers.

The Company was incorporated in Delaware under the name Blue Acquisition Corp. in December 2006 and changed its name to Pacira, Inc. in June 2007. In October 2010, the Company changed its name to Pacira Pharmaceuticals, Inc. Pacira Pharmaceuticals, Inc. is the holding company for the Company's California operating subsidiary of the same name, which we refer to as PPI-California. The consolidated financial statements include the Company's wholly owned subsidiaries PPI-California and Pacira Limited.

As further discussed in Note 4, on March 24, 2007, or the Acquisition Date, MPM Capital, Sanderling Ventures, OrbiMed Advisors, HBM BioVentures, the Foundation for Research and their co-investors, or the Investors, through Pacira Pharmaceuticals, Inc., acquired PPI-California, from SkyePharma Holding, Inc., which we refer to as the Acquisition. PPI-California was known as SkyePharma, Inc. prior to the Acquisition.

Risks and Uncertainties

The Company 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 customers and products, new technological innovations, dependence on key personnel, reliance on third-party service providers and vendors, protection of proprietary technology, and compliance with government regulations.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has reported net losses of $31.7 million, $41.9 million, and $36.2 million and negative cash flows from operating activities of $20.8 million, $29.2 million and $13.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, the Company had a net working capital deficit of $1.9 million and stockholders' deficit of $22.9 million. The Company has incurred losses and negative operating cash flow since inception and future losses are anticipated. The Company's continued operations will depend on its ability to raise additional funds through sources such as equity and debt financing and revenues from the commercial sale of EXPAREL. Insufficient funds could require the Company to delay, scale back or eliminate one or more of its research and development programs. The ability of the Company to continue as a going concern is dependent on improving the Company's profitability and cash flow and securing additional financing. While the Company believes in the viability of its strategy to increase revenues and profitability and in its ability to raise additional funds, and believes that the actions presently being taken by the Company provide the opportunity for it to continue as a going concern, there can be no assurance that such financing will be available on acceptable terms, or at all. These consolidated financial statements do not include any adjustments related to the recoverability and classification of asset amounts or the amounts and classification of liabilities that might be necessary if the Company is unable to continue as a going concern.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries PPI-California and Pacira Limited. Pacira Limited was incorporated in the United Kingdom and its functional currency is the U.S. dollar. Intercompany accounts and transactions have been eliminated in consolidation.

Although the consolidated financial statements of Pacira reflect the operations of the Company for the year ended December 31, 2007, it had no substantive operations prior to the acquisition of SkyePharma, Inc. on March 24, 2007 and do not reflect the operations of PPI-California until March 24, 2007, after the Acquisition Date.

Reverse Stock Split

On January 12, 2011, the board of directors of the Company approved, and on January 12, 2011 the stockholders of the Company approved, a one-for-10.755 reverse stock split of the Company's outstanding common stock, which was effected on January 12, 2011. Stockholders entitled to fractional shares as a result of the reverse stock split will receive a cash payment for such fractional shares within 180 days following the effective date of the reverse stock split in lieu of receiving fractional shares. The reverse stock split affected all holders of the Company's preferred stock and common stock uniformly. Shares of common stock underlying outstanding stock options were proportionately reduced and the respective exercise prices were proportionately increased in accordance with the terms of the agreements governing such securities. Shares of common stock reserved for issuance upon the conversion of the Company's series A preferred stock and convertible notes were proportionately reduced and the respective conversion prices were proportionately increased. All references to preferred and common stock and per share information, except par value and authorized shares, in these consolidated financial statements and notes have been adjusted to reflect the effects of the reverse stock split.

Correction of Immaterial Errors

The Company identified certain immaterial errors in its previously issued consolidated financial statements for the years ended December 31, 2009, 2008 and 2007, as follows:

- the improper separate accounting for an embedded derivative related to the Company's royalty interest obligation; and
- the improper classification of patent costs as a component of research and development expenses rather than as a component of selling, general and administrative expenses.

The error in the accounting for the embedded derivative resulted in an understatement of the 2009 net loss of $562,000, an overstatement of the 2008 net loss of $673,000 and an understatement of the 2007 net loss of $1,025,000.

The error in the classification of patent costs had the effect of overstating research and development expenses and understating selling, general and administrative expenses by $809,000, $853,000 and $581,000 for 2009, 2008 and 2007, respectively, but had no effect on reported loss from operations or net loss.

The Company reviewed the accounting errors utilizing SEC Staff Accounting Bulletin No. 99, "Materiality" ("SAB 99") and SEC Staff Accounting Bulletin No. 108, "Effects of Prior Year Misstatements on Current Year

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Financial Statements" ("SAB 108") and determined the impact of the errors to be immaterial to any prior period's presentation. The accompanying 2009, 2008, and 2007 consolidated financial statements reflect the corrections of the aforementioned immaterial errors.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingent assets and contingent liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's critical accounting policies are those that are both most important to the Company's consolidated financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may materially vary from these estimates.

Cash and Cash Equivalents

All highly-liquid investments with maturities of 90 days or less when purchased are considered cash equivalents.

Restricted Cash

As further discussed in Note 10, the Company has entered into a financing agreement with Royalty Securitization Trust I ("RST") for the sale of a royalty interest in its DepoCyt(e) and DepoDur supply revenue and royalties. As part of this financing agreement, the Company and RST maintain a lockbox, where all DepoCyt(e) and DepoDur supply revenue and royalties are received. The Company has no minimum payment obligations under this agreement. Commencing on April 1 of every year, the first $2.5 million received in the lockbox is restricted and will be used to make quarterly payments due to RST, if any, under the agreement during the subsequent 12 month period. On March 31 of the subsequent year, the balance of cash in the lockbox, if any, is remitted to Pacira. The RST agreement terminates on December 31, 2014. The royalty interest agreement pertains only to DepoCyt(e) and DepoDur, and does not include revenue related to EXPAREL or any other product candidates.

Credit Risk

The Company performs ongoing credit evaluations of its customers, as warranted, and generally does not require collateral. Revenues from the supply of manufactured product for the Company's commercial partners, royalties, contractual services provided to its collaboration partners and licensing and development fees are primarily derived from major pharmaceutical companies that generally have significant cash resources. Allowances for doubtful accounts receivable are maintained based on historical payment patterns, aging of accounts receivable and actual write-off history. As of December 31, 2009 and 2008, no allowances for doubtful accounts were deemed necessary by the Company on its trade accounts receivable.

Concentration of Major Customers

The Company's customers are its commercial and collaborative and licensing partners. For the year ended December 31, 2009, the Company's three largest customers accounted for 44%, 23% and 20%, individually, of

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

the Company's net revenues. For the year ended December 31, 2008, the Company's four largest customers accounted for 46%, 20%, 16% and 12%, respectively, of the Company's net revenues. For the year ended December 31, 2007, the Company's two largest customers accounted for 49% and 34%, respectively, of the Company's net revenues. No other individual customers accounted for more than 10% of net revenues. As of December 31, 2009, the Company's three largest customers accounted for 56%, 26% and 13%, respectively, of the Company's trade accounts receivables. As of December 31, 2008, the Company's four largest customers accounted for 29%, 23%, 23% and 12%, individually, of the Company's trade accounts receivables. The Company is dependent on these commercial partners to market and sell DepoCyt(e) and DepoDur, from which a substantial portion of its revenues is derived; therefore, the Company's future revenues from these products are highly dependent on these collaboration and distribution arrangements.

Domestic net revenues for the years ended December 31, 2009, 2008 and 2007 accounted for 52%, 48% and 49% of the Company's net revenues, respectively. Export revenues for the years ended December 31, 2009, 2008 and 2007 accounted for 48%, 52%, and 51% of the Company's net revenues, respectively.

Inventories

Inventories consist of finished goods held for sale and distribution, raw materials and work in process, and are stated at the lower of cost, which includes amounts related to material, labor and overhead, and is determined using the first-in, first-out ("FIFO") method, or market (net realizable) value. The Company periodically reviews its inventory to identify obsolete, slow-moving or otherwise unsalable inventories, and establishes allowances for situations in which the cost of the inventory is not expected to be recovered. Overhead costs associated with excess manufacturing capacity are charged to cost of revenue, as incurred.

Fixed Assets

Property, plant and equipment are recorded at cost, net of accumulated depreciation and amortization. The Company reviews its property, plant and equipment assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Depreciation of equipment, furniture and fixtures is provided over their estimated useful lives on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the related lease terms. Useful lives by asset category are as follows:

Asset Category	Years
Manufacturing and laboratory equipment	5 to 10 years
Computer equipment and software	1 to 3 years
Office furniture and equipment	5 years
Leasehold improvements	1 to 9 years (up to the lease term)

Impairment of Long-Lived Assets

Intangible assets are recorded at cost, net of accumulated amortization. Amortization of intangible assets is provided over their estimated useful lives on a straight-line basis. Management reviews long-lived assets, including fixed assets, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value for the Company's long-lived assets is determined using the expected cash flows discounted at a rate commensurate with the risk involved.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Acquired in-Process Research and Development

The Company acquired in-process research and development ("IPR&D") projects as part of the Acquisition (see Note 4). The estimated fair value of IPR&D projects, which had not reached technological feasibility at the date of acquisition and which did not have an alternative future use, were immediately expensed. Accordingly, in 2007, the Company wrote off $12.4 million of acquired IPR&D related to the Acquisition.

Settlement of Trade Payables

During April 2009, the Company initiated a payables settlement program with its trade creditors using various settlement arrangements. As of April 30, 2009, total outstanding unsecured trade payables subject to these settlement arrangements was $14.3 million. These creditors agreed to settle their outstanding balances for an aggregate of $12.5 million resulting in reduction in payables of $1.8 million. The Company has recorded a $1.3 million reduction to the carrying amount of fixed assets and included a $0.4 million gain in other income on the Company's consolidated statement of operations for the year ended December 31, 2009. The remaining $0.1 million additional gain will be recorded as these obligations are paid. As of December 31, 2009, $5.5 million related to these settlement arrangements remained outstanding and was included in accounts payable in the Company's consolidated balance sheet.

Foreign Currencies

Realized gains and losses from foreign currency transactions are reflected in the consolidated statements of operations and were not significant in any period in the years ended December 31, 2009, 2008 or 2007. All foreign currency receivables and payables are measured at the applicable exchange rate at the end of the reporting period.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances are established. As of December 31, 2009 and 2008, all deferred tax assets were fully offset by a valuation allowance.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, Income Taxes ("ASC 740"), clarifies the accounting for uncertainty in income taxes recognized in the financial statements. ASC 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. ASC 740 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted these provisions of ASC 740 on January 1, 2007, and the adoption did not have a material impact on its consolidated financial position or results of operations.

The Company accrues interest and penalties, if any, on underpayment of income taxes related to unrecognized tax benefits as a component of income tax expense in its consolidated statements of operations.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Revenue Recognition

Supply Revenue—The Company recognizes revenue from products manufactured and supplied to its commercial partners, when the following four basic revenue recognition criteria under the related accounting guidance are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. The product can be returned within contracted specified time frames if it does not meet the applicable inspection tests. The Company estimates its return reserves based on its experience of historical return rates.

Royalties—The Company recognizes revenue from royalties based on sales of its products into the marketplace by its commercial partners. Royalties are recognized as earned in accordance with contract terms when they can be reasonably estimated and collectability is reasonably assured. The Company's commercial partners are obligated to report their net product sales and the resulting royalty due to the Company within 60 days from the end of each quarter. Based on historical product sales, royalty receipts and other relevant information, the Company accrues royalty revenue each quarter.

Collaborative licensing and development revenue—The Company recognizes revenue from reimbursements received in connection with feasibility studies and development work for third parties who desire to utilize its DepoFoam extended release drug delivery technology for their products, when the Company's contractual services are performed, provided collectability is reasonably assured. The Company's principal costs under these agreements include its personnel conducting research and development, and its allocated overhead, as well as research and development performed by outside contractors or consultants.

The Company recognizes revenues from non-refundable up-front license fees received under collaboration agreements ratably over the performance period as determined under the collaboration agreement (estimated development period in the case of development agreements, and contract period or longest patent life in the case of supply and distribution agreements). If the estimated performance period is subsequently modified, the Company will modify the period over which the up-front license fee is recognized accordingly on a prospective basis. Upon termination of a collaboration agreement, any remaining non-refundable license fees received by the Company, which had been deferred, are generally recognized in full. All such recognized revenues are included in collaborative licensing and development revenue in the Company's consolidated statements of operations.

The Company recognizes revenue from milestone payments received under collaboration agreements when earned, provided that the milestone event is substantive, its achievability was not reasonably assured at the inception of the agreement, the Company has no further performance obligations relating to the event, and collectability is reasonably assured. If these criteria are not met, the Company recognizes milestone payments ratably over the remaining period of the Company's performance obligations under the collaboration agreement. All such recognized revenues are included in collaborative licensing and development revenue in the Company's consolidated statements of operations. All of the milestone payments received in 2009, 2008 and 2007 are recognized ratably over the period of the Company's performance obligations.

Research and Development Expenses

Research and development expenses consist of costs associated with products being developed internally, and include related personnel expenses, laboratory supplies, active pharmaceutical ingredients, manufacturing supplies, facilities costs, preclinical and clinical trial costs, and other outside service fees. The Company expenses research and development costs as incurred. A significant portion of the Company's development activities are outsourced to third parties, including contract research organizations. In such cases, the Company may be required to make estimates of related service fees to be accrued.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Per Share Data

Net loss per share is determined in accordance with the two-class method. This method is used for computing basic net loss per share when companies have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the Company. Under the two-class method, net loss is allocated between common shares and other participating securities based on their participation rights in both distributed and undistributed earnings. The Company's Series A convertible preferred stock are participating securities, since the stockholders are entitled to share in dividends declared by the board of directors with the common stock based on their equivalent common shares.

Basic net loss per share is computed by dividing net loss available (attributable) to common stockholders by the weighted average number of shares of common stock outstanding during the period. Because the holders of the Series A Convertible Preferred Stock are not contractually required to share in the Company's losses, in applying the two-class method to compute basic net loss per common share no allocation to preferred stock was made for the years ended December 31, 2009, 2008, and 2007.

Diluted net loss per share is calculated by dividing net loss available (attributable) to common stockholders as adjusted for the effect of dilutive securities, if any, by the weighted average number of common stock and dilutive common stock outstanding during the period. Potential common shares include the shares of common stock issuable upon the exercise of outstanding stock options and a warrant (using the treasury stock method) and the conversion of the shares of Series A convertible preferred stock (using the more dilutive of the (a) as converted method or (b) the two-class method). Potential common shares in the diluted net loss per share computation are excluded to the extent that they would be anti-dilutive. No potentially dilutive securities are included in the computation of any diluted per share amounts as the Company reported a net loss for all periods presented. Potentially dilutive securities that would be issued upon the conversion of convertible notes, conversion of Series A convertible preferred stock and the exercise of outstanding warrants and stock options, were 7.2 million, 6.6 million and 3.3 million as of December 31, 2009, 2008, and 2007, respectively.

Share-Based Compensation

The Company's share-based compensation programs include grants of stock options to employees, consultants and non-employee directors. The expense associated with these programs is recognized in the Company's consolidated statements of operations based on their fair values as they are earned by the employees, consultants and non-employee directors under the applicable vesting terms.

The valuation of stock options is an inherently subjective process, since market values are generally not available for long-term, non-transferable stock options. Accordingly, the Company uses an option pricing model to derive an estimated fair value. In calculating the estimated fair value of stock options granted, the Company uses the Black-Scholes option pricing model which requires the consideration of the following variables for purposes of estimating fair value:

- the stock option exercise price;
- the expected term of the option;
- the grant date fair value of the Company's common stock, which is issuable upon exercise of the option;
- the expected volatility of the Company's common stock;
- expected dividends on the Company's common stock; and
- the risk-free interest rate for the expected option term.

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Notes to Consolidated Financial Statements—(continued)

Of the variables above, the Company believes that the selection of an expected term and expected stock price volatility are the most subjective. The Company's historical stock option exercise experience does not provide a reasonable basis upon which to estimate expected term. Accordingly, the Company uses a term based on a simplified method, pursuant to SEC Staff Accounting Bulletin No. 107, *Share-based Payment*, for "plain vanilla" options. For calculating stock price volatility, the Company utilizes historical stock prices of publicly traded companies that are similar to Pacira.

The Company estimates the level of award forfeitures expected to occur, and records compensation cost only for those awards that are ultimately expected to vest.

Segment Reporting

The Company currently operates in a single operating segment. The Company generates revenue from various sources that result primarily from its revenue from DepoCyt(e) and DepoDur underlying research and development activities. In addition, financial results are prepared and reviewed by management as a single operating segment.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU 2009-13"). ASU 2009-13, amends existing revenue recognition accounting pronouncements that are currently within the scope of ASC Subtopic 605-25. This authoritative guidance provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASU 2009-13 introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This guidance is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated results of operations, financial position or cash flows.

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, "Milestone Method of Revenue Recognition (Topic 605)" ("ASU 2010-17"). This update provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Authoritative guidance on the use of the milestone method did not previously exist. This guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Alternatively, retrospective adoption is permitted for all prior periods. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated results of operations, financial position or cash flows.

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.

4. ACQUISITION OF SKYEPHARMA, INC.

Pacira Pharmaceuticals, Inc., a Delaware corporation, is the holding company for a California operating subsidiary of the same name, which we refer to as PPI-California. On the Acquisition Date, MPM Capital, Sanderling Ventures, OrbiMed Advisors, HBM Bioventures, the Foundation for Research and their co-investors, through Pacira Pharmaceuticals, Inc., acquired PPI-California, from SkyePharma Holding, Inc., which is referred

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Notes to Consolidated Financial Statements—(continued)

to herein as the Acquisition. PPI-California was known as SkyePharma, Inc. prior to the Acquisition. The Investors acquired PPI-California to develop the DepoFoam extended release drug delivery technology and purchase the DepoFoam-based marketed products and product pipeline, most notably EXPAREL, a bupivacaine-based product candidate for postsurgical pain management.

The initial purchase price was $19.6 million and was funded from the sale proceeds of Series A convertible preferred stock and common stock of the Company. The results of operations of SkyePharma, Inc., are included in the consolidated financial statements of the Company from the Acquisition Date. The intangible assets acquired were core and developed technology, trademarks and trade names, and IPR&D. Purchased IPR&D totaling $12.4 million was expensed upon the Acquisition because technological feasibility had not been established and no future alternative uses existed for the technology. The Company determined the estimated fair value of the developed technology, core technology and IPR&D based on a valuation that used the income method. Significant assumptions in the Company's analysis included discount rates of 68%, 55% and 63% for IPR&D, developed technology and core technology, respectively. The components of the purchase price allocation for SkyePharma, Inc. are as follows:

Purchase consideration:	
(in thousands)	
Cash paid to SkyePharma Holding, Inc.	$19,632
Acquisition costs	1,355
Contingent purchase liability	2,042
Total purchase consideration	$ 23,029
Allocation of purchase price:	
(in thousands)	
Acquired cash	$ 175
Accounts receivable	850
Inventories	1,682
Prepaid expenses and other assets	626
Fixed assets	10,155
In-process research and development	12,400
Acquired intangible assets:	
Core technology	2,900
Developed technology	11,700
Trademarks and trade names	800
Liabilities assumed:	
Royalty interest obligation (see Note 10)	(13,000)
Unfavorable lease obligations	(3,300)
Other liabilities assumed	(1,959)
	$ 23,029

The acquired intangibles consist of core technology, developed technology, and trademarks and trade names. As of the Acquisition Date, the core technology was comprised of the DepoFoam drug delivery technology and the developed technology was comprised of the DepoCyt(e) and DepoDur marketed products. The acquired trademarks and trade names include DepoCyt, DepoCyte, DepoDur and DepoFoam and related intellectual property. The amortization periods for the acquired intangibles are seven to nine years.

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Notes to Consolidated Financial Statements—(continued)

At the Acquisition Date, the Company determined that the lease rates associated with the assumed facilities leases were above market rates resulting in a $3.3 million unfavorable lease accrual as of the Acquisition Date. The unfavorable lease accrual, which is recorded in other long-term liabilities in the Company's consolidated balance sheets, is amortized over the remaining terms of the leases.

In addition to the initial $19.6 million purchase price, the Company entered into an earn-out agreement with SkyePharma Holding, Inc. as additional purchase price which was based on Pacira reaching certain revenue milestones following the Acquisition. According to this agreement, Pacira would pay SkyePharma Holding, Inc. royalty payments based on the net revenues of EXPAREL and certain other products from the future yet-to-be-developed biologics product line and milestone payments of up to an aggregate of $62 million upon the occurrence of the following events: a) first commercial sale in the United States; b) first commercial sale in a major EU country (UK, France, Germany, Italy, or Spain); c) annual net sales reach $100 million; d) annual net sales reach $250 million and e) annual net sales reach $500 million. Additionally, the Company agreed to pay to SkyePharma Holding, Inc. a 3% royalty of its sales of EXPAREL in the United States, Japan, the United Kingdom, France, Germany, Italy and Spain. The fair value of this contingent obligation was $13.9 million on the Acquisition Date. For business combinations involving contingent consideration (that is, a combination that might result in the acquiring enterprise recognizing additional purchase price in a future period (also referred to as "contingent consideration")), the acquiring enterprise is required to recognize, as if it were a liability, an amount equal to the lesser of: (1) the maximum amount of contingent consideration issuable, and (2) the total amount of negative goodwill. Accordingly, even though the fair value of the contingent consideration was $13.9 million, the Company recognized only $2.0 million as a contingent purchase liability as of the Acquisition Date. The carrying amount of the contingent purchase liability to SkyePharma Holding, Inc. was $2.0 million as of December 31, 2009 and 2008. The Company has not paid any earn-out to SkyePharma Holding, Inc. for the years ended December 31, 2009, 2008 and 2007.

Had the Acquisition been completed as of the beginning of 2007, the Company's pro forma results for 2007 would have been as follows:

(in thousands, except per share data)	(Unaudited)
Revenue	$ 9,860
Net loss	$(48,165)
Basic and diluted net loss per common share	$ (103.60)
Basic and diluted weighted average shares	464,900

5. FAIR VALUE MEASUREMENTS

Financial assets and financial liabilities are required to be measured and reported on a fair value basis using the following three categories for classification and disclosure purposes:

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.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company also considers counterparty credit risk in its assessment of fair value.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

The carrying value of financial instruments including cash and cash equivalents, restricted cash, accounts receivable, note receivable, and accounts payable approximate their respective fair values due to the short-term maturities of these instruments and debts. The fair value of the Company's convertible notes (see Note 10) and promissory notes (see Note 10) cannot be practicably determined due to their related party nature.

6. INVENTORIES

The components of inventories were as follows:

	December 31,	
	2009	2008
	(in thousands)	
Raw materials	$ 811	$ 915
Work-in-process	48	13
Finished goods	965	1,281
	1,824	2,209
Less provision for excess and obsolete inventory	(95)	(181)
Inventory, net	$1,729	$2,028

7. FIXED ASSETS

Fixed assets, at cost, summarized by major category, consist of the following:

	December 31,	
	2009	2008
	(in thousands)	
Machinery and laboratory equipment	$ 19,413	$16,934
Computer equipment and software	765	760
Office furniture and equipment	167	167
Leasehold improvements	3,809	3,388
Total	24,154	21,249
Less accumulated depreciation	(4,594)	(3,212)
Fixed assets, net	$19,560	$ 18,037

Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was $1.9 million, $2.0 million and $1.5 million, respectively. Depreciation expenses associated with the Company's commercial products are included in cost of revenue. Depreciation expenses associated with the Company's products in development are included in research and development expenses. Depreciation expenses associated with general and administrative activities are included in selling, general and administrative expenses.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

8. INTANGIBLE ASSETS

Intangible assets consist of core technology, developed technology and trademarks and trade names acquired in the acquisition of SkyePharma, Inc. (see Note 4). Intangible assets are recorded at cost, net of accumulated amortization. Amortization of intangible assets is provided over their estimated useful lives on a straight-line basis.

Intangible assets are summarized as follows:

	December 31, 2009	December 31, 2008	Estimated Useful Life
	(In thousands)		
Core Technology			
Gross Amount	$ 2,900	$ 2,900	9 years
Accumulated amortization	(886)	(564)	
Net	2,014	2,336	
Developed Technology			
Gross Amount	11,700	11,700	7 years
Accumulated amortization	(4,596)	(2,925)	
Net	7,104	8,775	
Trademarks and trade names			
Gross Amount	500	500	7 years
Accumulated amortization	(176)	(100)	
Net	324	400	
DepoDur Rights			
Gross Amount	2,058	1,736	Remaining patent life
Accumulated amortization	(322)	(163)	ending November 2018
Net	1,736	1,573	
Intangible assets, net	$ 11,178	$ 13,084	

Amortization expense for intangibles was $2.2 million, $2.2 million and $1.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. Amortization expenses associated with the Company's commercial products and developed technology are included in cost of revenue. Amortization expenses associated with the Company's products in development are included in research and development expenses.

The approximate amortization expense for intangibles subject to amortization is as follows (in thousands):

	Core Technology	Developed Technology	Trademarks and Tradenames	DepoDur Rights	Total
2010	$ 322	$1,671	$ 76	$ 196	$ 2,265
2011	322	1,671	76	196	2,265
2012	322	1,671	76	196	2,265
2013	322	1,671	76	196	2,265
2014	322	420	20	196	958
Thereafter	404	—	—	756	1,160
Total	$ 2,014	$ 7,104	$ 324	$1,736	$11,178

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Intangibles are evaluated for potential impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recorded to the extent the asset's carrying value is in excess of the fair value of the asset. When fair values are not readily available, the Company estimates fair values using expected discounted future cash flows. During 2008, the Company recorded an impairment loss of $125,000, primarily related to the Company's DepoDur trademark. The DepoDur trademark was determined to be impaired because the Company's revised estimates of future sales were significantly lower than its prior estimates. Such impairment losses are reflected in costs of revenue in the Company's consolidated statements of operations. No impairment loss was recorded in 2009 and 2007. The Company believes that this impairment will not have a material impact on its future operations and cash flows because (i) the cash flows from DepoDur are not material and (ii) the Company has already taken the impairment charge for this trademark.

9. OTHER BALANCE SHEET DETAILS

Other current assets consist of the following:

	December 31, 2009	December 31, 2008
	(in thousands)	
Prepaid expenses	$ 761	$ 868
Other	311	308
Total	$1,072	$1,176

Accrued expenses consist of the following:

	December 31, 2009	December 31, 2008
	(in thousands)	
Compensation and benefits	$ 518	$1,085
Lease rent deferral - current portion	1,705	—
Other	1,255	648
	$ 3,478	$ 1,733

10. DEBT AND FINANCING ARRANGEMENTS

The composition of the Company's debt and financing obligations, including accrued interest, is as follows:

	December 31, 2009	December 31, 2008
	(in thousands)	
Related party debt, including accrued interest:		
Convertible notes payable	$ 11,124	$ —
Secured notes payable	11,049	—
	22,173	—
Financing obligations:		
Royalty interest obligation, current portion	1,599	1,443
Royalty interest obligation, long-term portion	3,647	3,618
	5,246	5,061
Total debt and financing obligations	$27,419	$5,061

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Convertible Notes Payable

In 2009, the Company sold $10.63 million aggregate principal amount of unsecured convertible promissory notes, or the 2009 Convertible Notes. The 2009 Convertible Notes were issued with detachable warrants to purchase an aggregate of 158,061 shares of the Company's common stock at an exercise price of $2.69 per share. In recording the transaction, the Company allocated the proceeds of the 2009 Convertible Notes and the warrants based on their relative fair values. Fair value of the warrants was determined using the Black-Scholes valuation model and allocated to additional paid-in capital. It was also determined that the 2009 Convertible Notes contained a beneficial conversion feature since the fair value of the common stock issuable upon the conversion of the notes exceeded the value allocated to the notes. The Company recognized and measured the embedded beneficial conversion feature of each of the 2009 Convertible Notes by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The intrinsic value of the beneficial conversion feature was calculated at the commitment date as the difference between the conversion price and the fair value of the securities into which the convertible instruments were convertible.

The 2009 Convertible Notes accrue interest at an annual rate of 5% payable at maturity or at the time of conversion. In connection with entering into the GECC Credit Facility in April 2010, as further described in Note 18, the maturity date was extended to the earliest of (1) a sale of the Company, (2) December 31, 2013 and (3) 91 days after the date that all obligations under the GECC Credit Facility are paid in full and the GECC Credit Facility is terminated. Also in connection with entering into the GECC Credit Facility, the holders of the 2009 Convertible Notes entered into (i) a subordination agreement with GECC pursuant to which the 2009 Convertible Notes were subordinated to the GECC Credit Facility and (ii) an inter-creditor agreement with the holders of the 2009 Secured Notes and the 2010 Secured Notes, as further described below, whereby the 2009 Convertible Notes were subordinated to the 2009 Secured Notes (described below) and 2010 Secured Notes (described in Note 18) and the holders of the 2009 Secured Notes agreed to share payments pro rata with the holders of the 2010 Secured Notes.

Upon the closing of a Qualified Financing (as defined below), unless the holders of a majority of the aggregate principal amount of all 2009 Convertible Notes have elected Optional Conversion of the 2009 Convertible Notes as described below, all outstanding principal and accrued interest under the 2009 Convertible Notes will automatically convert into shares of the same class and series of capital stock of the Company issued to investors in the Qualified Financing at a conversion price per share equal to the price per share paid by other investors in the Qualified Financing. A "Qualified Financing" means the next sale of preferred stock of the Company (i) with gross proceeds to the Company (including proceeds from any indebtedness of the Company that converts into equity in such financing) of at least $10 million or (ii) that is designated as a "Qualified Financing" by the holders of a majority of the aggregate principal amount of all 2009 Convertible Notes. Additionally, the 2009 Convertible Notes and any unpaid interest may be converted to Series A convertible preferred stock upon the election by the holders of a majority of the aggregate principal amount of all 2009 Convertible Notes with a conversion price paid per share equal to the price per share of Series A convertible preferred stock at the time of conversion ("Optional Conversion"). The warrants have an exercise price per share of $2.69 and will expire on January 21, 2014.

In the event of the completion of a merger or consolidation, sale of all the Company's assets or common stock or voluntary or involuntary liquidation, prior to full payment of the 2009 Convertible Notes or prior to the time when the 2009 Convertible Notes may be converted, the 2009 Convertible Notes will be due and payable with a control premium and the then outstanding principal and unpaid accrued interest and will be senior to all payments of Company common stock and Series A convertible preferred stock. Additionally, the 2009 Convertible Notes are due on demand in the event of default, litigation that threatens to materially and adversely affect the Company's business, operations, assets or results of operations, or bankruptcy by the Company.

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Notes to Consolidated Financial Statements—(continued)

The value of the warrants has been recorded as a discount to the 2009 Convertible Notes and amortized as a component of interest expense over the original term of the notes. For the year ended December 31, 2009, the amortization of the discount was $268,591 resulting in no remaining balance as of December 31, 2009.

The value of the beneficial conversion feature has been recorded as a discount to the 2009 Convertible Notes and amortized as a component of interest expense over the original term of the notes. For the year ended December 31, 2009, the amortization of the discount was $268,591 resulting in no remaining balance as of December 31, 2009.

The outstanding principal and accrued interest on the 2009 Convertible Notes was $10.6 million and $0.5 million, respectively, as of December 31, 2009 and interest expense associated with these notes was $0.5 million for the year ended December 31, 2009.

Secured Promissory Notes

In June 2009, the Company entered into an agreement with certain of its existing investors to issue $10.63 million in aggregate principal amount of secured notes, or the 2009 Secured Notes. To secure the performance of the Company's obligations under purchase agreement for the 2009 Secured Notes, the Company granted a security interest in all of its assets except the assets that secure the Company's obligations under its agreement with Paul Capital to the investors. In connection with entering into the GECC Credit Facility in April 2010, as further described in Note 18, the holders of the 2009 Secured Notes entered into (i) a subordination agreement with GECC pursuant to which the 2009 Secured Notes were subordinated to the GECC Credit Facility, and (ii) an inter-creditor agreement with the holders of the 2009 Convertible Notes and the 2010 Secured Notes, as further described below, whereby the 2009 Convertible Notes were subordinated to the 2009 Secured Notes and 2010 Secured Notes and the holders of the 2009 Secured Notes agreed to share payments pro rata with the holders of the 2010 Secured Notes.

The 2009 Secured Notes have an interest rate of 12% per year and all principal and accrued and unpaid interest on the 2009 Secured Notes is due on December 31, 2010. In connection with entering into the GECC Credit Facility, the maturity date was extended to the earliest of (1) a sale of the Company, (2) December 16, 2013 and (3) 91 days after the date that all obligations under the GECC Credit Facility are paid in full and the GECC Credit Facility is terminated.

The outstanding principal and accrued interest on the 2009 Secured Notes was $10.6 million and $0.4 million, respectively, as of December 31, 2009 and interest expense associated with these promissory notes was $0.4 million for the year ended December 31, 2009.

Sale of Royalty Interests

In 2000, PPI-California and SkyePharma PLC entered into a Royalty Interests Assignment Agreement ("PLC Royalty Agreement") with an affiliate of Paul Capital Advisors, LLC ("Paul Capital") to raise $30 million. Under the PLC Royalty Agreement, Paul Capital had the right to receive a royalty interest in four of SkyePharma's product sales including product sales of and other payments related to DepoCyt(e) and DepoDur. Payments began for product sales realized on or after January 1, 2003 and continue through December 31, 2014.

In connection with the Acquisition, the PLC Royalty Agreement was amended ("Amended and Restated Royalty Interests Assignment Agreement"). As part of this amendment the responsibility to pay the royalty interest in product sales of DepoCyt(e) and DepoDur were transferred to the Company and the payment to Paul

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Capital in a "Purchase Option Event" of the Company, as described below, was defined. The net present value of royalties expected to be repaid to Paul Capital (the "royalty interest obligation") was valued at $13.0 million.

The Company recorded the royalty interest obligation as a liability in the Company's consolidated balance sheets in accordance with ASC 470-10-25, Sales of Future Revenues. The Company imputes interest expense associated with this liability using the effective interest rate method. The effective interest rate may vary during the term of the agreement depending on a number of factors including the actual sales of DepoCyt(e) and DepoDur and a significant estimation, performed quarterly, of certain of the Company's future cash flows related to these products during the remaining term of the Royalty Interests Assignment Agreement which terminates on December 31, 2014. Any adjustment to the estimates is reflected in the Company's consolidated statements of operations as interest income (expense). In addition, such cash flows are subject to foreign exchange movements related to sales of DepoCyt(e) and DepoDur denominated in currencies other than U.S. dollars.

The PLC Royalty Agreement also includes a provision for a "Purchase Option Event." The events include: (1) any change of control, a direct or indirect consequence of which is a material abatement of efforts to develop, market or sell any of the products or reformulated products; or (2) the transfer by the parent of all or substantially all of the parent's consolidated assets; or (3) the transfer by the Company of all or any part of their respective interests in the products or reformulated products, or (4) bankruptcy or other breach or default under the agreement.

In the event a Purchase Option Event occurs, Paul Capital shall have the right, but not the obligation, exercisable within 90 days, to require the Company to repurchase from Paul Capital the Royalty Interests Assignment, for a repurchase price equal to 50% of the cumulative amount of all payments made during the preceding 24 months (calculated from the date of the Purchaser's receipt of the notice from the Company of the Purchase Option Event) multiplied by the number of days from the date of Paul Capital's exercise of such option until December 31, 2014, divided by 365.

The Company has no minimum payment obligations under the PLC Royalty Agreement. However, the repayment of the Paul Capital liability is supported through a jointly controlled lockbox, where all DepoCyt(e) and DepoDur supply revenue and royalties are received. Commencing April 1 of every year, the first $2.5 million received in the lockbox is restricted and will be used to make quarterly payments due to Paul Capital, if any, under the agreement during the subsequent 12 month period. On March 31 of the subsequent year, the balance of cash in the lockbox, if any, is remitted to Pacira. The PLC Royalty Agreement terminates on December 31, 2014. The PLC Royalty Agreement pertains only to DepoCyt(e) and DepoDur, and does not include revenue related to EXPAREL or any other product candidates. As of December 31, 2009 and 2008, $1.2 million was in the lockbox and included in restricted cash in the Company's consolidated balance sheets.

11. **STOCKHOLDERS' EQUITY**

Common Stock

In connection with its formation, the Company issued in March 2007 an aggregate of 464,900 shares of common stock for total aggregate consideration of $50,000.

Series A Convertible Preferred Stock

In March 2007, the Company entered into a Series A Preferred Stock Purchase Agreement pursuant to which the Company issued and sold an aggregate of 6,322,640 shares of Series A convertible preferred stock in four separate closings held in March 2007, February 2008, July 2008 and October 2008, at a purchase price of $13.44 per share. The aggregate consideration for the shares of Series A convertible preferred stock was $85 million in cash.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Each holder of Series A convertible preferred stock has the right, at the option of the holder at any time, to convert their shares of Series A convertible preferred stock into shares of common stock at a current conversion ratio of one-to-one, subject to adjustment for stock splits, certain capital reorganizations and dilutive stock issuances. Each share of the Company's Series A convertible preferred stock will automatically convert into shares of the Company's common stock, at the then effective applicable conversion ratio upon the earlier of: (i) the closing of the sale of the Company's common stock pursuant to a firmly underwritten public offering in which the Company receives gross proceeds of at least $25 million or (ii) the consent of the holders of at least 66 2/3% of the then outstanding shares of Series A convertible preferred stock.

The holders of Series A convertible preferred stock are entitled to receive, when, as and if declared by the Company's board of directors out of legally available funds, non-cumulative dividends in an amount equal to any dividends declared, paid or set aside on shares of the Company's common stock. As of December 31, 2009, no dividends have been declared by the Company's board of directors.

In the event of any liquidation, dissolution or winding up of the Company, the holders of the Series A convertible preferred stock will be entitled to receive in preference to the holders of the Company's common stock, the amount of their original purchase price per share, plus declared and unpaid dividends, if any. If the assets and funds available to be distributed among the holders of the Series A convertible preferred stock are insufficient to permit the payment to such holders of the full preference, then the entire assets and funds legally available for distribution to such holders shall be distributed ratably based on the total due each holder of the Series A convertible preferred stock. Any remaining assets of the Company will be distributed ratably among the holders of its common stock.

Holders of the Series A convertible preferred stock are entitled to the number of votes they would have upon conversion of their Series A convertible preferred stock into common stock at the then-applicable conversion rate. The holders of Series A convertible preferred stock have been granted certain rights with regard to the election of board members and various other corporate actions.

Warrants

On January 22, 2009, the Company issued warrants in connection with the issuance of the 2009 Convertible Notes (see Note 10). The warrants are convertible into an aggregate of 158,061 of shares of the Company's common stock at an exercise price of $2.69 per share and will expire on January 21, 2014. The value of the warrants has been recorded as a discount to the 2009 Convertible Notes and amortized as a component of interest expense over the original term of the 2009 Convertible Notes. For the year ended December 31, 2009, the amortization of the discount was $268,591 resulting in no remaining balance as of December 31, 2009.

In addition, on July 2, 2009 the Company issued warrants to the landlord of the Company's two San Diego facilities in connection with amendments to the respective lease agreements that deferred minimum annual rental obligations (see Note 13). The warrants are exercisable for an aggregate of 23,244 shares of Series A convertible preferred stock at a price of $13.44 per share and will expire on the earlier of July 1, 2016 or the fifth anniversary of the consummation of the Company's initial public offering. The value of the warrants was recorded as prepaid interest and is being amortized as a component of interest expense over the deferred rental payment term. For the year ended December 31, 2009, the amortization of the interest was $62,577 resulting in a balance of $141,439 as of December 31, 2009.

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Notes to Consolidated Financial Statements—(continued)

Share-Based Compensation

The Company recognized share-based compensation in its consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 as follows:

	Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
Selling, general and administrative	$ 349	$ 126	$ 25
Research and development	175	116	55
	$ 524	$ 242	$ 80

Pacira Stock Incentive Plan

Employees and directors have been granted options to purchase common shares under the 2007 Stock Option/Stock Issuance Plan (the "2007 Plan"). The 2007 Plan provides for the grant of options to purchase up to 650,860 shares of the Company's common stock. The 2007 Plan was amended in April 2008, to, among other things, increase the number of shares of common stock authorized for issuance under the 2007 Plan from 650,860 shares to 1,066,946 shares (see Note 18). Options granted under the 2007 Plan generally expire no later than ten years from the date of grant. The exercise price of incentive stock options must be equal to at least the fair value of the Company's common stock on the date of grant.

The following table summarizes the Company's stock option activity and related information for the period from January 1, 2007 to December 31, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term (years)
Outstanding at January 1, 2007			
Granted	560,290	$ 1.61	
Exercised	—	—	
Forfeited	(2,070)	1.61	
Expired	(79)	1.61	
Outstanding at December 31, 2007	558,141	1.61	9.7
Granted	454,110	1.96	
Exercised	(107,264)	1.61	
Forfeited	(114,064)	1.63	
Expired	(1,546)	1.61	
Outstanding at December 31, 2008	789,377	1.81	9.1
Granted	741	2.69	
Exercised	(1,756)	1.61	
Forfeited	(655,350)	1.84	
Expired	(80,582)	1.61	
Outstanding at December 31, 2009	52,430	$ 1.79	8.2
Exercisable at December 31, 2009	34,078	$ 1.83	7.6
Vested and expected to vest at December 31, 2009	50,961	$ 1.83	7.6

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

The weighted average fair value of options granted for the years ended December 31, 2009, 2008 and 2007 were $1.94, $1.40 and $1.08 per share, respectively. The total fair value of options which vested during 2009, 2008 and 2007 was approximately $0.1 million, $0.2 million and $0.1 million, respectively.

As of December 31, 2009, 905,484 shares of common stock were reserved for future grant of stock options. As of December 31, 2009, $39,000 of total unrecognized compensation cost related to non vested stock options is expected to be recognized over the respective vesting terms of each award. The weighted average term of the unrecognized share-based compensation is 2.3 years. As further described in Note 15, unexercised options to purchase an aggregate of 477,820 shares of common stock options were cancelled during 2009, which resulted in share-based compensation of $0.5 million.

The fair values of each option grant in 2009, 2008 and 2007 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Years Ended December 31,		
	2009	2008	2007
Expected dividend yield	None	None	None
Risk free interest rate	2.1-2.7%	1.9-3.8%	3.6-4.9%
Expected volatility	82.0%	78.2%	75.1%
Expected life of options	6.25 years	6.25 years	6.25 years

12. COST OF REVENUES

Cost of revenue consists of the following:

	Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
Cost of supply revenue	$ 9,828	$ 14,467	$ 8,788
Cost of royalties	401	567	382
Cost of collaborative licensing and development revenue	2,072	2,429	322
Total cost of revenues	$ 12,301	$ 17,463	$ 9,492

Cost of supply revenue consists of the manufacturing and allocated overhead costs related to the Company's supply of DepoCyt(e) and DepoDur to its commercial partners. Cost of royalties consists of payments to Research Development Foundation ("RDF") for the use of DepoFoam technology. Cost of collaborative licensing and development revenues consists of the Company's expenses related to feasibility studies and development work for third parties who desire to utilize the Company's DepoFoam extended release drug delivery technology for their products.

13. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office, research and development, and manufacturing facilities in San Diego, California. The two facilities in San Diego are comprised of the Science Center location and the Torrey Pines location. The leases for both these facilities expire July 2015. Under these leases, the Company is required to pay certain maintenance expenses in addition to the monthly rent. Rent expense is recognized on a straight-line basis

over the lease term for leases that have scheduled rent increases. During 2009, the Company entered into amendments to its real estate leases for the Science Center and Torrey Pines facilities. As part of the lease amendments, the property-owner agreed to defer a portion of the minimum annual rent obligation due from February 1, 2009 to March 31, 2010 in exchange for interest compounded at 10% per annum, and warrants to purchase 23,244 shares of Series A convertible preferred stock with values totaling $141,000 and $63,000 on the Science Center and Torrey Pines facilities, respectively. The total amount of rent deferred will be $438,414 and $2,109,101 for the Torrey Pines and Science Center facilities, respectively. The amounts are to be repaid from April 1, 2010 to September 1, 2011. The warrants are convertible into Series A convertible preferred stock with an exercise price of $13.44 per share and will expire on the earlier of July 1, 2016 or the fifth anniversary of the consummation of the Company's initial public offering. The value of the warrants has been recorded as prepaid interest and is being amortized over the deferred rental payment term. As of December 31, 2009, the balance of the related prepaid interest was $141,000. For the year ended December 31, 2009, the additional interest associated with the deferred payments and amortization of the warrants was $102,000 and $63,000, respectively.

The Company determined that its lease rates associated with the assumed the Torrey Pines and Science Center facilities' leases were in excess of market rates resulting in a $3.3 million unfavorable lease accrual as of the Acquisition Date. The unfavorable lease accrual, which is recorded in other long-term liabilities in the Company's consolidated balance sheets, is amortized over the remaining terms of the leases. The balance of the unfavorable lease accrual as of December 31, 2009 and 2008 was $2.2 million and $2.6 million, respectively. The amortization of the unfavorable lease accrual for 2009, 2008 and 2007 was $0.4 million, $0.4 million and $0.3 million, respectively.

As of December 31, 2009, annual minimum payments due under the Company's office and equipment lease obligations are as follows (in thousands):

2010	$6,215
2011	5,827
2012	4,820
2013	4,968
2014	5,136
Thereafter	3,072
	$30,038

Total rent expense, net of unfavorable lease obligation amortization, under all operating leases for years ended December 31, 2009, 2008 and 2007 was $4.6 million, $4.6 million and $3.5 million, respectively. Deferred rent at December 31, 2009 and 2008 was $1.2 million and $0.9 million, respectively.

Litigation

The Company periodically becomes subject to legal proceedings and claims arising in connection with its business. The ultimate legal and financial liability of the Company in respect to all claims, lawsuits and proceedings cannot be estimated with any certainty. Any outcome, either individually or in the aggregate, is not expected to be material to the Company's consolidated financial position, results of operations, or cash flows.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

14. **INCOME TAXES**

A reconciliation of income taxes at the U.S. federal statutory rate to the provision for income taxes is as follows (in thousands):

	Year ended December 31,		
	2009	2008	2007
		(in thousands)	
Benefit at U.S. federal statutory rate	$(10,901)	$(14,887)	$(12,785)
State taxes—deferred	(1,713)	(1,844)	(1,220)
Increase in valuation allowance	12,916	17,417	9,476
Tax credits	(498)	(1,319)	(377)
In-process research and development	—	—	4,340
Other	196	633	566
Provision for income taxes	$ —	$ —	$ —

Significant components of the Company's deferred tax assets are as follows:

	Year ended December 31,	
	2009	2008
	(in thousands)	
Deferred tax assets:		
Federal and state net operating loss carryforwards	$ 32,321	$ 21,752
Federal and state research credits	2,778	2,234
Depreciation and amortization	1,090	675
Accruals and reserves	8,632	9,125
Deferred revenue	9,302	7,749
Other	332	4
Total gross deferred tax assets	54,455	41,539
Less valuation allowance for deferred tax assets	(54,455)	(41,539)
Net deferred tax assets	$ —	$ —

The valuation allowance for deferred tax assets increased by approximately $12.9 million, $17.4 million and $24.1 million during the years ended December 31, 2009, 2008 and 2007, respectively. Management believes the significant doubt regarding the realization of net deferred tax assets requires a full valuation allowance.

As a result of certain realization requirements of ASC 718, the table of deferred tax assets is required to be reduced by certain deferred tax assets at December 31, 2009 and 2008 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. Through December 31, 2009, the amount of such reduction was not material.

As of December 31, 2009, the Company had federal and state net operating losses of approximately $82.4 and $59.0 million, respectively. The Company also had federal and state research and development tax credit carry-forwards of approximately $2.2 and $0.9 million, respectively. The net operating loss carry-forwards and tax credits will expire at various dates, beginning in 2016, through 2026, if not utilized.

Utilizations of net operating loss and research and development credit carry-forwards may be subject to a substantial annual limitation under Section 382 of the Internal Revenue Code of 1986, as amended, due to

ownership change limitations that have occurred previously or that could occur in the future. These ownership changes may limit the amount of net operating loss and research and development credit carry-forwards that can be utilized annually to offset future taxable income and tax, respectively. An ownership change occurred on March 24, 2007, as a result of the Acquisition. The Company has not conducted a review of whether a change of control has occurred since the Acquisition Date. There also could be additional ownership changes in the future which may result in additional limitations in the utilization of these credits.

As discussed in Note 2 "Summary of Significant Accounting Policies," the Company adopted new accounting principles on accounting for uncertain tax positions in 2007. Under these principles, tax positions are evaluated in a two-step process. The Company first determines whether it is more-likely-than-not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit to be recognized in the financial statements. The tax position is measured as the largest amount of benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

At December 31, 2009, the total amount of gross unrecognized tax benefits was not considered significant.

The Company is currently open for audit by the United States Internal Revenue Service and state tax jurisdictions for 2006 through 2009.

15. RETIREMENT PLANS AND OTHER EMPLOYEE BENEFITS

Savings Plan

The Company sponsors a 401(k) savings plan. Under the plan, employees may make contributions to the plan, which are eligible for a discretionary percentage match as defined in the plan and determined by the board of directors. The Company's compensation expense under this plan, representing its employer matching contributions, was $0.3 million for the year ended December 31, 2007. There was no compensation expense under the plan for years ended December 31, 2009 and 2008.

Incentive Bonus Plan

In March 2009, the Company adopted a company sale bonus plan and in March 2010 the Company amended and restated the company sale bonus plan. The company sale bonus plan provides for a potential cash bonus payment to specified employees and consultants, including executive officers, and non-employee directors, in the event of a sale of the Company. Under the company sale bonus plan, upon the closing of a sale transaction that satisfies specified criteria, each participant in the company sale bonus plan would receive either a bonus in an amount equal to a portion of the sale proceeds multiplied by a specified percentage for that participant or a fixed bonus payment. The plan terminates upon the completion of the Company's initial public offering. As a condition to becoming participants under the plan, most of the participants, including all of the Company's executive officers and non-employee directors, agreed to have their existing option grants cancelled. As a result, unexercised options for an aggregate of 477,805 shares of common stock were cancelled. In addition, certain employees were eligible to receive a retention bonus (equivalent to two weeks of base salary upon receipt of positive data on the EXPAREL Phase 3 clinical trials, or if the Company's board of directors deemed related data to be positive) and a pre-determined percentage of salary in the event of a Company sale. In the fourth quarter of 2009, the Company received positive data on the EXPAREL Phase 3 clinical trials and, accordingly, recorded compensation expense and paid $0.1 million of retention bonuses.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

In October 2010, the Company entered into employment agreements with its executive officers. Each of these agreements provides the executive officer with certain severance benefits in connection with certain terminations of the executive's employment both before and after a change of control.

16. COMMERCIAL PARTNERS AND AGREEMENTS

Sigma -Tau

In December 2002, the Company entered into a supply and distribution agreement with Enzon Pharmaceuticals Inc. regarding the sale of DepoCyt. Pursuant to the agreement, Enzon was appointed the exclusive distributor of DepoCyt in the United States and Canada. In January 2010, Sigma-Tau Pharmaceuticals, Inc., or Sigma-Tau, acquired the rights to sell DepoCyt from Enzon Pharmaceuticals for the United States and Canada. Under the supply and distribution agreement, the Company supplies unlabeled DepoCyt vials to Sigma-Tau for finished packaging by Sigma-Tau. Under these agreements, the Company receives a fixed payment for manufacturing the vials of DepoCyt and a double-digit royalty on sales by Sigma-Tau in the United States and Canada.

Mundipharma International Holdings Limited

In June 2003, the Company entered into an agreement granting Mundipharma International Holdings Limited, or Mundipharma, exclusive marketing and distribution rights to DepoCyte in the European Union and certain other European countries. Under the agreement, as amended, and a separate supply agreement, the Company receives a fixed payment for manufacturing the vials of DepoCyte and a double-digit royalty on sales in the applicable territories by Mundipharma.

EKR Therapeutics Inc.

In August 2007, the Company entered into a licensing, distribution and marketing agreement with EKR Therapeutics, Inc., or EKR, granting them exclusive distribution rights to DepoDur in North America, South America and Central America. Under this agreement, as amended, the Company was entitled to receive non-refundable license fees of $5.0 million paid upon execution of the agreement in August 2007, $5.0 million paid at the end of 2008, and $5.0 million paid at the end of 2009. As noted above, the Company recognizes revenue from up-front license fees ratably over the performance period as determined under the agreement. The Company capitalized the up-front license fees into a deferred revenue liability, and amortizes the deferred revenue over a period of 15 years, which represents the contract period. Further, under the agreement, as amended, the Company receives a fixed payment for manufacturing the vials of DepoDur and a double-digit royalty on sales in the applicable territories by EKR.

Flynn Pharmaceuticals Limited

In September 2007, the Company entered into a marketing agreement with Flynn Pharma Limited, or Flynn, granting them exclusive distribution rights to DepoDur in the European Union, certain other European countries, South Africa and the Middle East. Under this agreement and a separate supply agreement with Flynn, the Company provides or procures DepoDur manufacturing supply of finished product for sale in the territories licensed by Flynn, and receives a fixed payment for manufacturing the vials of DepoDur and a double-digit royalty on sales in the applicable territories by Flynn.

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

Amylin Pharmaceuticals Inc

In March 2008, the Company entered into a development and licensing agreement with Amylin Pharmaceuticals, Inc., or Amylin. Under the development and licensing agreement, the Company provides Amylin with access to its proprietary DepoFoam drug delivery technology to conduct research, feasibility and formulation work, and for the manufacturing of pre-clinical and clinical material for various Amylin products. The Company is entitled to payments from Amylin for its work on the formulation and development of compounds with the DepoFoam technology, its achievement of certain clinical development milestones, its achievement of certain worldwide sales and a tiered royalty based upon sales. In April 2008, the Company received a non-refundable up-front license fee of $8.0 million from Amylin. As noted above, the Company recognizes revenue from up-front license fees ratably over the performance period as determined under the agreement. The Company capitalized the up front license fee into a deferred revenue liability, and amortizes the deferred revenue over a period of approximately nine years. The development and licensing agreement with Amylin remains effective, however, neither party is currently performing any activities under the agreement.

Feasibility Study Agreements with Third Parties

In the ordinary course of its business activities, the Company enters into feasibility study agreements with third parties who desire access to its proprietary DepoFoam extended release drug delivery technology to conduct research, feasibility and formulation work. Under these agreements, the Company is compensated to perform feasibility testing on a third party product to determine the likelihood of developing a successful formulation of that product using its proprietary DepoFoam extended release drug delivery technology. If successful in the feasibility stage, these programs can advance to a full development contract. Currently, the Company is actively engaged in two feasibility assessments for third parties.

17. **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2009, the Company entered into 2009 Convertible Note Agreements and 2009 Secured Note Agreements with certain investors in the Company (see Note 10). The composition of the balances due to these investors, totaling $22.2 million, including accrued interest of $0.9 million, as of December 31, 2009.

In February 2008, the Company entered into a services agreement with Stack Pharmaceuticals Inc., or SPI, an entity controlled by David Stack, the Company's chief executive officer. Pursuant to the agreement, SPI provides the Company with the use of SPI's office facilities which include the use of office space for the Company's employees, office furnishings, phone system, internet connections, printers and other related office amenities such as conference rooms. Pursuant to the agreement, the Company pays SPI $10,500 each month during the term of the services agreement. In addition, during 2008 and 2009, SPI performed various projects for the Company. These projects included a business analysis and commercial recommendation for the Company's DepoDur product, a market research project related to the development of a DepoMethotrexate product, market research and forecasting in support of clinical development of EXPAREL for the potential additional indications of nerve block and epidural administration and reimbursement for access to Datamonitor reports for commercial analysis and partnering discussions regarding EXPAREL. The Company incurred expenses under the SPI agreement of $210,000, $258,000 and $71,000 for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009 and 2008, the Company had no outstanding balance payable to SPI.

MPM Asset Management ("MPM"), an investor in the Company, provides clinical management and subscription services to the Company. The Company incurred expenses of $316,000, $30,000 and $0 for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, $88,000 was payable to MPM. The Company had no outstanding balance payable to MPM as of December, 2008.

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Notes to Consolidated Financial Statements—(continued)

In April 2010, the Company signed a statement of work for a feasibility study with Rhythm Pharmaceuticals, Inc. The Company earned contract revenue from this statement of work during 2010. MPM and its affiliates are holders of the Company's capital stock. MPM and its affiliates are holders of capital stock of Rhythm Pharmaceuticals, Inc. and a managing director of MPM is a member of the board of directors of Rhythm Pharmaceuticals, Inc.

18. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 1, 2010, except for the effects of the matters discussed in Note 1 ("Correction of Immaterial Errors") and ("Reverse Stock Split") which are as of December 3, 2010 and January 12, 2011, respectively, the date at which the consolidated financial statements were available to be issued.

2010 Secured Notes

In March 2010, the Company entered into an agreement with certain of its existing investors to issue $15 million in aggregate principal amount of secured notes in a private placement (the "2010 Secured Notes"). To secure the performance of its obligations under the purchase agreement for the 2010 Secured Notes, the Company granted a subordinated security interest in substantially all of its assets, including its intellectual property assets, to the investors. The investors purchased the entire $15 million of 2010 Secured Notes in three closings in March, June and September 2010.

The 2010 Secured Notes have an interest rate of 5% per year and all principal and accrued and unpaid interest is due on December 31, 2010. In connection with entering into the GECC Credit Facility as noted below, the maturity date was extended to the earliest of (1) a sale of the Company; (2) December 16, 2013; and, (3) 91 days after the date that all obligations under the GECC Credit Facility are paid in full and the GECC Credit Facility is terminated. Also in connection with entering into the GECC Credit Facility, the holders of the 2010 Secured Notes entered into (i) a subordination agreement with GECC pursuant to which the 2010 Secured Notes were subordinated to the GECC Credit Facility, and (ii) an inter-creditor agreement with the holders of the 2009 Convertible Notes and the 2009 Secured Notes whereby the 2009 Convertible Notes were subordinated to the 2010 Secured Notes and the 2009 Secured Notes, and the holders of the 2010 Secured Notes agreed to share payments pro rata with the holders of the 2009 Secured Notes.

HBM Secured Notes

On April 30, 2010, the Company entered into a subordinated secured note purchase agreement with entities affiliated with HBM BioVentures, or HBM, to issue $3.75 million in aggregate principal amount of secured notes, or the HBM Secured Notes, in a private placement. Pursuant to the purchase agreement for the HBM Secured Notes, upon written notice delivered to HBM prior to September 30, 2010, HBM purchased an amount of secured notes set forth in the notice. HBM purchased the entire $3.75 million of the HBM Secured Notes in three closings in April, June and September 2010. To secure the performance of its obligations under the purchase agreement for the HBM Secured Notes, the Company granted a subordinated security interest in substantially all of its assets, including its intellectual property assets, other than the assets that secure its obligations under its agreement with Paul Capital. The HBM Secured Notes carry an interest rate of approximately 10% per year. In addition, the HBM Secured Notes require a final payment fee if they are prepaid prior to the maturity date. The maturity date of the HBM Secured Notes is the earliest of (1) a sale of the Company, (2) December 16, 2013 and (3) 91 days after the date that all obligations under the GECC Credit Facility are paid in full and the GECC Credit Facility is terminated. On April 30, 2010, the holders of the HBM

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Notes to Consolidated Financial Statements—(continued)

Secured Notes entered into a subordination agreement with GECC pursuant to which the HBM Secured Notes were subordinated to the GECC Credit Facility.

Credit Facility

In April 2010, The Company entered into a credit facility with General Electric Capital Corporation (the "GECC Credit Facility"), with $11.25 million available for borrowing. The Company borrowed an aggregate principal amount of $5.62 million at the closing, $2.81 million on July 1, 2010 and the remaining $2.81 million on September 2, 2010. Each of the term loans under the GECC Credit Facility carries a fixed interest rate of approximately 10% that is payable monthly. The GECC Credit Facility requires no payment of principal for the first year, and then equal principal payments over 24 months until the maturity dates of 3 years from the funding dates. The GECC Credit Facility is secured by a first priority lien on all of the Company's assets other than the assets that secure its obligations under its agreement with Paul Capital, and is guaranteed in full by certain majority investors of the Company (the "guarantors").

In connection with any prepayments of term loans under the GECC Credit Facility, the Company's required to pay, in addition to all principal and accrued and unpaid interest on such term loan, a final payment fee equal to (i) 0.45% of the original principal amount of such term loan if the prepayment is made or required before the one year anniversary of such term loan, (ii) 2.25% of the original principal amount of such term loan if the prepayment is made or required on or after the one year anniversary of such term loan but before the two year anniversary of such term loan, and (iii) 3.50% of the original principal amount of such term loan if the prepayment is made or required on or after the two year anniversary of such term loan.

The GECC Credit Facility is guaranteed by the Company and is secured by a first priority lien on all of the assets of both PPI-California and the guarantors, other than the assets that secure its obligations under its agreement with Paul Capital. In addition, the GECC Credit Facility is guaranteed by certain of the Company's investors (other than HBM) on a several and not joint basis which guarantee is limited to each investor's pro rata portion of the outstanding principal and accrued and unpaid interest under the GECC Credit Facility, but in no event to exceed $11.250 million in the aggregate. The obligations of the investors under the guarantee is not triggered until the earlier to occur of (i) thirty days after written notice from the agent that the obligations under the GECC Credit Facility have been accelerated, and (ii) the occurrence of a bankruptcy or insolvency event with respect to the borrower, the Company or any of the investor guarantors. The guarantee by the Company's investors of the GECC Credit Facility also includes covenants that require each such investor to maintain at all times unfunded commitments from its investors in an amount equal to at least one and one-half times the maximum amount which the investor may be obligated for under the investor guarantee, and also includes certain control requirements with respect to such investors.

The GECC Loan and Security Agreement contains events of default including payment default, default arising from the breach of the provisions of the GECC Loan and Security Agreement and related documents or the inaccuracy of representations and warranties, attachment default, judgment default, bankruptcy and insolvency, cross-default provision with respect to other material indebtedness, default based on the unenforceability, invalidity or revocation of a the GECC Loan and Security Agreement or any other related documents (including any guarantee or applicable subordination agreement) or any security interests, the occurrence of a material adverse effect (as defined in the GECC Loan and Security Agreement) and certain changes in control, including if the chief executive officer or chief financial officer of the borrower cease to be involved in the daily operations or management of the business, if certain holders cease to own or control at least 51% of the outstanding capital stock of the Company, if the Company ceases to own or control all the economic and voting rights of the borrower and if the borrower ceases to own or control, directly or indirectly, all of the economic or voting rights of each of its subsidiaries.

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Notes to Consolidated Financial Statements—(continued)

The occurrence of an event of default under the GECC Credit Facility could trigger the acceleration of the obligations under the GECC Credit Facility or allow the agent or lenders to exercise other rights and remedies, including rights against the assets which secure the GECC Credit Facility and rights under guarantees provided to support the obligations under the GECC Credit Facility.

The GECC Loan and Security Agreement contains a number of affirmative and restrictive covenants including reporting requirements, compliance with laws, protection of intellectual property and other collateral covenants, and limitations, subject to certain exceptions set forth in the GECC Loan and Security Agreement, on liens and indebtedness, limitations on dispositions, limitations on mergers and acquisitions, limitations on restricted payments and investments, limitations on transactions with the Company's affiliates, limitations on changes in business, limitations on amendments and waivers of certain agreements, and limitations on waivers and amendments to certain agreements, including certain portions of the Paul Capital agreements, the Company's organizational documents, and documents relating to debt that is subordinate to the Company's obligations under the GECC Credit Facility.

2007 Plan

On September 2, 2010, the Company's board of directors amended its 2007 Plan to increase the number of authorized plan shares from 1,066,946 to 1,729,498 shares of common stock. This increase was approved by the Company's stockholders in October 2010. Concurrent with the amendment of the 2007 Plan, in September 2010 the board of directors granted stock options to employees, non-employee board members and consultants for an aggregate of 1,448,301 shares of common stock. The stock options have an exercise price of $1.61 per share. In establishing the exercise price, the board of directors relied on a valuation that concluded as of August 31, 2010 the value of the Company's common stock was $1.61 per share.

These stock options may be exercised only upon the completion of an initial public offering prior to December 31, 2012. If an initial public offering is not completed prior to December 31, 2012, then the options automatically cancel. The stock options have a 10-year term, and the option shares vest according to one of the following four schedules:

(i) 75% of the option shares vest on the date of grant, and the remaining 25% of the option shares vest in equal successive monthly installments upon the optionee's completion of each month of service over the 12 month period following the date of grant;

(ii) 50% of the option shares vest on the date of grant, and the remaining 50% of the option shares vest in equal successive monthly installments upon the optionee's completion of each month of service over 24 month period following the date of grant;

(iii) 25% of the option shares vest upon optionee's completion of one year of service to the Company measured from the date of grant, and the remaining 75% of the option shares vest in equal successive monthly installments upon the optionee's completion of each month of service over the 36 month period following the first anniversary of the date of grant; or

(iv) 50% of the option shares vest on the first anniversary of the closing of the Company's initial public offering provided that the optionee remains in service to the Company for such first year and, the remaining 50% of the option shares vest on the second anniversary of the closing of the Company's initial public offering provided that the optionee remains in service to the Company over such second year. Upon a change in control of the Company, as defined in the 2007 Plan, 100% of the shares underlying each of these options shall become vested and exercisable immediately prior to such change in control.

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Condensed Consolidated Balance Sheets (Unaudited)
as of September 30, 2010 and December 31, 2009

	September 30, 2010	December 31, 2009
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,851	$ 7,077
Restricted cash	2,079	1,216
Trade accounts receivable	2,531	1,455
Inventories, net	1,050	1,729
Prepaid expenses and other current assets	880	1,072
Total current assets	20,391	12,549
Fixed assets, net	21,773	19,560
Intangibles, net	9,479	11,178
Other assets, net	1,113	667
Total assets	$ 52,756	$ 43,954
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 7,015	$ 6,994
Accrued expenses	2,984	3,478
Current portion of royalty interest obligation	1,645	1,599
Current portion of deferred revenue	2,162	2,346
Total current liabilities	13,806	14,417
Related party debt, including accrued interest	42,652	22,173
Long-term debt	11,250	—
Royalty interest obligation, excluding current portion	3,410	3,647
Deferred revenue, excluding current portion	18,783	20,387
Contingent purchase liability	2,042	2,042
Deferred rent	1,319	1,177
Other long-term liabilities	2,532	3,060
Total liabilities	95,794	66,903
Commitments and Contingencies		
Stockholders' deficit:		
Preferred stock, par value $0.001, 88,000,000 shares authorized, 6,322,640 issued and outstanding at September 30, 2010 and December 31, 2009 (liquidation preference $85,000,000)	6	6
Common stock, par value $0.001, 120,000,000 shares authorized, 574,903 shares issued and 573,838 shares outstanding at September 30, 2010; 573,920, shares issued and outstanding at December 31, 2009	1	1
Additional paid-in capital	86,824	86,806
Accumulated deficit	(129,867)	(109,762)
	(43,036)	(22,949)
Less: treasury stock, 1,065 shares at cost	(2)	—
Total stockholders' deficit	(43,038)	(22,949)
Total liabilities and stockholders' deficit	$ 52,756	$ 43,954

See accompanying notes to condensed consolidated financial statements.

Pacira Pharmaceuticals, Inc.

Condensed Consolidated Statements of Operations (Unaudited)
Nine Months Ended September 30, 2010 and 2009

	Nine Months Ended September 30,	
	2010	2009
	(in thousands, except share and per share data)	
Revenues:		
Supply revenue	$ 7,127	$ 4,273
Royalties	2,693	2,906
Collaborative licensing and development revenue	2,551	3,543
Total revenues	12,371	10,722
Operating expenses:		
Cost of revenues	10,168	8,823
Research and development	14,954	18,717
Selling, general and administrative	3,941	3,920
Total operating expenses	29,063	31,460
Loss from operations	(16,692)	(20,738)
Other income	100	353
Interest:		
Interest income	112	46
Interest (expense)	(2,577)	(990)
Royalty interest obligation	(1,048)	(1,407)
Net loss	$ (20,105)	$ (22,736)
Net loss per common share:		
Basic and diluted net loss per share	$ (35.02)	$ (39.69)
Weighted average shares outstanding—basic and diluted	574,112	572,860

See accompanying notes to condensed consolidated financial statements.

Pacira Pharmaceuticals, Inc.

Condensed Consolidated Statement of Stockholders' Deficit (Unaudited)
Nine Months Ended September 30, 2010

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount	Shares	Amount	(in thousands)			
Balances, January 1, 2010	6,323	$ 6	574	$ 1	$86,806	$(109,762)	$ —	$(22,949)
Exercise of stock options			1		1			1
Share-based compensation					17			17
Purchase of treasury stock							(2)	(2)
Net loss						(20,105)		(20,105)
Balances, September 30, 2010	6,323	$ 6	575	$ 1	$86,824	$(129,867)	$ (2)	$ (43,038)

See accompanying notes to condensed consolidated financial statements.

Pacira Pharmaceuticals, Inc.

Condensed Consolidated Statement of Cash Flows (Unaudited)
Nine Months Ended September 30, 2010 and 2009

	Nine Months Ended September 30,	
	2010	2009
	(in thousands)	
Operating activities:		
Net loss	$ (20,105)	$ (22,736)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,066	3,125
Amortization of other assets and unfavorable lease obligation	(58)	(268)
Amortization of note discounts and warrants	113	424
Share-based compensation	17	518
Change in royalty interest obligation	(191)	137
Changes in operating assets and liabilities:		
Restricted cash	(863)	(457)
Trade accounts receivable	(1,076)	882
Inventories	679	(273)
Other current assets	(159)	(122)
Accounts payable	264	(3,303)
Other liabilities	919	1,406
Deferred revenue	(1,788)	(1,262)
Deferred rent	142	252
Net cash used in operating activities	(19,040)	(21,677)
Investing activities—Purchase of fixed assets	(3,822)	(5,109)
Financing activities:		
Proceeds from exercise of stock options	1	2
Purchase of treasury stock	(2)	—
Proceeds from convertible notes	—	19,025
Proceeds from secured promissory notes	18,750	—
Proceeds from credit facility	11,250	—
Financing costs	(363)	(215)
Net cash provided by financing activities	29,636	18,812
Net increase (decrease) in cash and cash equivalents	6,774	(7,974)
Cash and cash equivalents, beginning of period	7,077	12,386
Cash and cash equivalents, end of period	$ 13,851	$ 4,412
Supplemental cash flow information:		
Cash paid for interest	$ 1,787	$ 1,291
Non-cash investing and financing activities:		
Accrued fixed asset purchases	$ —	$ 2,254

See accompanying notes to condensed consolidated financial statements.

Pacira Pharmaceuticals Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. BUSINESS

Pacira Pharmaceuticals Inc. and its subsidiaries (collectively, the "Company" or "Pacira") is an emerging specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on its proprietary DepoFoam drug delivery technology, for use in hospitals and ambulatory surgery centers.

The Company was incorporated in Delaware under the name Blue Acquisition Corp. in December 2006 and changed its name to Pacira, Inc. in June 2007. In October 2010, the Company changed its name to Pacira Pharmaceuticals, Inc. Pacira Pharmaceuticals, Inc. is the holding company for the Company's California operating subsidiary of the same name, which we refer to as PPI-California. The consolidated financial statements include the Company's wholly owned subsidiaries PPI-California and Pacira Limited.

Risks and Uncertainties

The Company 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 customers and products, new technological innovations, dependence on key personnel, reliance on third-party service providers and vendors, protection of proprietary technology, and compliance with government regulations.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has reported net losses of $20.1 million, and $22.7 million and negative cash flows from operating activities of $19.0 million and $21.7 million for the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, the Company had a stockholders' deficit of $43.0 million. The Company has incurred losses and negative operating cash flow since inception and future losses are anticipated. The Company's continued operations will depend on its ability to raise additional funds through sources such as equity and debt financing and revenues from commercial sale of EXPAREL. Insufficient funds could require the Company to delay, scale back or eliminate one or more of its research and development programs. The ability of the Company to continue as a going concern is dependent on improving the Company's profitability and cash flow and securing additional financing. While the Company believes in the viability of its strategy to increase revenues and profitability and in its ability to raise additional funds, and believes that the actions presently being taken by the Company provide the opportunity for it to continue as a going concern, there can be no assurance that such financing will be available on acceptable terms, or at all. These condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of asset amounts or the amounts and classification of liabilities that might be necessary if the Company is unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries PPI-California and Pacira Limited. Pacira Limited was incorporated in the United Kingdom and its functional currency is the U.S. dollar. Intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements for the interim periods included herein are unaudited; however, they contain all adjustments (consisting of only normal recurring adjustments) which, in the opinion of

Pacira Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements—(continued)

management, are necessary to present fairly the consolidated financial position of the Company as of September 30, 2010, and the results of its operations and cash flows for the nine months ended September 30, 2010 and 2009. The results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year. These interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included elsewhere in the registration statement.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or GAAP, in accordance with the rules and regulations of the Securities and Exchange Commission for interim reporting. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in complete annual financial statements have been condensed or omitted. The accounts of all wholly-owned subsidiaries are included in the consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and the disclosure of contingent assets and liabilities. Estimates are used for, among other things, the valuation of assets acquired, valuation of common and preferred stock and stock-based compensation, unbilled revenue, customer credits and the valuation of deferred taxes. Estimates are also used to determine the remaining economic lives and recoverability of fixed assets and intangible assets. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Reverse Stock Split

On January 12, 2011, the board of directors of the Company approved, and on January 12, 2011 the stockholders of the Company approved, a one-for-10.755 reverse stock split of the Company's outstanding common stock, which was effected on January 12, 2011. Stockholders entitled to fractional shares as a result of the reverse stock split will receive a cash payment for such fractional shares within 180 days following the effective date of the reverse stock split in lieu of receiving fractional shares. The reverse stock split affected all holders of the Company's preferred stock and common stock uniformly. Shares of common stock underlying outstanding stock options were proportionately reduced and the respective exercise prices were proportionately increased in accordance with the terms of the agreements governing such securities. Shares of common stock reserved for issuance upon the conversion of the Company's series A preferred stock and convertible notes were proportionately reduced and the respective conversion prices were proportionately increased. All references to preferred and common stock and per share information, except par value and authorized shares, in these consolidated financial statements and notes have been adjusted to reflect the effects of the reverse stock split.

Concentration of Major Customers

The Company's customers are its commercial and collaborative and licensing partners. For the nine months September 30, 2010, the Company's four largest customers accounted for 52%, 21%, 11%, and 10%, individually, of the Company's net revenues. For the nine months ended September 30, 2009, the Company's three largest customers accounted for 39%, 25%, and 22%, respectively, of the Company's net revenues. No other individual customers accounted for more than 10% of net revenues. As of September 30, 2010, the Company's two largest customers accounted for 58% and 28%, respectively, of the Company's trade accounts receivable. As of December 31, 2009, the Company's three largest customers accounted for 56%, 26% and 13%,

respectively, of the Company's trade accounts receivable. The Company is dependent on these commercial partners to market and sell DepoCyt(e) and DepoDur, from which a substantial portion of its revenues are derived; therefore, the Company's future revenues from these products are highly dependent on these collaboration and distribution arrangements.

Domestic net revenues for the nine months ended September 2010 and 2009 accounted for 45% and 56% of the Company's net revenues, respectively. Export revenues for the nine months ended September 2010 and 2009 accounted for 55% and 44% of the Company's net revenues, respectively.

Per Share Data

Net loss per share is determined in accordance with the two-class method. This method is used for computing basic net loss per share when companies have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the Company. Under the two-class method, net loss is allocated between common shares and other participating securities based on their participation rights in both distributed and undistributed earnings. The Company's Series A preferred stock are participating securities, since the stockholders are entitled to share in dividends declared by the board of directors with the common stock based on their equivalent common shares.

Basic net loss per share is computed by dividing net loss available (attributable) to common stockholders by the weighted average number of shares of common stock outstanding during the period. Because the holders of the Series A Convertible Preferred Stock are not contractually required to share in the Company's losses, in applying the two-class method to compute basic net loss per common share no allocation to preferred stock was made for the nine-month periods ended September 30, 2010 and 2009.

Diluted net loss per share is calculated by dividing net loss available (attributable) to common stockholders as adjusted for the effect of dilutive securities, if any, by the weighted average number of common shares and dilutive common stock outstanding during the period. Potential common shares include the shares of common stock issuable upon the exercise of outstanding stock options and a warrant (using the treasury stock method) and the conversion of the shares of Series A convertible preferred stock (using the more dilutive of the (a) as converted method or (b) the two-class method). Potential common shares in the diluted net loss per share computation are excluded to the extent that they would be anti-dilutive. No potentially dilutive securities are included in the computation of any diluted per share amounts as the Company reported a net loss for all periods presented. Potentially dilutive securities that would be issued upon the conversion of convertible notes, conversion of preferred stock and the exercise of outstanding warrants and stock options, were 7.2 million at September 30, 2010 and 2009.

3. **RECENT ACCOUNTING PRONOUNCEMENTS**

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, "Multiple-Deliverable Revenue Arrangements" ("ASU 2009-13"). ASU 2009-13, amends existing revenue recognition accounting pronouncements that are currently within the scope of Accounting Standards Codification, or ASC, Subtopic 605-25. This authoritative guidance provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASU 2009-13 introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This guidance is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010.

Pacira Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)—(continued)

Alternatively, adoption may be on a retrospective basis, and early application is permitted. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated results of operations, financial position or cash flows.

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, "Milestone Method of Revenue Recognition (Topic 605)" ("ASU 2010-17"). This update provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Authoritative guidance on the use of the milestone method did not previously exist. This guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Alternatively, retrospective adoption is permitted for all prior periods. The Company is currently evaluating the impact that the adoption of this guidance will have on its consolidated results of operations, financial position or cash flows.

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.

4. FAIR VALUE MEASUREMENTS

Financial assets and financial liabilities are required to be measured and reported on a fair value basis using the following three categories for classification and disclosure purposes:

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.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company also considers counterparty credit risk in its assessment of fair value.

The carrying value of financial instruments including cash and cash equivalents, restricted cash, accounts receivable, note receivable, and accounts payable approximate their respective fair values due to the short-term maturities of these instruments and debts. The fair value of the Company's convertible notes (see Note 6) and promissory notes (see Note 6) cannot be practicably determined due to their related party nature. The carrying amount of the Company's borrowings under the GECC Credit Facility (see Note 6) approximates fair value. Such borrowings occurred in April, July and September, 2010 and were repaid in November 2010 (see Note 8).

Pacira Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)—(continued)

5. **INVENTORIES**

The components of inventories were as follows:

	September 30, 2010	December 31, 2009
	(in thousands)	
Raw materials	$ 758	$ 811
Work-in-process	85	48
Finished goods	302	965
	1,145	1,824
Less provision for excess and obsolete inventories	(95)	(95)
Inventories, net	$ 1,050	$ 1,729

6. **DEBT AND FINANCING ARRANGEMENTS**

The composition of the Company's debt and financing obligations, including accrued interest, is as follows:

	September 30, 2010	December 31, 2009
	(in thousands)	
Related party debt, including accrued interest:		
Convertible notes	$ 11,522	$ 11,124
2009 secured notes	12,002	11,049
2010 secured notes	15,273	—
HBM secured notes	3,855	—
	42,652	22,173
Long-term debt:		
GECC credit facility	11,250	—
Financing obligations:		
Royalty interest obligation, current portion	1,645	1,599
Royalty interest obligation, long-term portion	3,410	3,647
	5,055	5,246
Total debt and financing obligations	$ 58,957	$ 27,419

2010 Financings:

2010 Secured Notes In March 2010, the Company entered into an agreement with certain of its existing investors to issue $15.0 million in aggregate principal amount of secured notes in a private placement (the "2010 Secured Notes"). To secure the performance of its obligations under the purchase agreement for the 2010 Secured Notes, the Company granted a subordinated security interest in substantially all of its assets, including its intellectual property assets, to the investors. The investors purchased the entire $15 million of 2010 Secured Notes in three closings in March, June and September 2010.

The 2010 Secured Notes have an interest rate of 5% per year and all principal and accrued and unpaid interest is due on December 31, 2010. In connection with entering into the GECC Credit Facility as noted below, the maturity date was extended to the earliest of (1) a sale of the Company; (2) December 16, 2013; and, (3) 91 days after the date that all obligations under the GECC Credit Facility are paid in full and the GECC Credit

Pacira Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)—(continued)

Facility is terminated. Also in connection with entering into the GECC Credit Facility, the holders of the 2010 Secured Notes entered into (i) a subordination agreement with GECC pursuant to which the 2010 Secured Notes were subordinated to the GECC Credit Facility, and (ii) an inter-creditor agreement with the holders of the 2009 Convertible Notes and the 2009 Secured Notes whereby the 2009 Convertible Notes were subordinated to the 2010 Secured Notes and the 2009 Secured Notes, and the 2010 Secured Notes agreed to share payments pro rata with the holders of the 2009 Secured Notes.

The outstanding principal and accrued interest on the 2010 Secured Notes was $15.0 million and $0.3 million, respectively, as of September 30, 2010, and interest expense associated with these notes was $0.3 million for the nine months ended September 30, 2010.

HBM Secured Notes On April 30, 2010, the Company entered into a subordinated secured note purchase agreement with entities affiliated with HBM BioVentures, or HBM, to issue $3.75 million in aggregate principal amount of secured notes, or the HBM Secured Notes, in a private placement. Pursuant to the purchase agreement for the HBM Secured Notes, upon written notice to HBM delivered to HBM prior to September 30, 2010, HBM purchased an amount of secured notes set forth in the notice. HBM purchased the entire $3.75 million of the HBM Secured Notes in three closings in April, June and September 2010. To secure the performance of the Company's obligations under the purchase agreement for the HBM Secured Notes, the Company granted a subordinated security interest in substantially all of its assets, including its intellectual property assets, other than the assets that secure its obligations under its agreement with RST. The HBM Secured Notes carry an interest rate of approximately 10% per year. In addition, the HBM Secured Notes require a final payment fee if they are prepaid prior to the maturity date. The maturity date of the HBM Secured Notes is the earliest of (1) a sale of the Company, (2) December 16, 2013 and (3) 91 days after the date that all obligations under the GECC Credit Facility are paid in full and the GECC Credit Facility is terminated. On April 30, 2010, the holders of the HBM Secured Notes entered into a subordination agreement with GECC pursuant to which the HBM Secured Notes were subordinated to the GECC Credit Facility.

The outstanding principal and accrued interest on the credit facilities was $3.75 million and $0.10 million, respectively, as of September 30, 2010, and interest expense associated with these notes was $0.10 million for the nine months ended September 30, 2010.

Credit Facility

In April 2010, the Company entered into a credit facility with General Electric Capital Corporation (the "GECC Credit Facility"), with $11.25 million available for borrowing. The Company borrowed an aggregate principal amount of $5.63 million at the closing, $2.81 million on July 1, 2010 and the remaining $2.81 million on September 2, 2010. Each of the term loans under the GECC Credit Facility carries a fixed interest rate of approximately 10% that is payable monthly. The GECC Credit Facility requires no payment of principal for a year, and then equal principal payments over 24 months until the maturity dates of three years from the funding dates. The GECC Credit Facility is secured by a first priority lien on all of the Company's assets other than the assets that secure its obligations under its agreement with RST, and is guaranteed in full by certain majority investors of the Company (the "guarantors").

In connection with any prepayments of term loans under the GECC Credit Facility, the Company is required to pay, in addition to all principal and accrued and unpaid interest on such term loan, a final payment fee equal to (i) 0.45% of the original principal amount of such term loan if the prepayment is made or required before the one year anniversary of such term loan, (ii) 2.25% of the original principal amount of such term loan if the prepayment is made or required on or after the one year anniversary of such term loan but before the two year anniversary of such term loan, and (iii) 3.50% of the original principal amount of such term loan if the prepayment is made or required on or after the two year anniversary of such term loan.

Pacira Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)—(continued)

The GECC Credit Facility is guaranteed by the Company and is secured by a first priority lien on all of the assets of both PPI-California and the guarantors, other than the assets that secure its obligations under its agreement with RST. In addition, the GECC Credit Facility is guaranteed by certain of the Company's investors (other than HBM) on a several and not joint basis which guarantee is limited to each investor's pro rata portion of the outstanding principal and accrued and unpaid interest under the GECC Credit Facility, but in no event to exceed $11.25 million in the aggregate. The obligations of the investors under the guarantee is not triggered until the earlier to occur of (i) thirty days after written notice from the agent that the obligations under the GECC Credit Facility have been accelerated, and (ii) the occurrence of a bankruptcy or insolvency event with respect to the borrower, the Company or any of the investor guarantors. The guarantee by the Company's investors of the GECC Credit Facility also includes covenants that require each such investor to maintain at all times unfunded commitments from its investors in an amount equal to at least one and one-half times the maximum amount which the investor may be obligated for under the investor guarantee, and also includes certain control requirements with respect to such investors.

The GECC Loan and Security Agreement contains events of default including payment default, default arising from the breach of the provisions of the GECC Loan and Security Agreement and related documents or the inaccuracy of representations and warranties, attachment default, judgment default, bankruptcy and insolvency, cross-default provision with respect to other material indebtedness, default based on the unenforceability, invalidity or revocation of a the GECC Loan and Security Agreement or any other related documents (including any guarantee or applicable subordination agreement) or any security interests, the occurrence of a material adverse effect (as defined in the GECC Loan and Security Agreement) and certain changes in control, including if the chief executive officer or chief financial officer of the borrower cease to be involved in the daily operations or management of the business, if certain holders cease to own or control at least 51% of the outstanding capital stock of the Company, if the Company ceases to own or control all the economic and voting rights of the borrower and if the borrower ceases to own or control, directly or indirectly, all of the economic or voting rights of each of its subsidiaries.

The occurrence of an event of default under the GECC Credit Facility could trigger the acceleration of the obligations under the GECC Credit Facility or allow the agent or lenders to exercise other rights and remedies, including rights against the assets which secure the GECC Credit Facility and rights under guarantees provided to support the obligations under the GECC Credit Facility.

The GECC Loan and Security Agreement contains a number of affirmative and restrictive covenants including reporting requirements, compliance with laws, protection of intellectual property and other collateral covenants, and limitations, subject to certain exceptions set forth in the GECC Loan and Security Agreement, on liens and indebtedness, limitations on dispositions, limitations on mergers and acquisitions, limitations on restricted payments and investments, limitations on transactions with the Company's affiliates, limitations on changes in business, limitations on amendments and waivers of certain agreements, and limitations on waivers and amendments to certain agreements, including certain portions of the Paul Capital agreements, the Company's organizational documents, and documents relating to debt that is subordinate to the Company's obligations under the GECC Credit Facility.

The outstanding principal and accrued interest on the GECC Credit Facility was $11.25 million as of September 30, 2010, and interest expense associated with this facility was $0.03 million for the nine months ended September 30, 2010.

STOCKHOLDERS' EQUITY

Pacira Stock Incentive Plan

On September 2, 2010, the Company's board of directors amended its 2007 Plan to increase the number of authorized plan shares from 1,066,946 to 1,729,498 shares of common stock. This increase was approved by the Company's stockholders in October 2010. Concurrent with the amendment of the 2007 Plan, in September 2010 the board of directors granted stock options to employees, non-employee board members and consultants for an aggregate of 1,448,301 shares of the Company's common stock. The stock options have an exercise price of $1.61 per share. In establishing the exercise price, the board of directors relied partly on a valuation that concluded as of August 31, 2010 the value of the Company's common stock was $1.61 per share.

These stock options may be exercised only upon the completion of an initial public offering prior to December 31, 2012. If the Company's initial public offering is not completed prior to December 31, 2012, then the options automatically cancel in accordance with their terms. The stock options have a 10-year term, and the option shares vest according to one of the following four schedules:

(i) 75% of the option shares vest on the date of grant, and the remaining 25% of the option shares vest in equal successive monthly installments upon the optionee's completion of each month of service over the 12 month period following the date of grant;

(ii) 50% of the option shares vest on the date of grant, and the remaining 50% of the option shares vest in equal successive monthly installments upon the optionee's completion of each month of service over the 24 month period following the date of grant;

(iii) 25% of the option shares vest upon the optionee's completion of one year of service to the Company measured from the date of grant, and the remaining 75% of the option shares vest in equal successive monthly installments upon the optionee's completion of each month of service over the 36 month period following the first anniversary of the date of grant; or

(iv) 50% of the option shares vest on the first anniversary of the closing of the Company's initial public offering provided that the optionee remains in service to the Company for such first year and, the remaining 50% of the option shares vest on the second anniversary of the closing of the Company's initial public offering provided that the optionee remains in service to the Company over such second year. Upon a change in control of the Company, as defined in the 2007 Plan, 100% of the shares underlying each of these options shall become vested and exercisable immediately prior to such change in control.

The following table summarizes the Company's stock option activity and related information for the period from January 1, 2010 to September 30, 2010:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2010	52,430	$ 1.79
Granted	1,456,757	1.61
Exercised	(982)	1.83
Forfeited	(2,071)	1.94
Expired	(2,050)	1.83
Outstanding at September 30, 2010	1,504,084	1.61

Pacira Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)—(continued)

As of September 30, 2010, $1.7 million of total unrecognized compensation cost related to non-vested stock options is expected to be recognized over the respective vesting terms of each award. The expenses associated with the options granted in September 2010, as described above, have been deferred until the successful completion of the initial public offering. The weighted average term of the unrecognized share-based compensation is 2.9 years. The weighted average fair value of the options granted during the nine months ended September 30, 2010 was $1.10 per share.

The fair values of each option grant in 2010 and 2009 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine months ended	
	September 30, 2010	September 30, 2009
Expected dividend yield	None	None
Risk free interest rate	1.7-2.8%	2.1-2.7%
Expected volatility	80.8%	82.0%
Expected life of options	5.50-6.25 years	6.25 years

7. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2010 and 2009, the Company entered into debt arrangements with certain investors in the Company (see Note 6). The composition of the balances due to these investors totaling $42.7 million and $22.2 million, including accrued interest of $2.7 million and $0.9 million, as of September 30, 2010 and December 31, 2009.

Stack Pharmaceuticals, Inc ("SPI"), an entity controlled by David M. Stack, the Company's chief executive officer, provides the Company use of its office facilities, which includes the use of office space for the Company's employees, office furnishings, phone system, internet connections, printers and other related office amenities such as conference rooms. In addition, SPI also provides market research services. Pursuant to a new agreement signed in August, 2010, SPI will provide consulting services and commercial leadership related to EXPAREL regarding the development of strategic plans and analyses for the commercialization of EXPAREL, support in the development of documents, data and materials for investor and commercial partner presentations and documents, and commercial leadership in support of the Company's website. The Company incurred expenses of $210,000 and $157,000 for the nine months ended September 30, 2010 and 2009, respectively. The Company had no outstanding balance payable to SPI as of September 30, 2010 and December 31, 2009.

MPM Asset Management ("MPM"), an investor in the Company, provides clinical management and subscription services to the Company. The Company incurred expenses of $583,000 and $219,000 for the nine months ended September 30, 2010 and 2009, respectively. The Company had outstanding balances payable to MPM of $384,000 and $88,000 as of September 30, 2010 and December 31, 2009, respectively.

In April 2010, the Company signed a statement of work for a feasibility study with Rhythm Pharmaceuticals, Inc. The Company earned contract revenue from this statement of work during 2010. MPM and its affiliates are holders of the Company's capital stock. MPM and its affiliates are holders of the capital stock of Rhythm Pharmaceuticals, Inc. and a managing director of MPM is a member of the board of directors of Rhythm Pharmaceuticals, Inc. The Company earned $286,000 for the nine months ended September 30, 2010. As of September 30, 2010 an amount of $152,000 was payable by Rhythm Pharmaceuticals, Inc.

8. **SUBSEQUENT EVENTS**

The Company has evaluated events from the balance sheet date, the date at which the interim unaudited condensed consolidated financial statements were available to be issued, through January 19, 2011.

Hercules Credit Facility

On November 24, 2010, the Company entered into a $26.25 million credit facility with Hercules Technology Growth Capital, Inc. and Hercules Technology III, L.P., as lenders (the "Hercules Credit Facility"). At the closing of the Hercules Credit Facility, the Company entered into a term loan in the aggregate principal amount of $26.25 million, which was the full amount available under the Hercules Credit Facility. As of December 31, 2010, the entire term loan of $26.25 million was outstanding. The term loan under the Hercules Credit Facility is comprised of two tranches, Tranche A and Tranche B. The Tranche A portion of the term loan is comprised of $11.25 million in principal and carries a floating per annum interest rate equal to 10.25% plus the amount, if any, by which the prime rate exceeds 4.00%. Upon the release of the investors' guaranty (described below), the interest rate on the Tranche A portion of the term loan will increase to a floating per annum interest rate equal to 11.00% plus the amount, if any, by which the prime rate exceeds 4.00%. The Tranche B portion of the term loan is comprised of $15.0 million in principal and carries a floating per annum interest rate equal to 12.65% plus the amount, if any, by which the prime rate exceeds 4.00%. As of December 31, 2010, the interest rate on the Tranche A portion was 10.25% and on the Tranche B portion was 12.65%. Interest on the term loan is payable monthly. If there is an event of default under the Hercules Credit Facility, the Company will be obligated to pay interest at a higher default rate. The proceeds of the term loan under the Hercules Credit Facility have been used to repay the GECC Credit Facility in full and will be used for other general corporate purposes.

As further consideration to the lenders to provide the term loan to the Company under the Hercules Credit Facility, the Company issued to the lenders a warrant to purchase 178,986 shares of the Company's Series A convertible preferred stock. If after the closing date of the Hercules Credit Facility and prior to the completion of the Company's proposed initial public offering, the Company issues equity securities in a private placement then the lenders may, at their option, exercise the warrant for the same class and type of equity securities that the Company issues in such private placement in lieu of Series A convertible preferred stock. The exercise price for the shares to be issued under the warrant is equal to $13.44 per share or the price per share paid in the next private placement. The warrant shall be valid from the date of issuance until the earlier to occur of ten (10) years from the date of issuance or five (5) years following the effective date of the registration statement of which this prospectus is a part.

The Hercules Credit Facility provides for an "interest only period" when no principal amounts are due and payable. The interest only period runs initially from November 24, 2010 through August 31, 2011, but can be extended, at the Company's request, to either November 30, 2011 or February 28, 2012 if certain conditions are satisfied. Following the end of the interest only period, the term loan is to be repaid in 33 equal monthly installments of principal and interest beginning on the first business day after the month in which the interest only period ends. Amounts repaid may not be re-borrowed. The Company can, at any time, prepay all or any part of the term loan provided that so long as the investors' guaranty (as described below) is in effect, the Company cannot prepay any part of the Tranche A portion of the term loan without the lenders' consent if any of the Tranche B portion is outstanding. If the investors' guaranty is not in effect, then any prepayments are to be applied pro rata across the outstanding balance of both portions of the term loan. In connection with any prepayments of the term loan under the Hercules Credit Facility, the Company is required to pay, in addition to all principal and accrued and unpaid interest on such term loan, a prepayment charge equal to 1.25% of the principal amount being prepaid. In addition, there is an end of term charge that is payable to the lenders upon the earliest to occur of the maturity date, the prepayment in full of the Company's obligations under the Hercules Credit Facility and the acceleration of the Company's obligations under the Hercules Credit Facility.

Pacira Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)—(continued)

The Hercules Credit Facility is secured by a first priority lien on all of the Company's assets other than the assets that secure the Company's obligations under the Amended and Restated Royalty Interests Assignment Agreement (as described below). In addition, the Hercules Credit Facility is guaranteed by certain of the Company's investors (other than entities affiliated with HBM) on a several and not joint basis, which guarantee is limited to each investor's pro rata portion of the outstanding principal and accrued and unpaid interest under the Hercules Credit Facility, but in no event exceeding $11.25 million in the aggregate. The Hercules loan agreement, provides that upon the occurrence of certain circumstances and upon the Company's request, the investors' guarantee may be terminated and released.

The Hercules loan and security agreement also contains a provision that entitles the lenders to, subject to applicable securities laws and regulatory requirements, a limited right to participate in any equity financings that occur between the closing date of the Hercules Credit Facility and the completion of the Company's proposed initial public offering.

The Hercules loan and security agreement contains events of default including payment default, default arising from the breach of the provisions of the Hercules loan and security agreement and related documents (including the occurrence of certain changes in control, including if the Company's chief executive officer ceases under certain conditions to be involved in the daily operations or management of the business, or if certain holders of the Company's capital stock cease to retain, after the consummation of certain corporate transactions, shares representing more than 50% of the surviving entity after such transactions (provided that the Company's initial public offering shall not constitute such a change in control)) or the inaccuracy of representations and warranties contained in the loan and security agreement, attachment default, bankruptcy and insolvency, cross-default with respect to certain other indebtedness (including certain events under the Amended and Restated Royalty Interests Assignment Agreement), breach of the terms of any guarantee (including the investors' guarantee) of the Hercules Credit Facility, the occurrence of a material adverse effect (as defined in the Hercules loan and security agreement).

The occurrence of an event of default under the Hercules Credit Facility could trigger the acceleration of the Company's obligations under the Hercules Credit Facility or allow the lenders to exercise other rights and remedies, including rights against the Company's assets that secure the Hercules Credit Facility and rights under guarantees provided to support the obligations under the Hercules Credit Facility.

The Hercules loan and security agreement contains a number of affirmative and restrictive covenants, including reporting requirements and other collateral limitations, certain limitations on liens and indebtedness, dispositions, mergers and acquisitions, restricted payments and investments, corporate changes and waivers and amendments to certain agreements, the Company's organizational documents, and documents relating to debt that is subordinate to the Company's obligations under the Hercules Credit Facility.

In connection with entering into the Hercules Credit Facility, the maturity dates of the 2009 Convertible Notes, the 2009 Secured Notes and the 2010 Secured Notes were extended to the earliest of (1) a sale of the Company, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility (as described above) and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated.

In connection with entering into the Hercules Credit Facility, the holders of the 2009 Convertible Notes entered into a subordination and intercreditor agreement with the lenders under the Hercules Credit Facility pursuant to which the 2009 Convertible Notes were subordinated to the Hercules Credit Facility. The holders of

Pacira Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)—(continued)

the 2009 Convertible Notes previously entered into a separate intercreditor agreement with the holders of the 2009 Secured Notes and the 2010 Secured Notes pursuant to which the 2009 Convertible Notes were subordinated to the 2009 Secured Notes and the 2010 Secured Notes, and the holders of the 2009 Secured Notes agreed to share payments pro rata with the holders of the 2010 Secured Notes.

December 2010 Convertible Notes

On December 29, 2010, the Company sold $15.0 million in aggregate principal amount of convertible promissory notes, or the December 2010 Convertible Notes, in a private placement to certain of its existing investors. 50% of the principal amount was funded on December 29, 2010. The remaining 50% of the principal amount will be funded in a second closing to occur upon written request of holders of at least 75% of the outstanding principal amount of the December 2010 Convertible Notes on or before the earlier of the completion of the Company's proposed initial public offering or March 31, 2011. In connection with the issuance and sale of the December 2010 Convertible Notes, the Company issued warrants to the holders of the December 2010 Convertible Notes to purchase an aggregate of 167,361 shares of its common stock with an exercise price of $13.44 per share. Pursuant to the terms of the agreement for the issuance and sale of the December 2010 Convertible Notes, in the event a second closing of the issuance and sale of the December 2010 Convertible Notes occurs, the Company will issue warrants to the holders of the December 2010 Convertible Notes to purchase an additional 167,361 shares of its common stock with an exercise price of $13.44 per share. The December 2010 Convertible Notes will have an interest rate of 5% per year from and after March 31, 2011 and all principal and accrued and unpaid interest on the December 2010 Convertible Notes is due and payable upon the earliest of: (1) a sale of the Company, (2) the date which is 30 days after the last day of the month that is 33 months after the expiration of the "interest only period" under the Hercules Credit Facility and (3) 91 days after the date that all obligations under the Hercules Credit Facility are paid in full and the Hercules Credit Facility is terminated.

Upon completion of the Company's proposed initial public offering, all principal and interest due under the December 2010 Convertible Notes will be converted into shares of the Company's common stock at a conversion price equal to the price per share of common stock sold in the Company's proposed initial public offering. Purchasers of the December 2010 Convertible Notes included certain holders of more than 5% of the Company's capital stock, or entities affiliated with them.

The fair value of the warrants granted on December 29, 2010 is $0.5 million and the fair value of the beneficial conversion feature is a corresponding $0.5 million. The value of the warrants and the beneficial conversion feature will be recorded as a discount to the December 2010 Convertible Notes and amortized as a component of interest expense over the original term of the December 2010 Convertible Notes. Upon the completion of the Company's initial public offering, when the December 2010 Convertible Notes are converted into common stock, any unamortized balance will be recognized in full on the date of such event.

2007 Plan Amendment

In December 2010, the Company amended the 2007 Plan to increase the number of shares of common stock authorized for issuance under the 2007 Plan from 1,729,498 shares to 2,546,657 shares.

December 2010 Stock Option Grant

In December 2010, the Company's board of directors granted options to all of its employees, including its named executive officers, and its non-employee directors, for an aggregate of 571,300 shares of common stock.

Pacira Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)—(continued)

2011 Plan

The Company's 2011 stock incentive plan, or the 2011 plan, which will become effective immediately prior to the completion of the Company's proposed initial public offering, was adopted by its board of directors and approved by its stockholders in December 2010. The 2011 plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock awards and other stock-based awards. Upon effectiveness, the sum of (up to 2,546,657 shares) (x) the number of shares of its common stock reserved for issuance under the 2007 plan at such time, and (y) the number of shares of its common stock subject to awards granted under the 2007 plan that expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company pursuant to a contractual repurchase right, will be reserved for issuance under the 2011 plan. In addition, the 2011 plan contains an "evergreen" provision, which allows for an increase in the number of shares available for issuance under the 2011 plan on the first day of each calendar year from 2012 through 2015.

Novo Nordisk Development and Licence Agreement

In January 2011, the Company entered into an agreement with Novo Nordisk A/S, or Novo, pursuant to which it granted non-exclusive rights to Novo under certain of its patents and know-how to develop, manufacture and commercialize formulations of a Novo proprietary drug using the Company's DepoFoam drug delivery technology. Under this agreement, the Company agreed to undertake specified development and technology transfer activities and to manufacture pre-clinical and certain clinical supplies of such DepoFoam formulated Novo product until the completion of such technology transfer activities. Novo is obligated to pay for all costs incurred by the Company in conducting such development, manufacturing and technology transfer activities. The Company received a one-time upfront payment of $1.5 million from Novo. The Company is also entitled to receive single-digit royalties on sales of such Novo product for up to twelve years following the first commercial sale of such Novo product. In addition, the Company is entitled to receive up to $24 million in milestone payments based on achievement of specified development events, and up to an additional $20 million in milestone payments based on sales of such Novo product exceeding specified amounts. Each party has the right to terminate the agreement for an uncured material breach by the other party or in connection with the other party's bankruptcy or similar event. In addition, Novo has the right to terminate the agreement for convenience at any time upon sixty (60) days notice prior to commercialization of such Novo product and upon ninety (90) days notice thereafter, subject to Novo's payment of a specified termination fee if, after initiation of the technology transfer but prior to commercialization, Novo terminates the agreement other than for certain specified reasons. The Company also has the right to terminate the agreement if (1) Novo decides to discontinue or terminate the development or commercialization of such Novo product, (2) such Novo product no longer has regulatory approval in any market, or (3) Novo or any of its affiliates or sublicensees of such Novo product challenges the validity or enforceability of any of the licensed patents.

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4,250,000 Shares

Common Stock

Prospectus
, 2011

Barclays Capital **Piper Jaffray**

Wedbush PacGrow Life Sciences **Brean Murray, Carret & Co.**

Until , 2011 which is the date 25 days after the date of this prospectus, all dealers that buy, sell or trade our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table indicates the expenses to be incurred in connection with the offering described in this Registration Statement, other than underwriting discounts and commissions, all of which will be paid by the Registrant. All amounts are estimated except the Securities and Exchange Commission registration fee and the FINRA filing fee.

	Amount
Securities and Exchange Commission registration fee	$ 6,150
FINRA filing fee	9,125
The NASDAQ Global Market listing fee	125,000
Accountants' fees and expenses	300,000
Legal fees and expenses	1,200,000
Blue Sky fees and expenses	10,000
Transfer Agent's fees and expenses	10,000
Printing and engraving expenses	325,000
Miscellaneous	314,725
Total Expenses	$ 2,300,000

Item 14. Indemnification of Directors and Officers

Section 102 of the General Corporation Law of the State of Delaware permits a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit. Our restated certificate of incorporation that will become effective upon the completion of this offering provides that no director of the Registrant shall be personally liable to it or its stockholders for monetary damages for any breach of fiduciary duty as director, notwithstanding any provision of law imposing such liability, except to the extent that the General Corporation Law of the State of Delaware prohibits the elimination or limitation of liability of directors for breaches of fiduciary duty.

Section 145 of the General Corporation Law of the State of Delaware provides that a corporation has the power to indemnify a director, officer, employee, or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against expenses (including attorneys' fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by the person in connection with an action, suit or proceeding to which he is or is threatened to be made a party by reason of such position, if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful, except that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Our restated certificate of incorporation provides that we will indemnify each person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an

action by or in the right of Pacira) by reason of the fact that he or she is or was, or has agreed to become, a director or officer of Pacira, or is or was serving, or has agreed to serve, at our request as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (all such persons being referred to as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding and any appeal therefrom, if such Indemnitee acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests, and, with respect to any criminal action or proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful. Our restated certificate of incorporation provides that we will indemnify any Indemnitee who was or is a party to an action or suit by or in the right of Pacira to procure a judgment in our favor by reason of the fact that the Indemnitee is or was, or has agreed to become, a director or officer of Pacira, or is or was serving, or has agreed to serve, at our request as a director, officer, partner, employee or trustee or, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) and, to the extent permitted by law, amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding, and any appeal therefrom, if the Indemnitee acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of Pacira, except that no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to us, unless a court determines that, despite such adjudication but in view of all of the circumstances, he or she is entitled to indemnification of such expenses. Notwithstanding the foregoing, to the extent that any Indemnitee has been successful, on the merits or otherwise, he or she will be indemnified by us against all expenses (including attorneys' fees) actually and reasonably incurred in connection therewith. Expenses must be advanced to an Indemnitee under certain circumstances.

We have entered into indemnification agreements with each of our directors and our executive officers. These indemnification agreements may require us, among other things, to indemnify our directors and executive officers for some expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of his service as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request.

We maintain a general liability insurance policy that covers certain liabilities of directors and officers of our corporation arising out of claims based on acts or omissions in their capacities as directors or officers.

In the underwriting agreement we enter into in connection with the sale of common stock being registered hereby, the underwriters will agree to indemnify, under certain conditions, us, our directors, our officers and persons who control us with the meaning of the Securities Act of 1933, as amended, against certain liabilities.

Item 15. Recent Sales of Unregistered Securities.

Set forth below is information regarding all securities sold by us within the past three years. Also included is the consideration, if any, received by us for such shares, options and warrants and information relating to the section of the Securities Act, or rule of the Securities and Exchange Commission, under which exemption from registration was claimed.

(a) Issuances of Securities

In March 2007, in connection with the Acquisition, we issued a total of 464,900 shares of common stock at a price per share of $0.11 to HBM BioVentures (Cayman) Ltd., entities affiliated with MPM Capital, entities affiliated with Orbimed Advisors and entities affiliated with Sanderling Ventures, for an aggregate purchase price of $50,000.

In March 2007, February 2008, July 2008 and October 2008, we issued a total of 6,322,640 shares of Series A convertible preferred stock at a price per share of $13.44 to HBM BioVentures (Cayman) Ltd., entities

affiliated with MPM Capital, entities affiliated with Orbimed Advisors and entities affiliated with Sanderling Ventures, for an aggregate purchase price of $85.0 million.

No underwriters were involved in the foregoing issuances of capital stock. The capital stock described in this section (a) of Item 15 was issued to investors in reliance upon the exemption from the registration requirements of the Securities Act, as set forth in Section 4(2) under the Securities Act and, in certain cases, Regulation D promulgated thereunder, relative to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required.

(b) Issuances of Promissory Notes

In January 2009, we issued convertible promissory notes to the Foundation for Research, HBM BioVentures (Cayman) Ltd., entities affiliated with MPM Capital, entities affiliated with Orbimed Advisors and entities affiliated with Sanderling Ventures. The aggregate principal amount of the notes issued was $10,625,000 and the notes had an annual interest rate of 5%.

In August, September and October 2009, we issued secured promissory notes to the Foundation for Research, HBM BioVentures (Cayman) Ltd., entities affiliated with MPM Capital, entities affiliated with Orbimed Advisors and entities affiliated with Sanderling Ventures. The aggregate principal amount of the notes issued was $9,676,972 and the notes had an annual interest rate of 12%.

In March, June and September 2010, we issued secured promissory notes to HBM BioVentures (Cayman) Ltd., entities affiliated with MPM Capital, entities affiliated with Orbimed Advisors and entities affiliated with Sanderling Ventures. The aggregate principal amount of the notes issued was $15,000,000 and the notes had an annual interest rate of 5%.

In April, June and September 2010, we issued subordinated secured promissory notes to HBM BioVentures (Cayman) Ltd. The aggregate principal amount of the notes issued was $3,750,000 and the notes had annual interest rates between 9.05% and 9.24%.

In April 2010, we issued a secured promissory note to General Electric Capital Corporation. The principal amount of the note issued was $11,250,000 and the note had an annual interest rate of 9.24%.

In November 2010, we issued a secured promissory note to Hercules Technology Growth Capital, Inc. and Hercules Technology III, L.P. The principal amount of the note issued was $26,250,000 and the note had a variable interest rate.

In December 2010, we entered into an agreement for the issuance of convertible promissory notes to HBM BioVentures (Cayman) Ltd., entities affiliated with MPM Capital, entities affiliated with Orbimed Advisors and entities affiliated with Sanderling Ventures. On December 29, 2010, we issued notes for an aggregate principal amount $7,500,000. Pursuant to the terms of the agreement, the remaining $7,500,000 of principal amount of notes will be funded in a second closing to occur upon written request of holders of at least 75% of the outstanding principal amount of the notes issued on December 29, 2010. The notes have an annual interest rate of 5%.

No underwriters were involved in the foregoing issuances of promissory notes. The promissory notes described in this section (b) of Item 15 were issued to investors in reliance upon the exemption from the registration requirements of the Securities Act, as set forth in Section 4(2) under the Securities Act and, in certain cases, Regulation D promulgated thereunder, relative to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required.

(c) Stock Option Grants

Since inception, we have issued options to certain directors, employees and consultants to purchase an aggregate of 3,043,198 shares of common stock as of December 31, 2010. As of December 31, 2010, options to purchase 110,196 shares of common stock had been exercised and options to purchase 2,073,864 shares of common stock remained outstanding at a weighted average exercise price of $2.69 per share.

The stock options and the common stock issuable upon the exercise of such options as described in this section (b) of Item 15 were issued pursuant to written compensatory plans or arrangements with the Registrant's directors, employees and consultants in reliance on the exemption provided by Rule 701 promulgated under the Securities Act. All recipients either received adequate information about the Registrant or had access, through employment or other relationships, to such information.

(d) Issuances of Warrants

In January 2009, we issued to HBM BioVentures (Cayman) Ltd., entities affiliated with MPM Capital, entities affiliated with Orbimed Advisors and entities affiliated with Sanderling Ventures warrants to purchase 158,061 shares of common stock in connection with the 2009 Convertible Note Financing. The common stock warrants have an exercise price of $2.69 per share.

In June 2009, we issued warrants for an aggregate of 23,244 shares of Series A convertible preferred stock to our landlord in connection with a rent deferral.

In November 2010, we issued to Hercules Technology Growth Capital, Inc. and Hercules Technology III, L.P. a warrant to purchase 178,986 shares of preferred stock in connection with the Hercules Credit Facility. The preferred stock warrant has an exercise price of $13.44 per share, which expires upon the earlier to occur of (i) November 24, 2020 or (ii) five years following the effective date of this registration statement.

In December 2010, we issued to HBM BioVentures (Cayman) Ltd., entities affiliated with MPM Capital, entities affiliated with Orbimed Advisors and entities affiliated with Sanderling Ventures warrants to purchase an aggregate of 167,361 shares of common stock in connection with the issuance of certain convertible promissory notes. Pursuant to the terms of the agreement for the issuance of the notes, if a second closing of the issuance and sale of the notes occurs, we will issue warrants to purchase an additional 167,361 shares of common stock. The common stock warrants have an exercise price of $13.44 per share.

No underwriters were involved in the foregoing issuances of warrants. The warrants described in this section (d) of Item 15 were issued to investors in reliance upon the exemption from the registration requirements of the Securities Act, as set forth in Section 4(2) under the Securities Act, including Regulation D promulgated thereunder, relative to transactions by an issuer not involving any public offering, to the extent an exemption from such registration was required.

All of the foregoing securities are deemed restricted securities for purposes of the Securities Act. All certificates representing the issued shares of capital stock described in this Item 15 include appropriate legends setting forth that the securities had not been registered and the applicable restrictions on transfer.

Item 16. Exhibits

The exhibits to the registration statement are listed in the Exhibit Index to this registration statement and are incorporated by reference herein.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) For the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(4) For the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Parsippany, State of New Jersey, on the 20th day of January, 2011.

PACIRA PHARMACEUTICALS, INC.

By: /S/ DAVID STACK
David Stack
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act, this Amendment No. 4 to Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/S/ DAVID STACK David Stack	Director, President and Chief Executive Officer (Principal Executive Officer)	January 20, 2011
/S/ JAMES SCIBETTA James Scibetta	Chief Financial Officer (Principal Financial and Accounting Officer)	January 20, 2011
* Fred Middleton	Chairman	January 20, 2011
* Luke Evnin	Director	January 20, 2011
* Carl Gordon	Director	January 20, 2011
* John Longenecker	Director	January 20, 2011
* Gary Pace	Director	January 20, 2011
* Andreas Wicki	Director	January 20, 2011

PACIRA PHARMACEUTICALS, INC.

*By: /s/ DAVID STACK
David Stack
Attorney-in-fact

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EXHIBIT INDEX

Exhibit number	Description
1.1†	Form of Underwriting Agreement
3.1†	Amended and Restated Certificate of Incorporation of the Registrant, as amended to date
3.2†	Form of Restated Certificate of Incorporation of the Registrant, to be effective upon the completion of the offering
3.3†	Bylaws of the Registrant
3.4†	Form of Amended and Restated Bylaws of the Registrant, to be effective upon the completion of the offering
3.5†	Certificate of Amendment to Amended and Restated Certificate of Incorporation
4.1†	Specimen Certificate evidencing shares of common stock
5.1†	Opinion of Wilmer Cutler Pickering Hale and Dorr LLP
10.1†	Second Amended and Restated 2007 Stock Option/Stock Issuance Plan
10.2†	Form of Stock Option Agreement under the Second Amended and Restated 2007 Stock Option/Stock Issuance Plan
10.3†	Investors' Rights Agreement, dated March 23, 2007, among the Registrant and the parties named therein
10.4+†	Assignment Agreement, dated February 9, 1994, amended April 15, 2004, between the Registrant and Research Development Foundation
10.5+†	Stock Purchase Agreement, dated January 8, 2007, between SkyePharma, Inc. and the Registrant
10.6+†	Amended and Restated Royalty Interests Assignment Agreement, dated March 23, 2007, as amended, between SkyePharma, Inc. and Royalty Securitization Trust I
10.7+†	Amended and Restated Security Agreement (SKPI), dated March 23, 2007, between SkyePharma, Inc. and Royalty Securitization Trust I
10.8+†	Supply Agreement, dated June 30, 2003, between SkyePharma, Inc. and Mundipharma Medical Company
10.9+†	Distribution Agreement, dated June 30, 2003, between SkyePharma, Inc. and Mundipharma International Holdings Limited
10.10+†	Distribution Agreement, dated July 27, 2005, between SkyePharma, Inc. and Mundipharma International Holdings Limited
10.11+†	Co-development, Collaboration and License Agreement, dated January 2, 2003, among Enzon Pharmaceuticals, Inc., Jagotec, AG, SkyePharma, Inc. and SkyePharma PLC
10.12+†	DepoCyt Supply and Distribution Agreement, dated December 31, 2002, between SkyePharma, Inc. and Enzon Pharmaceuticals, Inc.
10.13+†	Amended and Restated Strategic Licensing, Distribution and Marketing Agreement, dated October 15, 2009, between the Registrant and EKR Therapeutics, Inc.
10.14+†	Amended and Restated Supply Agreement, dated October 15, 2009, between the Registrant and EKR Therapeutics, Inc.
10.15+†	Strategic Marketing Agreement, dated September 25, 2007, between the Registrant and Flynn Pharma Limited
10.16+†	Supply Agreement, dated December 5, 2007, between the Registrant and Flynn Pharma Limited
10.17†	Lease Agreement, dated August 17, 1993, amended July 2, 2009, between Pacira Pharmaceuticals, Inc. and HCP TPSP, LLC

Exhibit number	Description
10.18†	Lease Agreement, dated December 8, 1994, amended July 2, 2009, between Pacira Pharmaceuticals, Inc. and LASDK Limited Partnership
10.19†	Services Agreement, dated October 28, 2010, between the Registrant, MPM Asset Management LLC and Gary Patou
10.20†	Services Agreement, dated September 15, 2010, between Pacira Pharmaceuticals, Inc. and Stack Pharmaceuticals, Inc.
10.21†	Employment Agreement between the Registrant and David Stack
10.22†	Employment Agreement between the Registrant and James Scibetta
10.23†	Employment Agreement between the Registrant and Mark Walters
10.24†	Employment Agreement between the Registrant and William Lambert
10.25†	Loan and Security Agreement, dated November 24, 2010, among the Registrant, Pacira Pharmaceuticals, Inc. (California), Hercules Technology Growth Capital, Inc. and Hercules Technology II, L.P.
10.26†	Guaranty Agreement, dated November 24, 2010, between the Registrant, Hercules Technology Growth Capital, Inc., Hercules Technology II, L.P. and the parties named therein
10.27†	Warrant to purchase preferred stock of the Registrant, dated November 24, 2010
10.28†	Form of Warrant to purchase Series A convertible preferred stock of the Registrant, dated July 2, 2009
10.29†	Form of Warrant to purchase common stock of the Registrant, dated January 22, 2009
10.30†	Form of Warrant to purchase common stock of the Registrant, dated December 29, 2010
10.31†	2011 Stock Incentive Plan
10.32†	Form of Indemnification Agreement between the Registrant and its directors and officers
10.33+	Development and License Agreement, dated January 14, 2011, between the Registrant and Novo Nordisk A/S
21.1†	Subsidiaries of Registrant
23.1	Consent of J.H. Cohn LLP
23.2†	Consent of Wilmer Cutler Pickering Hale and Dorr LLP (included in Exhibit 5.1)
24.1†	Powers of Attorney

† Previously filed.
* To be filed by amendment.
+ Confidential treatment requested as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

Exhibit 10.33

Confidential Materials omitted and filed separately with the
Securities and Exchange Commission. Asterisks denote omissions.

Execution Version ***Confidential***

Development and License Agreement

THIS DEVELOPMENT AND LICENSE AGREEMENT (the **"Agreement"**) is entered into as of January 14, 2011 (the **"Effective Date"**) by and between PACIRA PHARMACEUTICALS, INC., a California corporation having an address at 10450 Science Center Drive, San Diego, CA 92121, USA (**"Pacira"**) and NOVO NORDISK AS, a Danish corporation having an address at Novo Allé, 2880 Bagsvaerd, Denmark (**"Novo Nordisk"**).

RECITALS

WHEREAS, Pacira is a biopharmaceutical company specializing in the discovery, development and commercialization of DepoFoam® a proprietary injectable sustained-release delivery system and was founded in 2007 through the acquisition of the former SkyePharma PLC injectable business;

WHEREAS, Novo Nordisk is a leading global health care company engaged in the research, development and commercialization of pharmaceutical products;

WHEREAS, Pacira (formerly SkyePharma) and Novo Nordisk have entered into a Feasibility Agreement dated as of [**]; and

WHEREAS, Novo Nordisk desires to obtain, and Pacira is willing to grant to Novo Nordisk, an exclusive, worldwide license to Pacira's proprietary DepoFoam® delivery system in order to develop and commercialize formulations of [**] (as defined below), subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Definitions and Interpretation

1.1 The following words have the following meaning when used in this Agreement.

"Affiliate" means any corporation, company, partnership, joint venture or other entity which Controls, is Controlled by, or is under common Control with a Party, as the case may be. For the purpose of this definition, "Control" of an entity means the ownership, directly or indirectly, of more than fifty percent (50%) of the outstanding voting securities or capital stock of such entity, or the legal power to direct or cause the direction of the general management and policies of the entity in question. For purposes of this definition, Novo A/S and the Novo Nordisk Foundation and their affiliates (other than Novo Nordisk and its subsidiaries) are not considered Affiliates of Novo Nordisk.

"Auditor" shall have the meaning provided in Section 8.6.

"BLA" means a Biological License Application as defined in the U.S. Food, Drug and Cosmetics Act and the regulations promulgated thereunder and any corresponding or equivalent foreign application or registration.

"Commercially Reasonable Efforts" means such application of effort and resources by the relevant Party as would be consistent with its actions in respect of a product or compound Controlled by such Party, which is of similar market potential and at a similar stage in its development or product life, taking into account, without limitation, with respect to a product, issues of safety and efficacy, product profile, the proprietary position of the product, the then current competitive environment for the product and the likely timing of the product's entry into the market, the regulatory environment of the product, and other relevant scientific, technical and commercial factors, but explicitly not taking into account any financial obligations that would be owed to Pacira under this Agreement. For Novo Nordisk, Commercially Reasonable Efforts may also take into account that Novo Nordisk has internal development projects for [**]. Notwithstanding the foregoing, to the extent that the performance of a Party's responsibilities hereunder is adversely affected by the other Party's failure to perform its responsibilities hereunder, such Party will not be deemed to have failed to use its Commercially Reasonable Efforts in performing such responsibilities.

"**Completion of the Technology Transfer**" means the date when Novo Nordisk has [**] of the Licensed Product [**].

"Confidential Information" of a Party means trade secrets or confidential or proprietary information, whether written, oral or in any other form, designated as such in writing (e-mail is sufficient) by such Party, including by letter or by the use of an appropriate proprietary stamp or legend, prior to or at the time any such trade secret or confidential or proprietary information is disclosed by such Party to the other Party. Confidential Information disclosed in oral form shall be deemed Confidential Information only to the extent that it is confirmed in writing to the other Party within twenty (20) days after the date of oral disclosure. Notwithstanding the foregoing, for purposes of this Agreement, the Parties acknowledge and agree that Novo Nordisk Confidential Information shall include all information specifically regarding [**], including Formulation Intellectual Property, and Pacira Confidential Information shall include all Manufacturing Information, in each case whether or not marked or otherwise identified as trade secrets or confidential or proprietary information. Notwithstanding the foregoing, any Know-How related to methods or processes for making formulations of [**] with DepoFoam arising from activities performed under this Agreement using or based on Manufacturing Information shall be subject to the same use restrictions and confidentiality obligations imposed by this Agreement with respect to Manufacturing Information, including the marking obligations set forth in Section 12.1(b). "Confidential Information" shall also include information exchanged prior to the date hereof in connection with the transactions set forth in this Agreement, including any Proprietary Information (as defined in the Confidentiality Agreement) disclosed by either Party pursuant to the

Confidentiality Agreement and any Confidential Information (as defined in the Feasibility Agreement) disclosed by either Party pursuant to the Feasibility Agreement (in each case, which information shall be deemed to be the disclosing Party's Confidential Information hereunder). In addition, the term "Confidential Information" includes:

(a) confidential and proprietary technical and commercial information, Know-How, drawings, specifications, models and/or designs relating to the development, manufacture, production, registration, promotion, distribution, marketing, performance or sale of the License Product;

(b) confidentiality and proprietary information concerning business transactions or associations, including other technical or commercial co-operation and collaborative arrangements or financial arrangements with other persons or bodies or customers or licensors or licensees;

(c) all experimental, manufacturing, process, analytical, packaging, product, warehousing, quality control and quality assurance and marketing specifications, standards, procedures, processes, methods, instructions and techniques, samples, prototypes, formulae, writings of any kind, opinions or otherwise unwritten data or in the form of computer software or computer programs or any part thereof in any code or language relating to Licensed Product;

(d) all non-public data and proprietary Know-How relating to the Licensed Product;

(e) any biological, chemical or physical materials provided under this Agreement in relation to the Licensed Product;

(f) any reports provided under this Agreement;

(g) that portion of any notes, analyses, compilations, studies, interpretations, memoranda or other documents prepared by the receiving Party or its Representatives (as defined in Section 12.1) which contain, reflect or are based upon, in whole or in part, any Confidential Information furnished to the receiving Party or its Representatives pursuant to this Agreement; and

(h) the terms of this Agreement.

"Confidentiality Agreement" means the Confidentiality Agreement between the Parties dated [**].

"Control" or **"Controlled"** means with respect to a particular item, material, information or Intellectual Property, the possession of the right (whether through ownership or license (other than by operation of this Agreement) or control over an

Affiliate with such right) to grant licenses or sublicenses as provided herein to the other Party without violating the terms of any agreement with any Third Party.

"Cover" or **"Covered by"** means, with respect to Licensed Product, in the absence of ownership or a license granted under an Issued Patent Claim, that the manufacture, use, offer for sale, sale or importation of such Licensed Product would infringe such Issued Patent Claim.

"DepoFoam" means Pacira's proprietary injectable sustained release delivery system (multivesicular liposomes).

"DMF" means drug master file (as such term is defined in 21 C.F.R. Part 314.420).

"EMA" means the European Medicines Agency or any successor agency thereto.

"**Existing Third Party License**" has the meaning given in Section 2.9.

"**Feasibility Agreement**" means that certain Feasibility Agreement dated as of [**] entered into between the Parties, as amended to date.

"FDA" means the United States Food and Drug Administration, or any successor agency thereto having the administrative authority to regulate the marketing of human pharmaceutical products or biological therapeutic products, delivery systems and devices in the United States of America.

"First Commercial Sale" means, in a country, the first commercial sale in that country by Novo Nordisk or its Affiliates or a sublicensee of a Licensed Product to a Third Party following receipt of marketing approval to sell such Licensed Product in such country. Sales for clinical studies, compassionate use, named patient programs, sales under a treatment IND, any non-registrational studies, or any similar instance where the Licensed Product is sold at cost or supplied without charge such as clinical supplies, free samples (promotional or otherwise) or as donations (for example to non-profit institutions or government agencies for a non-commercial purpose) shall not constitute a First Commercial Sale.

"Formulation Intellectual Property" means all (a) Know-How arising from activities performed under this Agreement regarding formulations of [**] with DepoFoam and/or methods or processes for making or using such formulations, whether conceived, discovered, reduced to practice or writing, generated or developed by the employees, agents or consultants of Pacira and/or its Affiliates and/or by the employees, agents or consultants of Novo Nordisk and/or its Affiliates, and (b) Patent Rights that claim or are directed to the foregoing Know-How. In addition, Novo Nordisk agrees that all Know-How related to methods or processes for making formulations of [**] with DepoFoam arising from activities performed under this Agreement by Pacira and/or Novo Nordisk using or based on Manufacturing Information (i) will be subject to the same use restrictions and confidentiality obligations imposed by this Agreement with respect to

Manufacturing Information, and (ii) any sublicensing of such Know-How by Novo Nordisk to any Third Parties shall be subject to the same restrictions on sublicensing of Manufacturing Information by Novo Nordisk to Third Parties as set forth in Section 2.7 of this Agreement.

"FTE Costs" shall have the meaning provided in Section 4.5(b).

"Intellectual Property" means Know-How and Patent Rights.

"Issued Patent Claim" means, on a country by country basis, a claim of an issued patent within the Licensed Patents, Formulation Intellectual Property or Joint Technology that has not:

(i) lapsed, expired, been formally disclaimed by written submission to any US or foreign patent office, withdrawn, cancelled or abandoned; or

(ii) been held revoked, invalid or unenforceable in an unappealable or unappealed decision of a court or other body of competent jurisdiction.

If there should be two or more decisions within the same country which are conflicting with respect to the invalidity or unenforceability of the same claim, the unappealed or unappealable decision of the highest tribunal shall thereafter control.

"Joint Technology" shall have the meaning provided in Section 9.2.

"**JPC"** means the Joint Patent Committee as defined in Section 5.5(a).

"**JSC**" means the Joint Steering Committee as defined in Section 5.1(a) and as further described in Article 5.

"Know-How" means ideas, concepts, discoveries, inventions, developments, trade secrets, know-how, techniques, methodologies, modifications, innovations, improvements, designs and design concepts, technical information, expertise, processes, specifications, formulas, procedures, protocols, and data, results and other information.

"Licensed Know-How" means Know-How included within Pacira Background Intellectual Property or Pacira Foreground Intellectual Property. For purposes of clarity, Licensed Know-How does not include Know-How which (i) at the time of disclosure by Pacira to Novo Nordisk was already in the public domain through no wrongful act of Novo Nordisk; (ii) prior to the disclosure by Pacira to Novo Nordisk, or the development by Pacira or Novo Nordisk under this Agreement, was already in Novo Nordisk's possession from a Third Party source that was under no obligation to Pacira to keep such information confidential, or from Pacira without any obligation of confidentiality on the part of Novo Nordisk; or (iii) was developed independently by Novo Nordisk outside of this Agreement, without the assistance of Pacira and without any use of Confidential Information Controlled by Pacira.

"Licensed Product" means any pharmaceutical formulation of [**] suitable for administration to humans where such formulation is comprised of [**], as the sole active ingredient, formulated using DepoFoam.

"Licensed Patents" means any Patent Rights included within the Pacira Background Intellectual Property or Pacira Foreground Intellectual Property.

"[**]" means Novo Nordisk's proprietary, [**].

"**Major Market Country(ies)**" means any of the United States, United Kingdom, Germany and France.

"**Manufacturing Cost**" means fully burdened internal and external costs of manufacturing a Licensed Product excluding the API in the Licensed Product (as this will be supplied by Novo Nordisk free-of-charge), consisting of the following: (a) internal costs and charges, direct costs and charges, including direct manufacturing plant overhead charges reasonably allocable to the Licensed Product, related to the manufacture, packaging and shipment of the Licensed Product, and shall exclude (i) costs and charges related to or occasioned by unused manufacturing capacity; (ii) the manufacture of other products at Pacira's facilities; (iii) amortization of property, plant or equipment not specifically related to manufacturing of the Licensed Product, and (iv) allocation of general corporate overhead; and (b) with regard to external costs and charges these shall include the actual invoiced costs and charges of suppliers of goods and services directly related to the manufacture and shipment of the Licensed Product. Manufacturing Cost shall be determined on an accrual basis in accordance with GAAP, applied on a basis consistent in the annual audited financial statements.

"Manufacturing Information" means information provided by Pacira to Novo Nordisk specifically regarding the manufacture and analysis [**] of DepoFoam. For purposes of clarity, all Know-How related to methods or processes for making formulations of [**] with DepoFoam arising from activities performed under this Agreement by Pacira and/or Novo Nordisk using or based on Manufacturing Information shall be Formulation Intellectual Property.

"NDA" means a New Drug Application as defined in the U.S. Food, Drug and Cosmetics Act and the regulations promulgated thereunder and any corresponding or equivalent foreign application or registration.

"Net Sales" shall be calculated in the same manner as Novo Nordisk calculates Net Sales reported to its shareholders and shall mean all revenues, recognized in accordance with the International Financial Reporting Standards applied on a consistent basis, from the sale of Licensed Product by Novo Nordisk or its Affiliates or its sublicensees to Third Parties, less the following deductions which are actually incurred, allowed, paid, accrued or specifically allocated:

(a) credits or allowances actually granted for damaged Licensed Product, returns or rejections of Licensed Product, price adjustments and billing errors;

(b) governmental and other rebates (or equivalents thereof) granted to managed health care organizations, pharmacy benefit managers (or equivalents thereof), federal, state, provincial, local and other governments, their agencies and purchasers and reimbursers or to trade customers;

(c) normal and customary trade, cash and quantity discounts, allowances and credits actually allowed or paid;

(d) commissions allowed or paid to Third Party distributors, brokers or agents with respect to the distribution of Licensed Product, other than sales personnel, sales representatives and sales agents employed by Novo;

(e) transportation costs, including insurance, for outbound freight related to delivery of Licensed Product to the extent included in the gross amount invoiced; and

(f) sales taxes, VAT taxes and other taxes directly linked to the sales of Licensed Product to the extent included in the gross amount invoiced.

Net Sales shall not include sales to Affiliates or to contractors, or sub-licensees engaged by or partnered with Novo Nordisk to develop, promote, co-promote, market, sell or otherwise distribute the Licensed Product, solely to the extent that such Affiliate, contractor or sub-licensee purchasing the Licensed Product intends to resell such Licensed Product to a Third Party. However, subsequent sales of Licensed Product by such Novo Nordisk Affiliates, contractors, or sub-licensees to a Third Party shall be included in the Net Sales when sold in the market for end-user use.

Monetary conversion from the currency of a country outside the U.S. in which a Licensed Product is sold into U.S. dollars shall be calculated at the rates of exchange used by Novo Nordisk in producing its quarterly and annual reports to its shareholders, as confirmed by Novo Nordisk's independent registered public accountants.

"New Dosing Duration" shall be determined by reference to the duration of the Licensed Product in the NDA or BLA or the Regulatory Approval, in which case the new Licensed Product shall have new [**] dosing duration. For example, if Licensed Product has [**] would be a New Dosing Duration.

"**Novo Nordisk Competitor**" means an entity listed in Exhibit B, and their respective Affiliates. Novo Nordisk may update this list (by adding or deleting entities) every six (6) month(s) (if at all), upon Novo Nordisk providing reasonable documentation in writing to Pacira that an entity has initiated development of, or acquired technology for, the production or delivery of therapeutic drug products containing [**]. Any entity listed in

Exhibit B that ceases to develop, or own or have a license to technology for, therapeutic drug products containing [**] shall no longer be deemed a Novo Nordisk Competitor for purposes of this Agreement and shall be removed from Exhibit B.

"Novo Nordisk Background Intellectual Property" means (a) Know-How that relates solely to [**] and is Controlled by Novo Nordisk as of the Effective Date or thereafter during the term of this Agreement, which is either conceived by Novo Nordisk independently during the term of this Agreement or that is licensed or acquired from a Third Party by Novo Nordisk during the term of this Agreement and that is necessary or useful for or used in connection with the activities performed under this Agreement during the term of this Agreement, and (b) Patent Rights Controlled by Novo Nordisk that claim or are directed to the foregoing Know-How.

"Novo Nordisk Foreground Intellectual Property" means (a) Formulation Intellectual Property, (b) Joint Technology, and (c)(i) all Know-How arising from activities performed under this Agreement, solely relating to [**], its method(s) of production and/or its method(s) of use, whether conceived, discovered, reduced to practice or writing, generated or developed by the employees, agents or consultants of Pacira and/or its Affiliates and/or by the employees, agents or consultants of Novo Nordisk and its Affiliates, and (ii) Patent Rights that claim or are directed to the Know-How described in the foregoing clause (i).

"Novo Nordisk Intellectual Property" means Novo Nordisk Background Intellectual Property and Novo Nordisk Foreground Intellectual Property.

"Out-of-Pocket Costs" shall have the meaning provided in Section 4.5(b).

"Pacira Change of Control" means (a) the acquisition (through a merger, consolidation or similar transaction(s)) by a Novo Nordisk Competitor of beneficial ownership of any capital stock of Pacira if, immediately after such acquisition, such Novo Nordisk Competitor beneficially owns more than 50% of the voting securities of Pacira or the surviving entity (excluding any acquisition by any employee benefit plan or related trust sponsored or maintained by Pacira); or (b) the sale, transfer, assignment or other disposition of all or substantially all of the assets of Pacira, including any Pacira Intellectual Property, to a Novo Nordisk Competitor.

"**Pacira Background Intellectual Property**" means (a) Know-How that relates to DepoFoam, its method(s) of production and/or use, and is Controlled by Pacira as of the Effective Date or thereafter during the term of this Agreement, which is either conceived by Pacira independently during the term of this Agreement or that is licensed or acquired from a Third Party by Pacira during the term of this Agreement, and that is necessary or useful for or used in connection with the activities performed under this Agreement during the term of this Agreement, and (b) Patent Rights Controlled by Pacira that claim or are directed to the foregoing Know-How. For purposes of clarity, "Pacira Background Intellectual Property" includes the DepoFoam manufacturing process as described in [**],

which was exemplified using the [**], and optimization of such manufacturing process under this Agreement, but excludes any delivery system, technology or process independently developed, licensed or acquired by Pacira that uses a substantially different process and/or equipment (it being understood that optimization of the manufacturing process described above in the course of process development under this Agreement would not be considered a substantially different process). "Pacira Background Intellectual Property" also excludes Intellectual Property that is solely relating to a Third Party's proprietary active agent.

"Pacira Foreground Intellectual Property" means (a) Know-How arising from activities performed under this Agreement solely relating to DepoFoam its method(s) of production and/or use, whether conceived, discovered, reduced to practice or writing, generated or developed by the employees, agents or consultants of Pacira and its Affiliates and/or by the employees, agents or consultants of Novo Nordisk and its Affiliates, and (b) Patent Rights that claim or are directed to the foregoing Know-How.

"Pacira Intellectual Property" means Pacira Background Intellectual Property and Pacira Foreground Intellectual Property.

"Pacira Marks" shall have the meaning provided in Section 9.7(b).

"Party" means Pacira or Novo Nordisk. If either Party assigns this Agreement to any of its Affiliates in accordance with and subject to Section 14.7, "Party" shall include such Affiliate of such Party.

"**Patent Authority**" means a governmental, intergovernmental, or government-authorized body responsible for receiving, examining, issuing, extending or maintaining patents.

"Patent Rights" means all patents and patent applications, and any and all continuations, continuations-in-part, divisionals, utility models, extensions (including extensions under the U.S Patent Term Restoration Act, extensions of patents under the Japanese Patent Law and Supplementary Protection Certificates), renewals, substitutions and additions thereof and all reissues, revalidations and re-examinations thereof, including any and all patents issuing there from and any and all foreign counter-parts thereof.

"Phase 1 Clinical Trial" means a human clinical trial that satisfies the requirements for a Phase 1 study as defined in 21 C.F.R. Part 312.21(a) (or its successor regulation) or the equivalent human clinical trial outside the U.S.

"Phase 2 Clinical Trial" means a human clinical trial that satisfies the requirements for a Phase 2 study as defined in 21 C.F.R. Part 312.21(b) (or its successor regulation) or the equivalent human clinical trial outside the U.S.

"Phase 3 Clinical Trials" means a human clinical trial that satisfies the requirements for a Phase 3 study as defined in 21 C.F.R. Part 312.21(c) (or its successor regulation) or the equivalent human clinical trial outside the U.S. For purposes of Section 3.2, a Phase 3 Clinical Trial shall include any pivotal trial that is officially designated as a phase 3 trial with the Regulatory Authority having jurisdiction, or that is intended to serve to gather any of the pivotal data that (if favorable) would support Regulatory Approval (regardless of whether such trial is denominated "Phase 2", "Phase 3", "Phase 2/3" or otherwise denominated).

"Quality Agreement" means the agreement to be entered into between the Parties after the date hereof as further described in Section 4.8. For purposes of clarity, the Quality Agreement, and each Party's rights and obligations thereunder, shall not become effective unless and until mutual agreement of the Parties on final terms of such Quality Agreement.

"Regulatory Approval" means any approvals (including price and reimbursement approvals), licenses, registrations, or authorizations of a Regulatory Authority.

"Regulatory Authority" means any national, supra-national, regional, state or local regulatory agency, department, bureau, commission, council or other governmental entity, whose approval or authorization is necessary for, or to whom notice must be given prior to, the manufacture, distribution, use, import, transport and/or sale of a Licensed Product in such jurisdiction.

"Royalty Term" shall have the meaning provided in Section 3.4(b).

"Technology Transfer" shall have the meaning provided in Section 4.2.

"Term" shall have the meaning provided in Section 13.1.

"Territory" means the world.

"Third Party" means any party other than the Parties and their Affiliates.

"Third Party Licensor" shall have the meaning provided in Section 2.8.

"Work Plan" shall have the meaning provided in Section 4.5(a).

1.2 Interpretation

In this Agreement headings are for convenience only and do not affect interpretation, and unless the context indicates a contrary intention:

(a) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;

(b) a Section, schedule, attachment or Exhibit to this Agreement forms a part of this Agreement, but if there is inconsistency between this Agreement and any schedule, attachment or Exhibit to it, this Agreement shall prevail unless the Parties have agreed otherwise in writing;

(c) a reference to a document (including this Agreement) is to that document as varied, novated, ratified or replaced from time to time;

(d) a reference to a statute includes its delegated legislation, and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, reenactments and replacements;

(e) a reference to "includes" in any form is not a word of limitation;

(f) unless otherwise specifically stated, all provisions are assumed to be applicable during and throughout the Term of this Agreement;

(g) the captions and headings of clauses contained in this Agreement preceding the text of the Sections, sections, subsections and paragraphs hereof are inserted solely for convenience and ease of reference only and shall not constitute any part of this Agreement, or have any effect on its interpretation or construction;

(h) references to days shall mean calendar days, unless otherwise specified;

(i) ambiguities and uncertainties, if any, shall not be interpreted against either Party, irrespective of which Party may be deemed to have caused the ambiguity or uncertainty to exist; and

(j) this Agreement has been prepared in the English language and the English language shall control its interpretation. In addition, all notices required or permitted to be given hereunder, and all written, electronic, oral or other communications between the Parties regarding this Agreement shall be in the English language.

2. The License and Grant of Rights

2.1 Pacira License to Novo Nordisk. Subject to the terms and conditions of this Agreement, Pacira hereby grants to Novo Nordisk and its Affiliates a worldwide, royalty-bearing exclusive license, with the right to sublicense in accordance with Section 2.7, to the Licensed Patents and Licensed Know-How, to research, develop, make, have made, use, import, export, sell, offer for sale, and otherwise transfer the Licensed Product in the Territory.

2.2 Third Party Intellectual Property. In the event that a Third Party Controls Intellectual Property which is necessary for the exploitation of DepoFoam, then Pacira shall have the first right and responsibility to, and shall use Commercially

Reasonable Efforts to, obtain a license, at Pacira's cost, to such Intellectual Property on terms that allow Pacira to include such Intellectual Property in the license granted herein to Novo Nordisk under the Licensed Patents and/or Licensed Know-How to research, develop, make, have made, use, import, export, sell, offer for sale, and otherwise transfer the Licensed Product. If Pacira is unable to obtain such license to such Third Party Intellectual Property, then Novo Nordisk, after consultation with Pacira concerning the circumstances and reasons for Pacira not obtaining such license, shall have the right (but not the obligation) to obtain such license to such Third Party Intellectual Property, provided that, Novo Nordisk has received advice from its outside patent counsel that such a license to such Third Party Intellectual Property should be sought in order to avoid potential infringement claims.

2.3 Novo Nordisk License to Pacira.

(a) Subject to the terms and conditions of this Agreement, Novo Nordisk grants Pacira a worldwide, royalty-free, non-exclusive license, with no right to sublicense (except to Third Party contractors in accordance with Section 2.4), under Novo Nordisk Intellectual Property solely to perform its obligations set forth in this Agreement.

(b) Subject to the terms and conditions of this Agreement, Novo Nordisk grants Pacira a worldwide, royalty-free, exclusive license, with the right to sublicense in multiple tiers, under Novo Nordisk Formulation Intellectual Property and Joint Technology to research, develop, make, have made, use, import, export, sell, offer for sale, and otherwise transfer any pharmaceutical formulation suitable for administration to humans, except, in each case, to [**]. Pacira will inform Novo Nordisk of the grant of any sublicense and any further sublicenses of which Pacira becomes aware hereunder within sixty (60) days following execution of such sublicense. In any sublicense granted by Pacira under this Section 2.3(b), Pacira shall specify that, in the case this Agreement is terminated by Novo Nordisk for material breach pursuant to Section 13.4, such sublicense under Formulation Intellectual Property and/or Joint Technology, as applicable, shall become a direct license between the applicable sublicensee and Novo Nordisk with respect to the applicable licensed field or licensed product, and thereafter Novo Nordisk shall have the right to terminate such direct license if the applicable licensee breaches such license and does not cure such breach within [**] calendar days following Novo Nordisk's written notice thereof.

2.4 Sublicensing by Pacira. In the case of any sublicense by Pacira under Section 2.3(a) to any Third Party contractor, then (a) such sublicensing requires Novo Nordisk's prior written consent, which consent shall not be unreasonably withheld, and (b) Pacira shall obtain a confidential nondisclosure and invention assignment agreement with the prospective sublicensee in a form acceptable to Novo Nordisk (such acceptance not to be unreasonably withheld) and containing terms at least as stringent as those terms included in Article 12 of this Agreement

and requiring such prospective sublicensee to assign to Pacira all right, title and interest in and to any Intellectual Property which, if developed, licensed or acquired by Pacira, would constitute Novo Nordisk Foreground Intellectual Property. The sublicense to the Third Party subcontractor will exclude the right of the sublicensee to further sublicense any of the rights granted by Pacira to such sublicensee under the sublicense and Pacira will be responsible for performance of this Agreement notwithstanding the appointment of sublicensees to perform any part of this Agreement, and for any failure by its sublicensees to comply with all relevant restrictions, limitations and obligations in this Agreement.

2.5 No Implied Rights. No right or license under any Intellectual Property is granted or shall be granted by implication under this Agreement. All such rights or licenses are or shall be granted only as expressly provided in the terms of this Agreement.

2.6 Other Novo Nordisk Products. Should Novo Nordisk require a license from Pacira under the Licensed Patents and Licensed Know-How for [**] other than [**], the Parties agree to discuss such license in good faith, provided that Pacira has no obligation to enter into, or continue, any such discussions with Novo Nordisk if Novo Nordisk is in breach of this Agreement (including any payment obligation under this Agreement or any diligence obligation set forth in Section 4.1 hereof), or if Pacira determines, in Pacira's sole judgment, that such discussions may conflict with other discussions with, or rights granted to, any Third Party.

2.7 Sublicensing by Novo Nordisk. Novo Nordisk shall be entitled, without the prior consent of Pacira, to grant one or more sub-licenses to Third Parties of its rights to the Pacira Intellectual Property granted pursuant to Section 2.1 with respect to Licensed Product, provided that such sublicense is limited to a grant of rights (i) to import, export, sell, offer for sale and otherwise transfer or promote the Licensed Product by Novo Nordisk's commercialization partners/distributors, and/or (ii) to research, develop, use and transfer Licensed Product by Novo Nordisk's Affiliates, CROs, or other entities conducting clinical trials on behalf of or in collaboration with Novo Nordisk or its Affiliates; provided, however, that if Novo Nordisk wishes to grant sublicenses for Pacira Intellectual Property to Third Parties for manufacturing or production of DepoFoam, or the sublicense would otherwise include a grant of any access to any Manufacturing Information to any Third Parties, then (a) such sublicensing requires Pacira's prior written consent, which consent shall not be unreasonably withheld, and (b) Novo Nordisk (or its Affiliate) shall obtain a confidential nondisclosure and invention assignment agreement with the prospective sublicensee in a form acceptable to Pacira (such acceptance not to be unreasonably withheld) and containing terms at least as stringent as those terms included in Article 12 of this Agreement and requiring such prospective sublicensee to assign to Novo Nordisk all right, title and interest in and to any Intellectual Property which, if developed, licensed or acquired by Novo Nordisk, would constitute Formulation Intellectual Property. In the case of

any sublicense, such sublicense will exclude the right of the sublicensee to further sublicense any of the rights granted by Novo Nordisk to such sublicensee under the sublicense and Novo Nordisk will be responsible for performance of this Agreement notwithstanding the appointment of sublicensees to perform any part of this Agreement, and for any failure by its sublicensees to comply with all relevant restrictions, limitations and obligations in this Agreement. If Pacira's consent is required per this Section 2.7, Novo Nordisk shall identify the name of each prospective sub-licensee to Pacira and any other information reasonably requested by Pacira with respect to the proposed sublicense or scope of activities contemplated to be undertaken by or with such sublicensee, and, subject to clauses (a) and (b) above, shall provide Pacira with a complete copy of the written agreement(s) (including the confidential nondisclosure agreement referenced in clause (b) above, if separate) entered into with any such sub-licensee (save for the financial or other confidential business terms which may be redacted).

2.8 Retained Rights.

(a) Novo Nordisk shall at all times retain the unrestricted right, under Intellectual Property Controlled by Novo Nordisk, to develop or commercialize any formulation of [**]. Pacira acknowledges and understands that Novo Nordisk is internally developing [**], and that Novo Nordisk may decide to either develop such [**] concurrently with, or in lieu of, the Licensed Product. Without limiting the generality of Section 4.1, or Novo Nordisk's rights to terminate the Agreement for convenience in accordance with Section 13.2, if and when Novo Nordisk decides to discontinue or terminate the development or commercialization of the Licensed Product (other than a temporary cessation of activities in which Novo Nordisk is conducting a strategic review of the Licensed Product in order to determine whether to resume such development or commercialization), Novo Nordisk shall provide written notice to Pacira thereof within thirty (30) days following such decision.

(b) Pacira shall at all times retain the unrestricted right, under Intellectual Property Controlled by Pacira, to use DepoFoam to develop, manufacture and/or commercialize any product, except that during the Term and for a period of [**] following the Term, Pacira shall not use DepoFoam to [**] unless Pacira has terminated this Agreement for material breach by Novo Nordisk pursuant to Section 13.4.

2.9 Existing Third Party License. Novo Nordisk acknowledges and understands that the license granted to Novo Nordisk under Section 2.1 includes a sublicense to Patent Rights that have been licensed to Pacira by the Third Party counterparty (**"Third Party Licensor"**) to the license agreement set forth on Exhibit C (the **"Existing Third Party License"**), and that such sublicense is subject to the terms and conditions of the Existing Third Party License, including an obligation to inform such Third Party Licensor of the grant of such sublicense to Novo Nordisk

within thirty (30) days following the Effective Date. In addition, but without limitation, Novo Nordisk shall not, and shall cause each permitted sublicensee under Section 2.7 to not, initiate any suit or action, in any country in the Territory, to oppose or invalidate any Patent Rights of such Third Party Licensor sublicensed to Novo Nordisk hereunder ("**Licensed Third Party Patents**"), provided such Third Party Licensor does not first assert its Licensed Third Party Patents against Novo Nordisk.

3. Fees and Payments

3.1 Signing Fee. Novo Nordisk shall pay to Pacira a non-refundable, non-creditable license fee of One Million Five Hundred Thousand Dollars (US$1,500,000) within [**] business days after the Effective Date.

3.2 Development Milestones. Novo Nordisk shall provide Pacira with written notice of the anticipated first occurrence of each development milestone set forth below with respect to Licensed Product at least [**] days prior to such anticipated occurrence, and shall provide Pacira with written notice of the actual first occurrence of each development milestone set forth below with respect to Licensed Product within [**] days after such occurrence. Within [**] days of the first occurrence of each of the events set forth below with respect to the Licensed Product whether by Novo Nordisk, its Affiliate or any of their respective sublicensees, Novo Nordisk shall pay to Pacira the applicable payment set forth below:

Development Milestone Event of Licensed Product	US$ Payment
[**]	$[**]
[**]	$[**]
[**]	$[**]
[**]	$[**]
[**]	$[**]
[**]	$[**]
[**]	$[**]
[**]	$[**]
Total	**$24,000,000**

For purposes of clarity, if for any reason the [**] milestone event set forth above does not occur prior to the occurrence of the [**] milestone event set forth in the table above for the Licensed Product, then the [**] milestone event shall be deemed to occur upon the earlier of (a) Novo Nordisk's decision to move forward with a [**], or (b) the [**].

Except as otherwise set forth below, the payments set forth above in this Section 3.2 shall be payable only once regardless of the [**] for which such Licensed Product is developed or approved or the potential repeated achievement of the milestone event by the [**] of the Licensed Product to achieve the above milestones or by [**] of Licensed Product that do not have a New Dosing Duration relative to the [**] of the Licensed Product to achieve the above milestones. If Novo Nordisk develops a [**] of Licensed Product with a New Dosing Duration relative to the [**] of the Licensed Product, then Novo Nordisk shall pay to Pacira an amount equal to [**] percent ([**]%) of each of the above development milestone payments as they occur for such [**] of Licensed Product. However, if development of the [**] of the Licensed Product to achieve any of the milestones set forth above is discontinued or terminated by Novo Nordisk prior to completion of all of the milestone events set forth above in this Section 3.2, and development of a formulation of the Licensed Product with a New Dosing Duration subsequently commences or continues, then [**] percent ([**]%) of each of the development milestone payments set forth above shall be payable upon the repeated achievement of any development milestone event by a formulation of Licensed Product with a New Dosing Duration, and [**] percent ([**]%) of each of the development milestone payments set forth above shall be payable upon the first occurrence of any development milestone event set forth above by a formulation of Licensed Product with a New Dosing Duration. All payments made to Pacira pursuant to this Section 3.2 are non-refundable and may not be credited against any other payments payable by Novo Nordisk to Pacira under this Agreement.

3.3 Sales Milestones. Novo Nordisk shall provide Pacira with written notice of the anticipated first occurrence of each of the events set forth below with respect to Licensed Product at least [**] days prior to such occurrence, and shall provide Pacira with written notice of the actual first occurrence of each sales milestone set forth below with respect to Licensed Product within [**] days after such occurrence. Within [**] days of the first occurrence of each of the events set forth below with respect to Licensed Product whether by Novo Nordisk, its Affiliate or any of their respective sublicensees, Novo Nordisk shall pay to Pacira the applicable payment set forth below:

Annual Net Sales Event of Licensed Product	US$ Payment
Annual Net Sales > $[**]	$[**]
Annual Net Sales > $[**]	$[**]
Annual Net Sales > $[**]	$[**]
Total	**$20,000,000**

The payments set forth above in this Section 3.3 shall be triggered by the achievement of the specified sales for Licensed Product (including, for purposes of this calculation, aggregate worldwide Net Sales of Licensed Product for any and all indications, and including all formulations, generations and/or refinements thereof, excluding any formulation of Licensed Product with a New Dosing Duration) in an annual period, and shall be payable only once despite potential repeated achievement of the specified sales by Licensed Product or the potential repeated achievement of the milestone event by the [**] of the Licensed Product to achieve the above milestones or by further generations or refinements of Licensed Product that do not have a New Dosing Duration relative to the [**] of the Licensed Product to achieve the above milestones. In addition, the payments set forth above in this Section 3.3 shall be triggered by the achievement of the specified sales for Licensed Product with a New Dosing Duration relative to the [**] of the Licensed Product to achieve the above milestones. For purposes of clarity, more than one of the foregoing sales milestone payments may be earned and become payable with respect to Licensed Product in the same annual period based on aggregate worldwide Net Sales of Licensed Product during such annual period. All payments made to Pacira pursuant to this Section 3.3 are non-refundable and may not be credited against any other payments payable by Novo Nordisk to Pacira under this Agreement.

3.4 Royalties.

(a) During the Royalty Term, Novo Nordisk shall pay Pacira royalties on worldwide annual (calendar year) Net Sales of Licensed Product, as follows:

(i) Worldwide annual Net Sales shall be calculated by aggregating (A) Net Sales of Licensed Product in all countries in the Territory where the Licensed Product is [**] by an Issued Patent Claim of Licensed Patents, Formulation Intellectual Property or Joint Technology, and (B) Net Sales of Licensed Product in all countries in the Territory where the Licensed Product is [**] by an Issued Patent Claim of Licensed Patents, Formulation Intellectual Property or Joint Technology (subclause (A) and (B) together, **"Annual Net Sales"**);

(ii) For all sales of the Licensed Product in all countries where the Licensed Product is [**] by an Issued Patent Claim of Licensed Patents,

Formulation Intellectual Property or Joint Technology (**"[**] Sales"**), Novo Nordisk shall pay Pacira the royalty rates set forth below based on the portion of Annual Net Sales that constitute [**] Sales (**"Patent Royalties"**), calculated in the manner described in the example set forth in subsection (iv) below:

Annual Net Sales in the Territory	Royalty Rate
Less than $[**] USD	[**]%
$[**] USD - $[**] USD	[**]%
Above $ [**] USD	[**]%

(iii) In addition, for all sales of the Licensed Product in all countries where the Licensed Product is [**] by an Issued Patent Claim of Licensed Patents, Formulation Intellectual Property or Joint Technology ("[**] Sales"), Novo Nordisk shall pay Pacira royalty rates at [**] percent ([**]%) of the royalty rates set forth in clause (ii) above based on the portion of Annual Net Sales that constitute [**] Sales (**"Know-How Royalties"**), calculated in the manner described in the example set forth in subsection (iv) below, in consideration for Novo Nordisk's use of the Licensed Know-How.

(iv) The following is a hypothetical example of a royalty calculation under this Section 3.4:

Licensed Product is sold in countries of the Territory where an Issued Patent Claim [**] the Licensed Product and in countries of the Territory where no Issued Patent Claim [**] the Licensed Product. During the applicable period, [**] Sales of Licensed Product reach $[**], and [**] Sales of Licensed Product reach $[**], such that Annual Net Sales equals $[**] for such period. Novo Nordisk would owe Pacira Patent Royalties of $[**], which is calculated by taking $[**]. Furthermore, Novo Nordisk would owe Pacira Know-How Royalties of $[**], which is calculated by taking $[**].

(b) Novo Nordisk's royalty obligations under Section 3.4(a) shall commence on a country-by-country basis on the date of First Commercial Sale of Licensed Product by Novo Nordisk, its Affiliates or sublicensees in the relevant country, and shall expire on a country-by-country basis upon the later of (i) expiration of the last to expire Issued Patent Claim of Licensed Patents, Formulation Intellectual Property or Joint Technology Covering the Licensed Product in such country, or (ii) twelve (12) years following First Commercial Sale of Licensed Product in such country (the **"Royalty Term"**). For purposes of clarity, if, at the time of First Commercial Sale in a country, no Issued Patent Claim Covers the Licensed Product in such country, but a claim of any Licensed Patent, or of any patent included in Formulation Intellectual Property or Joint Technology, Covering the Licensed Product subsequently issues in such country, then such claim shall be deemed an Issued Patent Claim at such time it becomes issued for purposes of determining the Royalty Term and the royalties owed to Pacira with respect to sales of Licensed Product in such country.

(c) In the event Novo Nordisk is required obtains one or more licenses under Intellectual Property Controlled by a Third Party that is necessary for Novo Nordisk to research, develop, make, have made, use, import, export, sell, offer for sale, and otherwise transfer Licensed Product in accordance with Section 2.2, the royalties which Novo Nordisk actually pays to such Third Party during a calendar quarter may be credited against up to [**]% of royalties otherwise payable by Novo Nordisk to Pacira under Section 3.4(a) for such calendar quarter.

(d) Royalty payments shall be calculated, reported and paid for each calendar quarter. All royalty payments due to Pacira under this Agreement shall be paid within [**] calendar days of the end of each calendar quarter. Each payment shall be accompanied by a report of Net Sales of Licensed Product by Novo Nordisk, its Affiliates and their respective sublicensees setting forth, on a country-by-country basis, in sufficient detail such information concerning sales to permit confirmation of the accuracy of the payment made, including, the gross sales of Licensed Product in the Territory and country by country, total deductions or adjustments made, and the royalty and any sales milestone payments payable to Pacira. Novo Nordisk shall keep, and shall cause its Affiliates and their respective sublicensees to keep, complete and accurate records pertaining to the sale or other disposition of Licensed Product in sufficient detail to permit Pacira to confirm the accuracy of all payments due hereunder as set forth in Section 8.6.

3.5 Withholding Tax. Novo Nordisk may withhold taxes from the payments which are payable to Pacira in accordance with this Agreement if Novo Nordisk is either required to do so under applicable law or directed to do so by a governmental authority. Novo Nordisk shall send proof of payment to Pacira and provide Pacira with information about and necessary for any documentation needed to reduce withholding to a legal minimum. With respect to the laws of Denmark, Novo Nordisk will reasonably cooperate with Pacira to obtain the benefit of any tax law or treaty, including the pursuit or any refund or credit of such tax to Pacira.

3.6 Wire Transfer Instructions. All payments to be made by Novo Nordisk to Pacira under this Agreement shall be made by wire transfer from Novo Nordisk to the following account of Pacira:

Domestic SVB Wire Instructions:

To:	[**]
Routing & Transit #:	[**]
For Credit Of:	Pacira Pharmaceuticals, Inc.
Credit Account number:	[**]

International SVB Wire Instructions:

To:	[**]
Routing & Transit #:	[**]
Swift Code:	[**]
For Credit Of:	Pacira Pharmaceuticals, Inc.
Final Credit Acct #:	[**]

4. Product Development and Technology Transfer

4.1 Novo Nordisk Responsibilities. Novo Nordisk has the sole responsibility for the development, development plan(s) (it being understood that prior to Completion of Technology Transfer, such development plan(s) shall be incorporated into the Work Plan), and commercialization for the Licensed Product and for all of the costs of the development and commercialization of the Licensed Product. Novo Nordisk shall use Commercially Reasonable Efforts to develop Licensed Product, to obtain Regulatory Approval of and, once Regulatory Approval is obtained, to commercialize Licensed Product in each of the Major Market Countries, and to achieve each milestone event set forth in Section 3. Subject to establishment of a mutually-agreeable Work Plan pursuant to Section 4.5, prior to Completion of Technology Transfer, Novo Nordisk shall use Commercially Reasonable Efforts to conduct its development activities in accordance with such Work Plan and subject to JSC oversight. Novo Nordisk shall own all pre-clinical and clinical data and other results, without limitation, arising out of the development activities undertaken by Novo Nordisk under this Agreement, subject to Section 9.1.

4.2 Technology Transfer.

(a) Without expanding the license granted to Novo Nordisk pursuant to Section 2.1, at the appropriate time set forth in the Work Plan, Pacira shall transfer to Novo Nordisk of Licensed Know-How necessary for the development and manufacture of the Licensed Product by Novo Nordisk (the "**Technology Transfer**"), which transfer shall proceed in accordance with a Work Plan to be established by the JSC (defined below) and subject to JSC oversight. Pacira shall also assist Novo Nordisk in the final scale-up of the manufacturing process, if reasonably requested by Novo Nordisk and at Novo Nordisk's cost.

(b) The Technology Transfer does not include the transfer of the [**] located in [**] and Pacira does not guarantee the availability of such [**] through Completion of Technology Transfer. Novo Nordisk may be required to procure a [**] with the necessary capacity, and any [**] which is utilized for production of clinical supply of Licensed Product through Completion of Technology Transfer shall be financed and owned by Novo Nordisk. Pacira shall notify Novo Nordisk with [**] months prior written notice of the date when the [**] shall no longer be available for manufacturing of the Licensed Product. Novo Nordisk shall notify Pacira if and when Novo Nordisk decides to purchase a [**], in which event (i) Pacira shall provide reasonable assistance to Novo Nordisk with respect to the procurement of such [**] from a Third Party vendor, and (ii) the budget under the Work Plan shall be updated to reflect estimated costs to cover the purchase, delivery,

validation and installation of such [**]; provided, however, that the actual payment for such [**] and its delivery, validation and installation will be made directly by Novo Nordisk to the Third Party vendor who manufactures, delivers, validates and installs such [**].

(c) Pacira shall use Commercially Reasonable Efforts to perform all activities assigned to Pacira under the Work Plan to develop the Licensed Product and to achieve the Completion of the Technology Transfer in accordance with the Work Plan. Novo Nordisk shall have reasonable access to designated personnel at Pacira who possess Know-How and/or other knowledge or information regarding DepoFoam within Licensed Know-How which is necessary or useful for the scale-up of manufacturing during the Technology Transfer process. After Completion of the Technology Transfer, Pacira shall provide reasonable assistance to Novo Nordisk, if reasonably requested by Novo Nordisk and at Novo Nordisk's cost, in connection with Novo Nordisk's development and/or manufacturing of Licensed Product.

4.3 Access to Licensed Know-How After Completion of Technology Transfer. During the Technology Transfer process, Pacira shall use Commercially Reasonable Efforts to provide documentation to be specified by Pacira and Novo Nordisk in the Work Plan concerning the Licensed Know-How. Following Completion of Technology Transfer, without expanding the license granted to Novo Nordisk pursuant to Section 2.1, Pacira shall continue to provide available Licensed Know-How to Novo Nordisk during the term of this Agreement as follows:

(i) upon Novo Nordisk's reasonable request for specific additional Know-How;

(ii) in connection with Novo Nordisk's reasonable request for assistance in development of the Licensed Product under this Agreement;

(iii) as otherwise agreed by the Parties during the term of this Agreement;

in each of the foregoing cases, at Novo Nordisk's cost.

4.4 Costs - General. Novo Nordisk shall be responsible for all costs associated with the Technology Transfer and for costs of manufacturing pre-clinical and clinical supplies of the Licensed Product for use in pre-clinical and clinical development activities (including any necessary validation studies), as further set forth in Section 4.5 and Section 4.6 below.

4.5 Work Plan; Budget; Payment of Pacira's Costs.

(a) As soon as possible after the Effective Date, the Parties (through the JSC) shall mutually agree upon a work plan to govern the activities to be conducted by the Parties in connection with the Technology Transfer process and all activities leading up to initiation of Technology Transfer and through Completion of Technology Transfer (the **"Work Plan"**), including agreed upon objectives, target timelines and a budget of estimated FTE Costs and Out-of-Pocket Costs (each as defined below) for the work needed to be done, supply forecast, pre-clinical and clinical development activities anticipated to be conducted by Novo Nordisk, and planned tasks and resource allocations (including establishing a joint core project team) by each Party with the goal of conducting the Licensed Product scale up and other mutually-agreed Technology Transfer activities until Completion of Technology Transfer.

(b) Subject to the Quality Agreement and JSC oversight, Novo Nordisk will pay Pacira for all of Pacira's out of pocket costs and expenses (**"Out-of-Pocket Costs"**) and internal costs for personnel at the FTE rate set forth below (**"FTE Costs"**), incurred after the Effective Date associated with the formulation, scale up, and Technology Transfer activities under the Work Plan until Completion of the Technology Transfer. Pacira shall also conduct other development and transfer activities not covered under the Work Plan (or after the Completion of Technology Transfer) reasonably requested by Novo Nordisk, to the extent that the conduct of such activities does not conflict with Pacira's internal operations and provided that Novo Nordisk reimburses Pacira for Pacira's FTE Costs and Out-of-Pocket Costs associated with the conduct of such activities, including technical support, manufacturing support, regulatory support (including under Article 6, Section 7.2 or Section 8.4 below), and support of scale-up (and, for purposes of clarity, any reference to "at Novo Nordisk's cost" in this Agreement shall mean Pacira's FTE Costs and Out-of-Pocket Costs). The initial FTE rate shall be at $[**]/hour (to be adjusted on an annual basis with the development of the Consumer Price Index (**"CPI"**) where the index as of January 1, 2011 shall be 100.) Any increase in the FTE rate can not be done until January 1, 2012. Pacira shall invoice Novo Nordisk for said services no more than [**] according to Novo Nordisk invoicing template attached hereto as Exhibit E.

(c) Prior to Completion of Technology Transfer, Novo Nordisk shall pay to Pacira, in advance of the commencement of each quarter under the Work Plan, the FTE Costs set forth in the estimated budget for such quarter. Within [**] days following the end of the applicable quarter, Pacira shall provide to Novo Nordisk a reconciliation of actual FTE Costs and Out-of-Pocket Costs incurred by Pacira in accordance with the Work Plan. If actual FTE Costs and Out-of-Pocket Costs in a quarter exceed the amount budgeted for FTE Costs and Out-of-Pocket Costs for such quarter, Novo Nordisk shall not be obligated to pay for the amount of such excess, unless otherwise approved in writing by the Novo Nordisk project leader or the JSC (in which event, Novo Nordisk shall pay Pacira the amount of such excess within [**] days following such approval). If actual FTE Costs and Out-of-Pocket Costs are less than the amount budgeted for such quarter, the

amount of the overpayment shall be credited against the advance payable by Novo Nordisk for the following quarter (of, if Completion of Technology Transfer has occurred, Pacira shall refund the amount of such overpayment to Novo Nordisk within [**] days following Completion of Technology Transfer). For purposes of clarity, if Novo Nordisk decides to temporarily cease (but not terminate) development or Technology Transfer activities with respect to Licensed Product, Novo Nordisk shall remain obligated under this Section 4.5 for paying for all FTEs committed to perform the activities set forth in the Work Plan.

4.6 Manufacturing Costs. Pacira shall be responsible for development and scale up of the manufacturing process for (i) DepoFoam to be used for Licensed Product, and (ii) the manufacturing of clinical supply of the Licensed Product to Novo Nordisk until Completion of the Technology Transfer. DepoFoam and the Licensed Product manufactured by Pacira until Completion of Technology Transfer (i.e., for the preclinical studies, [**], including any necessary validation studies) will be supplied by Pacira to Novo Nordisk at Pacira's FTE Costs and Pacira's Manufacturing Cost plus a margin of [**]% on Pacira's Manufacturing Cost. Pacira shall own and shall be responsible for filing for and maintaining all necessary manufacturing approvals and permits to enable Pacira to manufacture, supply, test and store clinical supplies of Licensed Product as may be required or reasonably requested by Novo Nordisk.

4.7 Novo Nordisk Supply Obligations. Novo Nordisk shall use Commercially Reasonable Efforts to supply sufficient quantities of [**], and all reasonably required technical information on [**], to Pacira to enable Pacira to conduct its manufacturing, development and clinical supply activities under this Agreement.

4.8 Pacira Supply Obligations; Quality Agreement. Novo Nordisk and Pacira shall within [**] months after the Effective Date enter into negotiations in good faith of a Quality Agreement concerning quality assurance, monitoring and other quality matters in connection with the manufacture and supply by Pacira of Licensed Product to Novo Nordisk to be used by Novo Nordisk in the [**] and in Novo Nordisk's [**] and [**]. Pacira shall use Commercially Reasonable Efforts to manufacture and supply Licensed Product in accordance with the supply forecast set forth in the Work Plan, with the goal of supplying an amount sufficient for Novo Nordisk to satisfy its responsibility for product supply of Licensed Product. Pacira shall comply with U.S. cGMP for clinical supplies and all other governmental laws and regulations applicable in the U.S. in manufacturing and supplying Licensed Product for [**], as may be further set forth in the Quality Agreement. If Pacira is requested by Novo Nordisk to manufacture clinical supplies of Licensed Product for [**] in the EU, Pacira shall use Commercially Reasonable Efforts to comply with cGMP applicable in the EU in manufacturing and supplying Licensed

Product for [**]; provided, however, that all costs associated with any modifications to Pacira's facilities or other capital expenditures to meet EU cGMPs shall be borne by Novo Nordisk.

5. Joint Steering Committee; Joint Patent Committee

5.1 JSC Formation; Responsibilities.

(a) As soon as practicable after the Effective Date, the Parties will form a Joint Steering Committee (the **"JSC"**). The JSC will meet regularly, but not less than every [**] months, until the Completion of Technology Transfer (at which time the JSC shall disband). The first meeting of the JSC shall be held as soon as practicable after the Effective Date (but not later than approximately forty-five (45) days following the Effective Date). The JSC may also meet more frequently on an *ad hoc* basis as and to the extent reasonably requested by either Party or if required to perform its role for initial discussion of any disputes in accordance with Section 5.2 and Section 5.3 below. The meetings shall be by telephonic or videoconference, or at a mutually agreed location, at mutually agreed times. Novo Nordisk shall be responsible for its own costs and for both Parties' travel and accommodation expenses in attending meetings of the JSC. The JSC shall have the authority to establish subcommittees or project teams from time to time, including the joint core project team and the JPC. The JSC will not have the power to amend or waive compliance with, or the terms of, this Agreement. For the avoidance of doubt, the JSC shall have no authority to determine whether a development milestone or sales event under Article 3 has been met.

(b) Subject to the Quality Agreement, the JSC shall have the responsibility of managing, directing and overseeing any remaining formulation activities and the conduct of the Technology Transfer process, including, without limitation, the following responsibilities in this regard:

(i) establishing the initial Work Plan and any proposed amendments or updates thereto;

(ii) managing and monitoring the progress and results of the Technology Transfer activities and the Parties' diligence in carrying out their responsibilities under the Work Plan;

(iii) determining product needs, supply forecasts and timing to allow Novo Nordisk to conduct its toxicological and clinical development program as contemplated under the Work Plan;

(iv) managing and monitoring the scale-up of the manufacturing process (if needed and if desired by Novo Nordisk at its sole discretion, subject to Section 4.5) in connection with Technology Transfer activities; and

(v) serving as a forum for informal dispute resolution of issues that may arise in relation to purely operational or technical activities engaged in pursuant to this Agreement, including any disputes arising at the JPC or other project teams or subcommittees and submitted to the JSC for resolution.

5.2 JSC Governance. The JSC shall be comprised of no more than three (3) persons from each Party, with each Party collectively having one vote on the JSC. A Party may replace any or all of its representatives on the JSC at any time upon written notice to the other Party. Any member of the JSC may designate a substitute to attend and perform the functions of that member at any meeting of the JSC; provided that each JSC representative shall have sufficient experience and expertise in development and manufacturing matters in the pharmaceuticals and/or biotechnology industries to serve on the JSC. The JSC shall appoint a chairperson from among the Novo Nordisk members. Each Party shall be allowed to invite a non-voting alliance manager and the Novo Nordisk alliance manager shall consolidate agenda, minutes and logistics for the JSC meetings. Each member of the JSC may invite such other non-members (subject to a written agreement by such non-member to comply with confidentiality and non-use provisions at least as stringent as those set forth in Section 12) as deemed necessary.

5.3 Escalation to Executive Officers. If the JSC cannot come to consensus on an issue within its purview within thirty (30) days of its submission to the JSC for resolution, such issue will then be referred to the Chief Executive Officer of Pacira, or such other person holding a similar position designated by the Chief Executive Officer of Pacira from time to time, and the Executive Vice President, CSO of Novo Nordisk, or such other officer designated by the Executive Vice President, CSO of Novo Nordisk from time to time, for resolution. The executive/senior officers will use reasonable efforts to resolve the matter referred to them. If the executive/senior officers cannot reach a mutually acceptable decision within thirty (30) days after the issue was referred to them, then the Executive Vice President, CSO of Novo Nordisk will have the final authority to make decisions. Regardless of the aforementioned, the Executive Vice President, CSO of Novo Nordisk shall have no authority to make decisions (a) [**]; (b) to determine that milestone events required for the payment of milestone payments have not occurred; or (c) to determine that Novo Nordisk has fulfilled or breached any obligations under this Agreement or that Pacira has fulfilled or breached any obligation under this Agreement.

5.4 JSC Updates. At each meeting of the JSC, each Party will provide the other with updates on the progress of (i) any remaining formulation activities, (ii) scale-up activities, (iii) other Technology Transfer activities for the Licensed Product, (iv)

with respect to Novo Nordisk, any pre-clinical or clinical development activities with respect to the Licensed Product, and (v) any related issues with respect to any of the foregoing. The JPC shall provide the JSC with any updates on new Know-How or Patent Rights within Pacira Intellectual Property or Novo Nordisk Intellectual Property, as applicable, since the previous update, and with respect to the status of any prosecution or enforcement matters related to the Licensed Product.

5.5 Joint Patent Committee Formation; Meetings; Responsibilities .

(a) As soon as practicable after the Effective Date, the Parties shall form a Joint Patent Committee (the "JPC"). The JPC will meet regularly, but not less than every [**] months, during the Term. The first meeting of the JPC shall be held as soon as practicable after the Effective Date (but not later than ninety (90) days following the Effective Date). The JPC may also meet more frequently on an *ad hoc* basis as and to the extent reasonably requested by either Party. The meetings shall be by telephonic or videoconference. The JPC will not have the power to amend or waive compliance with, or the terms of, this Agreement.

(b) The JPC shall be comprised of no more than two (2) persons from each Party, with each Party collectively having one vote on the JPC. A Party may replace any or all of its representatives on the JPC at any time upon written notice to the other Party. Any member of the JPC may designate a substitute to attend and perform the functions of that member at any meeting of the JPC; provided that each JPC representative shall have sufficient experience and expertise in intellectual property matters in the pharmaceuticals and/or biotechnology industry to serve on the JPC. The JPC shall appoint a chairperson from among the Novo Nordisk members. Each member of the JPC may invite such other non-members (subject to a written agreement by such non-member to comply with confidentiality and non-use provisions at least as stringent as those set forth in Section 12) as deemed necessary.

(c) The JPC shall have the responsibility of (i) overseeing and coordinating the prosecution and enforcement activities of each Party under this Agreement; (ii) overseeing and coordinating the use of any Pacira Marks by Novo Nordisk with respect to Licensed Product; and (iii) reviewing and discussing updates provided by each Party as set forth in clause (d) below.

(d) Each Party shall provide updates at each meeting of the JPC with basic information about the following:

(i) Know-How and/or patent applications or patents within Pacira Foreground Intellectual Property or Novo Nordisk Foreground Intellectual Property, as applicable, which arise out of each Party's activities under the Agreement since the previous update;

(ii) Know-How and/or patent applications or patents included within Pacira Background Intellectual Property and developed outside the Agreement in the half year since the previous update. For the avoidance of doubt, any Know-How and/or patent applications or patents that Pacira has in-licensed or acquired from a Third Party where such Third Party intellectual property is directed to the Third Party's proprietary active agent, or any Intellectual Property that relates to a substantially different process and/or equipment, shall be excluded from Pacira's above updating or access requirements; and

(iii) proposed prosecution or enforcement activities of Formulation Intellectual Property or Joint Technology, or the status of ongoing prosecution or enforcement activities, for which such Party is responsible under Article 9.

5.6 Meetings and Reports Following Completion of Technology Transfer. After Completion of Technology Transfer the Parties shall meet in person at least once a year, at a time and location to be mutually agreed by the Parties, to discuss material activities conducted in the past year and anticipated plans for the upcoming year with respect to Novo Nordisk's development, manufacture and commercialization of the Licensed Product, including to review and discuss annual reports covering the foregoing information, which reports shall be provided to Pacira in advance of the annual meeting.

6. Regulatory Matters

6.1 Regulatory Filings; Regulatory Approvals.

(a) Novo Nordisk shall, at its own cost and discretion, develop and obtain Regulatory Approval for the Licensed Product. Except as otherwise set forth below, Novo Nordisk shall be solely responsible for all regulatory and filing activities, and shall solely own all regulatory documents and registrations, related to Licensed Product, including all clinical trial applications and marketing applications filed with any Regulatory Authority in any jurisdiction.

(b) Notwithstanding the foregoing, in consultation with Novo Nordisk, Pacira shall elect to either (i) be solely responsible, at Novo Nordisk's cost, for establishing and maintaining, and shall be the sole owner of, the DMF for the Licensed Product in accordance with FDA requirements until Completion of Technology Transfer, it being understood that Pacira will grant to Novo Nordisk authorization to access such DMF in connection with the IND filing or other regulatory filings by Novo Nordisk for Licensed Product prior to Completion of Technology Transfer, or (ii) provide Novo Nordisk, at Novo Nordisk's cost, with necessary CMC and other manufacturing information for any regulatory filings for Licensed Product which Novo Nordisk may submit to Regulatory Authorities prior to Completion of Technology Transfer. If Pacira elects to retain the DMF

for Licensed Product until Completion of Technology Transfer, then, promptly following Completion of Technology Transfer, Pacira shall transfer to Novo Nordisk all necessary information included in the DMF for the Licensed Product, provided that, following the transfer of such information to Novo Nordisk, Novo Nordisk shall provide Pacira with reasonable advance notice of, and an opportunity to comment on, any proposed changes to the manufacturing portion of any regulatory filings or submissions for Licensed Product solely relating to DepoFoam. Upon the reasonable request of Novo Nordisk, Pacira shall, at Novo Nordisk's cost, provide Novo Nordisk with information and reasonable assistance for any Novo Nordisk submission to a Regulatory Authority, including providing Novo Nordisk with access to any supporting preclinical/toxicology data for the DepoFoam component of the Licensed Product. Pacira shall promptly inform Novo Nordisk of any material change in information provided by Pacira under this Section 6.1 to the extent related to the Licensed Product. Novo Nordisk will reimburse Pacira for its FTE Costs and Out-of-Pocket Costs associated with any assistance and cooperation provided under this Section 6.1.

6.2 Interactions with Regulatory Authorities. Novo Nordisk shall inform Pacira of scheduled meetings, teleconferences and other interactions with regulators with respect to the Licensed Product. If any such scheduled meetings, teleconferences or other interactions with regulators concern DepoFoam, Novo Nordisk shall inform Pacira thereof and, to the extent practicable and permitted by applicable laws, Pacira shall have the right to attend and actively participate in any of the aforementioned meetings, teleconferences or other interactions with regulators solely to the extent such meeting, teleconferences or other interactions relate to DepoFoam.

6.3 Notice Concerning Safety Issues. Each Party shall provide the other Party with notice, within one (1) business day after notification or other information (directly or indirectly) that it receives (and providing, as soon as reasonably possible, copies of any associated written requests) that (a) raises any material concerns regarding the safety or efficacy of Licensed Product, (b) indicates or suggests a Third Party claim arising in connection with Licensed Product or (c) is reasonably likely to lead to a Recall (as defined in Section 6.4) of Licensed Product. Information that shall be disclosed (to the extent it relates to the subject matter of section (a) through (c), inclusive) shall include without limitation:

(i) inspections by a Regulatory Authority of manufacturing, distribution or other related facilities concerning Licensed Product;

(ii) inquiries by a Regulatory Authority concerning clinical investigation activities (including inquiries of investigators, clinical monitoring organizations and other related parties) with respect to Licensed Product;

(iii) any material communication (in any form, including written, oral or electronic form) from a Regulatory Authority involving the manufacture

or commercialization of Licensed Product or any other Regulatory Authority reviews or inquiries relating to any event set forth in this Section 6.3;

(iv) an initiation of any Regulatory Authority investigation, detention, seizure or injunction concerning Licensed Product; and

(v) any other regulatory action (e.g., proposed labeling or other registrational dossier changes and recalls) that would affect Licensed Product.

6.4 Recalls. Novo Nordisk shall make all decisions with respect to any recall, market withdrawals or any other corrective action related to Licensed Product (collectively, "**Recalls**") for safety reasons or as may be mandated by a Regulatory Authority or voluntarily decided by Novo Nordisk, and Novo Nordisk shall have the responsibility for conducting such Recalls at its costs. Novo Nordisk shall notify Pacira of (a) any voluntary decision by Novo Nordisk to conduct any Recall and the reasons therefor or (b) any Recall mandated by a Regulatory Authority. Prior to Completion of the Technology Transfer, Pacira may notify Novo Nordisk of any recommendation by Pacira to conduct a Recall for any other reason, for consideration by Novo Nordisk and at Novo Nordisk's sole discretion.

6.5 Customer Complaints. Novo Nordisk shall be responsible for handling all customer complaints in relation to Licensed Product. To the extent that any such customer complaint relates to the manufacture or use of DepoFoam, upon Novo Nordisk's reasonable request, Pacira agrees to provide Novo Nordisk, at Novo Nordisk's costs, with reasonable assistance in order for Novo Nordisk to address such customer complaints appropriately.

6.6 Adverse Events. Novo Nordisk shall be responsible for handling all adverse drug experiences in relation to Licensed Product and for making all decisions related thereto. To the extent that any such adverse drug experiences relate to the manufacture or use of DepoFoam, upon Novo Nordisk's reasonable request, Pacira agrees to provide Novo Nordisk, at Novo Nordisk's costs, with reasonable assistance in order for Novo Nordisk to handle such adverse drug experiences appropriately.

7. Commercialization of Licensed Product

7.1 Commercial Supply. Following Completion of Technology Transfer, Novo Nordisk shall, at its own cost and discretion, be responsible for supply of Licensed Product in the Territory.

7.2 Commercialization Activities. Subject to Section 4.1, Novo Nordisk shall, at its own cost and discretion, be responsible for the marketing and sales activities for

Licensed Product in the Territory and shall comply with applicable governmental laws and regulations applicable in any such jurisdiction for the marketing and selling of Licensed Product. Upon the reasonable request of Novo Nordisk, Pacira shall, at Novo Nordisk's costs, provide Novo Nordisk with information and reasonable assistance for Novo Nordisk to comply with any regulations applicable to Licensed Product, including without limitation Novo Nordisk's meeting its reporting and other obligations to maintain and update any marketing authorization for Licensed Product. Pacira shall promptly inform Novo Nordisk of any material change in information, including changes that would impact any Novo Nordisk filings or notice requirements, provided by Pacira under this Section 7.2.

8. Records and Audit Rights

8.1 Compliance with Laws; Development and Manufacturing Records . To the extent applicable, each Party shall comply (and shall ensure that their respective Affiliates and sublicensees comply), in the conduct of activities hereunder, with current Good Laboratory Practices, Good Clinical Practices and Good Manufacturing Practices regulations promulgated by the FDA and as required by applicable laws and regulations and Regulatory Authorities other than the FDA (provided, that, with respect to Pacira, compliance with EU cGMP shall be subject to Section 4.8 above), and shall make (and shall ensure that their respective Affiliates and sublicensees make), all facilities and records related to the Licensed Product available for audit by any Regulatory Authority and by the other Party as set forth in this Agreement where work is performed by one Party at the request of the other Party.

8.2 Data Retention and Documentation . Each Party, at its own costs, shall be responsible for archiving all relevant and required original documentation and raw data in relation to the research, development, manufacturing and control of Licensed Product. The Parties shall keep all original notebooks for [**] years and the Parties shall archive development documentation in accordance with their documentation control policies, which shall comply with all applicable laws. All original documentation related to manufacturing shall be kept for the retention period required by applicable laws. As part of the Technology Transfer or following Completion of Technology Transfer, if requested by Novo Nordisk and at Novo Nordisk's cost, Pacira shall provide Novo Nordisk with copies of all original documentation that it has with respect to research, development, manufacture and control of Licensed Product, including copies of appropriate portions of original lab notebooks; provided, however, that Pacira shall retain any original documentation relating to manufacture and control of Licensed Product (which original documentation shall be archived in accordance with Pacira's documentation control policies). If, following the retention period required by applicable laws, Pacira desires to discard the data and documentation relating to manufacture and control of Licensed Product or the original lab notebooks Pacira,

shall notify Novo Nordisk of such decision and Novo Nordisk may assume responsibility for the archiving thereof at Novo Nordisk's cost, or, if requested by Novo Nordisk and at Novo Nordisk's cost, Pacira shall retain such data and documentation.

8.3 Quality Audits. With respect to work performed under Article 4 by Pacira, including Pacira's supply of Licensed Product, Novo Nordisk shall have the right, at its own costs, no more than [**] (unless any non-conformities are identified in such annual audit, in which case Novo Nordisk shall have the right to conduct additional follow-up audits), at reasonable times and upon reasonable prior written notice, to have no more than [**] representatives conduct, during normal business hours, quality assurance audits of the relevant parts of Pacira quality management systems and of development, manufacturing, storage or shipping facilities, including computer systems such as those that capture, analyze or store study information or results, where work on the development, manufacture, storage or shipping of Licensed Product is conducted, as reasonably deemed necessary by Novo Nordisk in order to ensure that such facilities meet the standards of Novo Nordisk set forth in the Quality Agreement (subject to finalization of terms pursuant to Section 4.8), any applicable U.S. regulatory requirements or standards, including cGCP, cGLP and cGMP, and, solely to the extent set forth in Section 4.8, EU cGMP. If a Quality Audit identifies any non-conformity, the Parties shall discuss in good faith appropriate measures (if any) to rectify any such non-conformity, subject to mutual agreement on scope of activities and sharing of costs; provided that Pacira shall bear the cost of rectifying any non-conformity resulting from Pacira's non-compliance with the Work Plan.

8.4 Regulatory Inspections. To the extent that Pacira is aware of, or notified by Novo Nordisk pursuant to Section 6.2 or Section 6.3 of, any such inspections, upon reasonable advance notice and during normal business hours, Pacira shall allow any applicable Regulatory Authority to inspect Pacira facilities and to conduct reviews of any original documents or reports or any facilities that are deemed by such Regulatory Authority to be related to Licensed Product. Pacira shall reply promptly to the requests of such Regulatory Authority and will follow up promptly on actions required by such Regulatory Authority without Novo Nordisk incurring additional cost to the extent solely related to an issue with respect to the Pacira manufacturing facility or process. Pacira shall inform Novo Nordisk promptly in writing if any Regulatory Authority contacts Pacira with respect to such matters to the extent concerning the Licensed Product. Pacira shall in all cases provide to Novo Nordisk copies of all correspondence concerning the Licensed Product with such Regulatory Authority. Each Party shall provide assistance when reasonably requested by the other Party for inspections by a Regulatory Authority relating to Licensed Product. If a regulatory inspection is taking place at Novo Nordisk, Pacira shall, upon Novo Nordisk's request and at Novo Nordisk's cost, provide Novo Nordisk with copies of original records kept by Pacira required for such inspection within the time frame required for such inspections.

8.5 Records Pertaining to Sales or Other Disposition of Licensed Product . Each Party shall keep complete, true and accurate books and records relating to development or manufacturing activities conducted by either Party under this Agreement for the period required by applicable laws. In addition, Novo Nordisk shall keep (and cause its Affiliates and sublicensees to keep) complete and accurate records pertaining to the sale or other disposition of Licensed Products in sufficient detail to permit Pacira to confirm the accuracy of royalties and sales milestones due hereunder, for at least [**] years following the calendar quarter to which the information relates.

8.6 Audit Rights Pertaining to Sales or Other Disposition of Licensed Product . During the Term and for [**] years thereafter, Pacira shall have the right to appoint from time to time an accountant from an independent well-reputable accounting firm (**"Auditor"**) acceptable to Novo Nordisk to audit the relevant Net Sales records of Novo Nordisk and its Affiliates and sublicensees (as applicable) to verify the accuracy of the relevant Net Sales report and royalties and sales milestones payable, by inspection of relevant books of accounts and records, subject to the following terms:

(a) prior to inspecting any accounts and records, the Auditor must enter into a confidentiality agreement with Novo Nordisk (or its Affiliate or sublicensee, as applicable) that is reasonably satisfactory to Novo Nordisk (or its Affiliate or sublicensee, as applicable).

(b) Novo Nordisk and its Affiliates shall (and shall cause its sublicensees to) make their books and records available for inspection by the Auditor solely to verify the accuracy of its Net Sales report and royalties and sales milestones payable.

(c) Pacira shall give at least thirty (30) days prior notice to Novo Nordisk of when its Auditor shall visit Novo Nordisk and its Affiliates or sublicensees.

(d) Novo Nordisk and its Affiliates shall (and shall cause its sublicensees to) give access to the Auditor to the relevant books and records during regular business hours at the place or places where the books and records are usually kept. While inspecting such accounts and records, the Auditor must abide by all of Novo Nordisk's (or its Affiliate's or sublicensee's) standard rules and regulations and the Auditor will not be entitled to take copies of any such accounts and records.

(e) The Auditor shall prepare and deliver to each Party a report setting out its findings no later than thirty (30) days after the audit has been completed.

(f) Any report by an Auditor under this Section 8.6 shall be deemed Confidential Information of Novo Nordisk and Pacira shall keep confidential, in accordance with Section 12, the report received from the Auditor and any other information received or learnt in connection with the audit.

(g) Pacira's audit right under this Section 8.6 may not be exercised more than once in a calendar year and once a particular calendar year is audited, it may not be reaudited (unless the original audit reflected any underpayment by Novo Nordisk of more than [**] percent ([**]%), in which event such records may be reaudited).

(h) Pacira shall bear the audit costs, except where the audit shows that Novo Nordisk has underpaid Pacira by more than [**] percent ([**]%) of the total amount due for a calendar year, in which case Novo Nordisk shall pay for Pacira's reasonable and documentable audit costs. Pacira shall indemnify and hold Novo Nordisk harmless from any losses resulting from any negligence or any other act or omission on the part of the Auditor's inspecting and auditing records and accounts under this Section 8.6.

(i) Where there has been an underpayment, Novo Nordisk shall pay to Pacira the underpayment with [**]% interest (together with reasonable and documentable audit costs if applicable) due within [**] days of its receipt of the Auditor's report. In the case of overpayment by Novo Nordisk, Novo Nordisk may, at its option, offset any future royalty payments payable to Pacira by the amount of overpayment, or it may request reimbursement from Pacira within [**] days of its receipt of the Auditor's report.

(j) Upon the expiration of [**] years following the end of any calendar quarter, the report or calculation of any royalties or sales milestone sums payable under this Agreement by Novo Nordisk with respect to such calendar quarter will be binding and conclusive upon Pacira, and Novo Nordisk will be released from any liability or accountability with respect to such report or calculation and any payments made thereto.

8.7 Pacira Change of Control. Upon the occurrence of a Pacira Change of Control following the Completion of the Technology Transfer, Novo Nordisk may, [**] reporting obligations of Novo Nordisk to Pacira other than those in respect of [**].

9. Intellectual Property

9.1 Ownership of Intellectual Property.

(a) Novo Background Intellectual Property shall remain the property of Novo Nordisk. Pacira Background Intellectual Property shall remain the property of Pacira. Novo Nordisk shall own exclusively Novo Nordisk Foreground Intellectual Property. Pacira shall own exclusively Pacira Foreground Intellectual Property.

(b) Each Party agrees to, and shall cause any employees, agents or consultants of that Party and its Affiliates to, execute formal assignments and any such instruments prepared by the other Party which such other Party deems necessary to vest its ownership of its Foreground Intellectual Property (ie., Pacira Foreground Intellectual Property if such other Party is Pacira, or Novo Foreground Intellectual Property if such other Party is Novo).

9.2 [**] under the Feasibility Agreement. Pacira hereby assigns to Novo Nordisk [**]. Pacira shall, and shall cause any employees, agents or consultants of Pacira and its Affiliates to, execute formal assignments and any such instruments prepared by Novo Nordisk, which Novo Nordisk deems necessary to vest Novo Nordisk's sole ownership of such [**]. Pacira shall have no rights to make commercial application or otherwise exploit the [**], except as otherwise set forth in Section [**].

9.3 Prosecution of Licensed Patents. Subject to the provisions of this Section 9.3, Pacira, at its sole discretion and expense, will prosecute and determine the strategy of prosecution of the Licensed Patents.

(a) Pacira shall, at least [**] in each calendar year and at minimum intervals of [**] months, during the Term provide Novo Nordisk with a list of Licensed Patents providing relevant filing, priority, and status information, beginning on the date that is [**] calendar months following the Effective Date.

(b) Pacira shall provide Novo Nordisk with timely notification regarding any information it discovers during the Term that may be reasonably considered to adversely impact the validity, enforceability, scope or term of any Licensed Patent.

(c) If requested by Novo Nordisk, Pacira shall timely provide Novo Nordisk with copies of all material correspondence from any Patent Authority regarding Licensed Patents.

(d) If requested by Novo Nordisk, Pacira shall provide Novo Nordisk with a copy of any proposed filing with any Patent Authority in connection with proceedings before any Patent Authority in the Licensed Patents and shall provide to Novo Nordisk a reasonable opportunity (at least [**] calendar days) to comment on any such proposed filing with respect to such Licensed Patents, which comments Pacira shall consider in good faith.

(e) If Pacira elects to discontinue prosecution or maintenance of any Licensed Patent, Pacira shall so advise Novo Nordisk in writing at least [**] calendar days in advance of such discontinuance and, if requested by Novo Nordisk, shall discuss with Novo Nordisk Pacira's reasons for such discontinuance. If requested

by Novo Nordisk and at Novo Nordisk's cost, Pacira will take action to prevent such abandonment of such Licensed Patent, unless Pacira has a material business or legal reason for not taking such action. Novo Nordisk shall be entitled to deduct half of the costs to continue such prosecution or maintenance from royalty payments due to Pacira, which deduction shall not exceed [**]% of royalties otherwise payable for such calendar quarter. For purposes of clarity, as between Pacira and Novo Nordisk, Pacira shall retain ownership of the Licensed Patents.

(f) Notwithstanding anything in this Section 9.3 to the contrary, Novo Nordisk acknowledges and agrees that any rights of Pacira to prosecute or maintain, or to allow Novo Nordisk to comment on any proposed filing with respect to, the Licensed Patents hereunder shall be subject to the rights of, and obligations to, the Third Party Licensor under the Existing Third Party License.

9.4 Prosecution of Formulation Intellectual Property and Joint Technology .

(a) If Pacira or Novo Nordisk reasonably believe, based on written invention disclosures, that an invention may be patentable and would be considered Formulation Intellectual Property or Joint Technology under this Agreement, then such Party shall promptly notify the other Party and the JPC in writing within [**] days. Novo Nordisk shall have [**] days after receipt of such notice or providing such notice to elect whether to file a patent application for such invention. If Novo Nordisk elects to not file a patent application or to discontinue prosecution of an already filed patent application, or to discontinue payment of maintenance fees for any patents, under any Formulation Intellectual Property or Joint Technology, Novo Nordisk shall so advise Pacira promptly in writing.

(b) If Novo Nordisk elects to file a patent application on Formulation Intellectual Property or Joint Technology, Novo Nordisk shall have the right to decide when to file the priority application on such Formulation Intellectual Property or Joint Technology provided that Novo Nordisk may not delay the filing of the priority application on such Formulation Intellectual Property or Joint Technology more than [**] following the date of notification of the application invention under Section 9.4(a). If Novo Nordisk decides to delay the filing of the priority application as set forth in the preceding sentence, Novo Nordisk shall provide the rationale for any delay in filing at the next JPC meeting. If requested by Pacira, Novo Nordisk shall provide Pacira with a copy of any proposed filing with any Patent Authority in connection with proceedings before any Patent Authority in the Formulation Intellectual Property or Joint Technology, as applicable, and shall provide to Pacira a reasonable opportunity (at least [**] calendar days) to comment on any such proposed filing with respect to such Formulation Intellectual Property and Joint Technology, which comments Novo Nordisk shall consider in good faith.

(c) If Novo Nordisk elects to not file a patent application for any invention within Formulation Intellectual Property or Joint Technology within the [**] day

period after date of notification of such invention under Section 9.4(a) (or, if Novo Nordisk elects to file, but does not file the priority application on such Formulation Intellectual Property or Joint Technology within [**] following the date of notification of the applicable invention under Section 9.4(a)) or to discontinue prosecution of an already filed patent application or to discontinue payment of maintenance fees for any patents under any Formulation Intellectual Property or Joint Technology, Pacira shall have the right, but not the obligation, to file or continue prosecution or maintenance of the Formulation Intellectual Property or Joint Technology. If Pacira elects to file or continue prosecution or maintenance of any Formulation Intellectual Property or Joint Technology, then Pacira shall advise Novo Nordisk in writing of its intention to do so promptly (i.e., within [**] calendar days of receipt of Novo Nordisk notice under Section 9.4(a), if applicable) and Pacira shall assume, at Pacira's costs, prosecution of such Formulation Intellectual Property or Joint Technology. Novo Nordisk shall provide Pacira with all assistance reasonably necessary to facilitate filing, prosecution, or maintenance of such Formulation Intellectual Property or Joint Technology. In the event Pacira assumes prosecution of such Formulation Intellectual Property or Joint Technology, Pacira shall i) timely provide Novo Nordisk with copies of all correspondence from any Patent Authority regarding such Formulation Intellectual Property or Joint Technology and ii) provide Novo Nordisk with a copy of any proposed filing with any Patent Authority regarding such Formulation Intellectual Property or Joint Technology and with respect to ii) shall provide to Novo Nordisk a reasonable opportunity (at least [**] calendar days) to comment on and approve any such proposed filing, such approval not to be unreasonably withheld and which approval shall be deemed given if Novo Nordisk does not provide any comments within such [**] day period.

(d) If Novo Nordisk elects to file an application on an invention within Formulation Intellectual Property or Joint Technology and, after [**] years from the date of notice of such invention under Section 9.4(a), a patent has not been granted to such application, by either the European Patent Office or the United States Patent and Trademark Office, then Pacira shall have the right, but not the obligation, to continue such prosecution of the Formulation Intellectual Property or Joint Technology. If Pacira elects to continue prosecution of any Formulation Intellectual Property or Joint Technology, then Pacira shall advise Novo Nordisk of its intention to do so and Pacira shall assume, at Pacira's costs, prosecution of such Formulation Intellectual Property or Joint Technology. Novo Nordisk shall provide Pacira with all assistance reasonably necessary to facilitate prosecution of such Formulation Intellectual Property or Joint Technology. In the event Pacira assumes prosecution of such Formulation Intellectual Property or Joint Technology, Pacira shall i) timely provide Novo Nordisk with copies of all correspondence from any Patent Authority regarding such Formulation Intellectual Property or Joint Technology and ii) provide Novo Nordisk with a copy of any proposed filing with any Patent Authority regarding such Formulation Intellectual Property or Joint Technology and with respect to ii) shall provide to Novo Nordisk a reasonable opportunity (at least [**] calendar days) to

comment on and approve any such proposed filing, such approval not to be unreasonably withheld and which approval shall be deemed given if Novo Nordisk does not provide any comments within such [**] day period.

(e) If Pacira elects to continue prosecution or maintenance of any Formulation Intellectual Property or Joint Technology under Section 9.4(c) and Section 9.4(d), the Formulation Intellectual Property or Joint Technology shall continue to be solely owned by Novo Nordisk and will be considered Novo Nordisk Intellectual Property. Further, if Pacira elects to discontinue prosecution or maintenance of any Formulation Intellectual Property or Joint Technology it has assumed responsibility for under clauses 9.4(c) and 9.4(d) Pacira shall so advise Novo Nordisk in writing at least [**] calendar days in advance of such discontinuance. Novo Nordisk shall have the right, but not the obligation, to continue such prosecution or maintenance of the Licensed Patents. If Novo Nordisk elects to continue prosecution or maintenance of any Formulation Intellectual Property or Joint Technology then Pacira shall execute any documents and do such other acts as may be necessary in connection with the prosecution or maintenance of any such Formulation Intellectual Property or Joint Technology and provide Novo Nordisk with all other assistance reasonably necessary to facilitate prosecution, or maintenance of such Formulation Intellectual Property or Joint Technology.

9.5 Notice of Infringement; Enforcement of Pacira Intellectual Property .

(a) Each Party shall promptly report in writing to the other Party during the Term (i) any known or suspected infringement of, or unauthorized use of, or challenge to, any of the Pacira Intellectual Property or Novo Nordisk Intellectual Property, (ii) any certification filed pursuant to 21 U.S.C. § 355(b)(2)(A) (or any amendment or successor statute thereto) claiming that any Patent Rights within Pacira Intellectual Property or Novo Nordisk Intellectual Property is invalid or otherwise unenforceable, or that infringement will not arise from the manufacture, use, import, offer for sale, or sale of a product by a Third Party, or (iii) without limiting the generality of Article 10, any claim by a Third Party that the development, manufacture or commercialization of the Licensed Product or the practice by either Party of the Pacira Intellectual Property or Novo Nordisk Intellectual Property in such activities infringes or misappropriates the intellectual property rights of that Third Party, and shall provide the other Party with all available evidence supporting such known or suspected infringement or unauthorized use. For any of the disclosure or notification obligations of the Parties under this Section, it is understood that all information disclosed under such obligations is covered by the provisions of Section 12, and further that neither Party shall be required, by such obligations, to disclose legally privileged information or information in respect of which such Party is subject to confidentiality or other contractual obligations to Third Parties unless required to do so by operation of law.

(b) After consultation by Pacira with Novo Nordisk, as between Pacira and Novo Nordisk, Pacira shall have the first right but not obligation to enforce and/or defend the Licensed Patents or Licensed Know-How. Within [**] days after receiving notice of an infringement or a lawsuit on the validity of a patent (or, in the case of a certification received pursuant to either 21 U.S.C. §§ 355(b)(2)(A)(iv) or (j)(2)(A)(vii)(IV) or its successor provisions, or any similar provision in a country in the Territory other than the United States, within [**] days) under Section 9.5(a), Pacira shall decide if it shall institute legal action to enforce and/or defend the Licensed Patents or Licensed Know-How and shall notify Novo Nordisk of its decision. If Pacira fails to institute legal action to enforce and/or defend the Licensed Patent(s) or Licensed Know-How within the aforementioned [**] or [**] day period as appropriate, then Novo Nordisk shall have the right, but not the obligation, initiate and conduct such legal action. If Pacira does institute such legal action but desires at any point in such legal action to cease to continue with such action, then Pacira will provide a reasonable written notice to Novo Nordisk prior to discontinuing such action and Novo Nordisk shall then have the right, but not the obligation, to continue such legal action.

(c) In the event Novo Nordisk initiates and/or conducts any legal action to enforce and/or defend the Licensed Patent(s) or Licensed Know-How, Pacira shall provide Novo Nordisk with all reasonable assistance in such legal action. Pacira shall have the right to join, at its own expense, any such legal action and to be represented in such action by its own counsel. If Pacira is required under any law to join any such legal action initiated by Novo Nordisk or if the failure of Pacira to be a Party to such suit, action, or proceeding would in the opinion of counsel to Novo Nordisk risk dismissal thereof, Pacira shall execute all papers and perform such other acts as may be reasonably required to permit the litigation to be initiated or conducted (including initiating a suit before a court or tribunal at Novo Nordisk's request or permitting Novo Nordisk to initiate a legal action under this Section in the name of Pacira and Novo Nordisk), and Novo Nordisk shall reimburse Pacira for its reasonable expenses relating to its joining thereto and participation therein. If Pacira is required to be joined as a Party in any such action, then upon the request of Novo Nordisk, Pacira shall waive any objection to such joinder on the grounds of personal jurisdiction, venue, or forum non conveniens.

(d) The Party enforcing and/or defending the Licensed Patents or Licensed Know-How shall conduct such legal action in a way that shall not have a material adverse impact on the rights granted to Novo Nordisk under the license and on the Licensed Patents or Licensed Know-How. The Party enforcing and/or defending the Licensed Patents or Licensed Know-How may enter into any settlement, consent judgment, or other voluntary final disposition of any action contemplated by this Section 9.5(d) without the other Party's prior consent; provided that (i) the other Party receives a general release of any claims against it in such proceeding and is promptly provided thereafter a copy of such settlement, consent judgment

or other voluntary disposition and (ii) such settlement does not have a material adverse impact on the rights granted to Novo Nordisk under the license and on the Licensed Patents or Licensed Know-How or result in a payment or other liability by the other Party to a Third Party. Any other settlement, consent judgment or voluntary final disposition of any proceeding under this Section 9.5(d) by the Party enforcing and/or defending the Licensed Patents or Licensed Know-How shall require the prior written consent of the other Party, which consent such other Party shall not unreasonably withhold. With respect to any suit or action regarding Licensed Patents and/or Licensed Know-How as set forth in the above, any recovery obtained as a result of any such proceeding, by settlement or otherwise, shall (x) first be used to reimburse Novo Nordisk and Pacira, if any, for their reasonable costs and legal fees incurred in the conduct of such proceedings, (y) with respect to any suit or action regarding infringement of Licensed Patents and/or Licensed Know-How by a Third Party product that competes with the Licensed Product, any remaining amount shall be divided as follows: [**]% to the Party conducting the suit or action and [**]% to the other Party, and (z) in the case of any other suit or action, any remaining proceeds shall be retained [**].

(e) Pacira and Novo Nordisk agree that upon the written request of Novo Nordisk the Parties will in good faith initiate negotiations and use reasonable efforts to agree to and enter an amendment to this Agreement no later than ninety (90) calendar days after Pacira's receipt of notice hereunder, incorporating contractual provisions adequately reflecting the Patient Protection and Affordable Care Act. In particular, the Parties will amend this Agreement in a manner reasonably intended to enable Novo Nordisk to respond in a satisfactory and timely manner to any biosimilar applications and patent proceedings of said Act under Subtitle A of Title VII Biologics Price Competition and Innovation relating to Licensed Product, including obligations on Pacira to cooperate and provide information as reasonably required by Novo Nordisk and at [**]; provided, however, that in no event shall any amendment include any amendment to the [**].

(f) Notwithstanding anything in this Section 9.5 to the contrary, Novo Nordisk acknowledges and agrees that any rights of Pacira or Novo Nordisk to enforce and/or defend the Licensed Patents hereunder shall be subject to the rights of, and obligations to, the Third Party Licensor under the Existing Third Party License.

9.6 Enforcement of Novo Nordisk Intellectual Property .

(a) Subject to Section 9.5(a), Novo Nordisk shall have the sole right to enforce Novo Nordisk Intellectual Property at its own instigation and expense. If requested to do so by Novo Nordisk, Pacira shall reasonably cooperate with Novo Nordisk to enforce such rights in relation to the Licensed Product, provided that Pacira is reimbursed for FTE Costs and Out-of-Pocket Costs incurred in providing

such cooperation. Pacira shall be kept reasonably advised at all times of such suit or proceedings brought by Novo Nordisk with respect to Formulation Intellectual Property and/or Joint Technology.

(b) For Formulation Intellectual Property and/or Joint Technology, Novo Nordisk may enter into any settlement, consent judgment, or other voluntary final disposition of any action contemplated by this Section 9.6 without Pacira's prior consent; provided that (i) Pacira receives a general release of any claims against it in such proceeding and is promptly provided thereafter a copy of such settlement, consent judgment or other voluntary disposition, and (ii) such settlement does not result in a payment or other liability by Pacira to a Third Party. Any other settlement, consent judgment or voluntary final disposition of any proceeding under this Section 9.6(b) by Novo Nordisk shall require the prior written consent of Pacira, which consent Pacira shall not unreasonably withhold.

(c) Any recovery obtained as a result of any such proceeding in Section 9.6(b), by settlement or otherwise, shall first be used to reimburse Novo Nordisk and Pacira, if any, for their reasonable costs and legal fees incurred in the conduct of such proceedings and any remaining proceeds shall be allocated as follows: (i) in the case of any proceeding with respect to infringement of Formulation Intellectual Property or Joint Technology by a Third Party product that competes with the Licensed Product, any remaining proceeds shall be [**], and (ii) in the case of any other proceeding, any remaining proceeds shall be [**].

9.7 Trademarks.

(a) Novo Nordisk shall have the sole right and responsibility for developing trademarks and trade dress in connection with the marketing, sale, advertising and/or promotion of the Licensed Product in the Territory, and Novo Nordisk shall own such trademark(s) and trade dress, and all associated goodwill, and shall prosecute, maintain and enforce such trademarks and trade dress at its own cost and discretion. Notwithstanding the foregoing, Pacira shall promptly notify Novo Nordisk of any known, threatened or suspected infringement, imitation or unauthorized use of or unfair competition relating to such trademarks and trade dress, and shall cooperate with Novo Nordisk and use reasonable efforts to assist Novo Nordisk in the protection of such trademarks and trade dress, if such additional cooperation or assistance is reasonably requested by Novo Nordisk and at Novo Nordisk's cost.

(b) If Novo Nordisk decides, in its sole discretion and to the extent permitted by law, to include any reference to Pacira and/or DepoFoam ® on packaging and labeling or promotional materials for Licensed Product, then the Parties shall mutually agree on the appropriate presentation of such DepoFoam ® trademark and/or Pacira corporate logo, brand or mark (**"Pacira Marks"**) for such packaging and labeling and promotional materials for Licensed Product. Novo

Nordisk shall have the foregoing right to use such Pacira Marks with respect to Licensed Product, subject to compliance with Pacira's standard quality monitoring guidelines (which shall be provided to Novo Nordisk prior to any such use by Novo Nordisk) and Novo Nordisk's notification to Pacira of any intended use of such Pacira Marks, including the provision of samples of such use. For purposes of clarity, Pacira shall retain ownership of the Pacira Marks and all associated goodwill.

9.8 Inventorship. Notwithstanding anything to the contrary herein, inventorship shall be determined in accordance with U.S. law.

9.9 Patent Term Extension.

(a) Novo Nordisk shall inform the JPC in writing ("Novo Nordisk notification") of which, if any, of the patents within Pacira Intellectual Property and Novo Nordisk Intellectual Party, Novo Nordisk wishes to obtain an extension of the term of a Patent Right for Licensed Product on (including patent term restoration under the U.S. Patent Statutes (35 U.S.C. §§1-376) and supplementary protection certificates in the member states of the European Union or European Economic Area, or Switzerland) (collectively **"Extensions"**) and the JPC shall seek to reach agreement on which patent to seek an Extension on with respect to the Licensed Product within twenty (20) days of the Novo Nordisk notification. If the JPC cannot reach mutual agreement within 20 days on which of the patents within Pacira Intellectual Property and Novo Nordisk Intellectual Property to obtain an Extension on with respect to the Licensed Product, then the CSO of Novo Nordisk shall make such decision, subject to Pacira's prior approval of any decision to obtain any Extension of Pacira Intellectual Property (which approval shall not be unreasonably withheld).

(b) Notwithstanding Section 9.3 and Section 9.4, subject to clause (a) above, any patent term extension application relating to Formulation Intellectual Property or Joint Technology shall be prepared, filed and prosecuted by Novo Nordisk.

(c) Each Party shall advise the other Party in writing within five (5) business days of receipt by such Party of any communications from any Regulatory Authority that may be reasonably considered pertinent to an Extension of the term of a Patent Right for Licensed Product.

(d) Subject to clause (a) above, Novo Nordisk shall have the right, at its sole discretion, to request that Pacira seek where appropriate and available, an Extension of the term of any Licensed Patent for the Licensed Product, in which event Pacira shall seek such Extension; provided, however, that Pacira, in its sole discretion, shall have the right to seek to extend any Licensed Patent relating to products other than the Licensed Product. Novo Nordisk shall inform Pacira in writing of its election of which patent Novo Nordisk will apply (or request Pacira to apply, as set forth above) for patent term restoration on in a given country based on Regulatory Approval of Licensed Product at least 30 days prior to applying for such restoration with the Patent Authority in that country.

(e) Pacira covenants and agrees to not seek an extension of the term of any Licensed Patents based on Regulatory Approval of Licensed Product without Novo Nordisk's prior written consent.

10. Indemnification

10.1 Indemnification by Novo Nordisk. Novo Nordisk agrees to indemnify, defend and hold harmless Pacira and its Affiliates against any and all claims, costs, expenses, damages and liabilities, including reasonable attorney's fees (**"Losses"**), to which Pacira or its Affiliates may become subject as a result of any claim, demand, action or other proceeding by any Third Party (a) arising out of the research, development, manufacture, use, import, export, sale, offer for sale, and any transfer of Licensed Product by Novo Nordisk, its Affiliates and/or sublicensees, or (b) alleging infringement of Third Party intellectual property rights by use of Novo Nordisk Intellectual Property in the research, development, manufacture, use, import, export, sale, offer for sale and/or any transfer of Licensed Product, except to the extent such Losses result from (i) the negligence or willful misconduct of Pacira; (ii) breach of this Agreement or the Quality Agreement by Pacira; (iii) any claim by a Third Party alleging that the grant of rights by Pacira to Novo Nordisk under this Agreement violates or conflicts with the terms of any license or other grant of rights by Pacira to such Third Party; or (iv) any claims by a Third Party alleging infringement of Third Party intellectual property rights by use of Pacira Intellectual Property in the research, development, manufacture, use, import, export, sale, offer for sale and/or any transfer of the Licensed Product as contemplated under this Agreement.

10.2 Indemnification by Pacira. Pacira shall indemnify, defend and hold harmless Novo Nordisk and its Affiliates from and against any and all Losses, to which Novo Nordisk or its Affiliates may become subject as a result of any claim, demand, action or other proceeding by any Third Party (a) arising out of defects of the Licensed Product arising out of the formulation, scale-up, manufacturing, and manufacturing process technical transfer activities undertaken by Pacira under this Agreement and under the Quality Agreement or (b) alleging infringement of Third Party intellectual property rights by use of Pacira Intellectual Property in the research, development, manufacture, use, import, export, sale, offer for sale and/or any transfer of Licensed Product as contemplated under this Agreement, except to the extent such Losses result from (i) the negligence or willful misconduct of Novo Nordisk, (ii) breach of this Agreement or the Quality Agreement by Novo Nordisk or (iii) any claims by a Third Party alleging infringement of Third Party intellectual property rights by use of Novo Nordisk Intellectual Property in the research, development, manufacture, use, import, export, sale, offer for sale and/or any transfer of the Licensed Product.

10.3 Conduct of Claims. The Party seeking an indemnity (the **"First Party"**) shall:

(i) fully and promptly notify the other Party (the **"Indemnifying Party"**) of any claim or proceedings, or threatened claim or proceedings for which the First Party may assert indemnification from the Indemnifying Party pursuant to this Clause;

(ii) the First Party will permit the Indemnifying Party and its insurer(s), at the Indemnifying Party's expense, to take full control of such claim or proceedings, with counsel of the Indemnifying Party's choice reasonably acceptable to the First Party, provided that the Indemnifying Party shall reasonably and regularly consult with the First Party in relation to the progress and status of such claim or proceedings, and the First Party may participate in the defense of such claim or proceeding using counsel of its own choice at the First Party's expense;

(iii) the First Party will reasonably co-operate with the Indemnifying Party in the investigation and defense of such claim or proceedings at the Indemnifying Party's expense; and

(iv) take reasonable steps to mitigate any loss or liability in respect of any such claim or proceedings.

The Indemnifying Party may settle a claim or proceeding on terms which provide only for monetary relief and includes a general release of the First Party and do not include any admission of liability or impose any obligation on the First Party. Save as aforesaid, neither the Indemnifying Party nor the First Party shall acknowledge the validity of, compromise or otherwise settle any claim or proceeding without the prior written consent of the other, which shall not be unreasonably withheld, conditioned or delayed.

11. Representations and Warranties

11.1 Mutual Representations, Warranties and Covenants. Each Party represents, warrants as of the Effective Date and, with respect to clauses (d) and (g) below, covenants to the other that:

(a) It is a corporation duly organized and validly existing under the laws of its jurisdiction of incorporation, and has full corporate power and legal right and authority to enter into this Agreement and to carry out the provisions hereof.

(b) It is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder, and the person or persons executing this Agreement on its behalf has been duly authorized to do so by all requisite corporate action.

(c) This Agreement is legally binding upon it, enforceable in accordance with its terms, except as limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or other laws of general application relating

to or affecting the enforcement of creditors' rights generally, or (ii) laws relating to the availability of specific performance, injunctive relief, or other equitable remedies. The execution, delivery and performance of this Agreement by it does not conflict with, or result in the breach of the terms of, any agreement, or instrument, to which it is a Party or by which it may be bound, nor violate any material law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

(d) It has not, and shall not during the Term, grant any right to any Third Party which would conflict in any material respect with the rights granted to the other Party hereunder.

(e) It is not engaged in any litigation or arbitration, or in any dispute reasonably likely to lead to litigation, arbitration or other proceeding, which would materially affect the validity of this Agreement or its ability to fulfill its obligations under this Agreement.

(f) no consent, approval, authorization or order of any court or governmental agency or governmental body or Third Party is required for execution and delivery by such Party of this Agreement.

(g) each employee, agent and consultant of such Party engaged in the performance of activities under this Agreement is, or shall be prior to the performance of any such activities under this Agreement, contractually bound to (i) assign to such Party all of its, his or her right, title and interest in and to any Intellectual Property arising from activities performed by such employee, agent or consultant under this Agreement, and (ii) comply with confidentiality and non-use obligations that are as restrictive as those set forth Article 12.

11.2 Pacira Representations and Warranties. Pacira represents and warrants to Novo Nordisk that as of the Effective Date (except as otherwise set forth on Exhibit D):

(a) the rights granted to Novo Nordisk and its Affiliates hereunder do not conflict with rights granted by Pacira to any Third Party;

(b) To Pacira's knowledge, the use of Pacira Intellectual Property as contemplated under this Agreement does not infringe any issued patents of any Third Party;

(c) it Controls the Licensed Patents and Licensed Know-How in the Territory and (i) there are no agreements with, assignments by, restrictions, liens, or encumbrances on, disputes with, or proceedings or claims against, Pacira or its Affiliates relating to, affecting or limiting Pacira's rights with respect to the Licensed Patents and Licensed Know-How (other than Licensed Patents licensed to Pacira under the Existing Third Party License), and (ii) to Pacira's knowledge, there are no agreements with, assignments by, restrictions, liens, or encumbrances on, disputes with, or proceedings or claims against, the Third Party Licensor

relating to, affecting or limiting Pacira's rights with respect to the Licensed Patents licensed to Pacira under the Existing Third Party License, in the case of each of the foregoing clauses (i) and (ii), that would conflict with the rights granted to Novo Nordisk under this Agreement;

(d) Exhibit A identifies all of the pending patent applications and unexpired patents that are Licensed Patents owned by Pacira as of the Effective Date and, to Pacira's knowledge, Exhibit A identifies all of the pending patent applications and unexpired patents that are Licensed Patents licensed to Pacira under the Existing Third Party License as of the Effective Date;

(e) each of the Issued Patent Claims included in the Licensed Patents is owned by Pacira and, to Pacira's knowledge, each of the Issued Patent Claims included in the Licensed Patents licensed to Pacira under the Existing Third Party License has been duly maintained and, to Pacira's knowledge, is valid and enforceable;

(f) none of the patents or patent applications owned by Pacira and set forth in Exhibit A is, and, to Pacira's knowledge, none of the patents or patent applications licensed to Pacira under the Existing Third Party License and set forth in Exhibit A is, (i) subject to a pending interference action, opposition action, re-examination proceeding, litigation or other similar action by a Third Party challenging such patents or patent applications, other than actions by Patent Authorities in connection with the prosecution of patent applications, or (ii) has been abandoned, or has been asserted to be invalid or unenforceable in a communication to Pacira or is subject to any inventorship proceeding or dispute;

(g) to Pacira's knowledge, except for the Licensed Patents, there are no Third Party patents and/or patent applications that claim DepoFoam; and

(h) it has informed Novo Nordisk of all material information it Controls, or has made available to Novo Nordisk during Novo Nordisk's due diligence investigation all material information within its Control, in each case that may adversely affect the validity, scope, term or enforceability of any Issued Patent Claim included in the Licensed Patents.

11.3 Novo Nordisk Representations and Warranties. Novo Nordisk represents and warrants to Pacira that, as of the Effective Date:

(a) the rights granted to Pacira and its Affiliates hereunder do not conflict with rights granted by Novo Nordisk to any Third Party; and

(b) it Controls the Novo Nordisk Intellectual Property in the Territory.

11.4 Disclaimer. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT AND THE QUALITY AGREEMENT, NEITHER PARTY MAKES ANY REPRESENTATION AND EXTENDS NO WARRANTY OF

ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF DESIGN, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR ARISING FROM A COURSE OF DEALING, USAGE OR TRADE PRACTICES, IN ALL CASES WITH RESPECT THERETO. Without limiting the generality of the foregoing, each Party expressly does not warrant the successful development, manufacture or commercialization of the Licensed Product.

11.5 Limitation of Liability. EXCEPT FOR LIABILITY FOR BREACH OF SECTION 12 (CONFIDENTIALITY) AND WITHOUT PREJUDICE TO THE OBLIGATION OF EITHER PARTY TO INDEMNIFY THE OTHER IN RESPECT OF CLAIMS BY A THIRD PARTY UNDER SECTION 10, NEITHER PARTY SHALL BE ENTITLED TO RECOVER FROM THE OTHER PARTY ANY SPECIAL, INCIDENTAL, CONSEQUENTIAL, PUNITIVE OR OTHER INDIRECT DAMAGES IN CONNECTION WITH THIS AGREEMENT OR ANY LICENSE GRANTED HEREUNDER; PROVIDED, HOWEVER THAT THIS SECTION 11.5 SHALL NOT BE CONSTRUED TO LIMIT DAMAGES AWARDED SPECIFICALLY IN RESPECT OF EITHER PARTY'S GROSS NEGLIGENCE OR WILFULLY WRONGFUL CONDUCT.

12. Confidentiality

12.1 Use and Disclosure of Proprietary Information.

(a) Except to the extent expressly authorized by this Agreement or otherwise agreed in writing by the Parties, each Party agrees to hold, and will cause their respective officers, directors, employees, agents, attorneys, accountants, consultants, advisors and agents **("Representatives")** to hold, including any of the aforementioned employed by a Party's Affiliates, in confidence, and not disclose to any person, and shall not, and will cause its Representatives to not, use for any purpose other than as expressly provided for in this Agreement, any Confidential Information furnished to it by the other Party pursuant to this Agreement or any Confidential Information of the other Party developed as part of the activities hereunder. Each Party may use such Confidential Information only to the extent required for the purposes of this Agreement. Each Party shall disclose Confidential Information of the other Party only to its Representatives (i) who have a need to know such Confidential Information in the course of the performance of their duties under this Agreement, (ii) who are informed of the confidential nature of the Confidential Information, and (iii) who agree in writing (enforceable by the other Party) to comply with the terms of this Agreement as if a party hereto or are otherwise bound by obligations of confidentiality and non-use of Confidential Information at least as stringent as those set forth in this Agreement. Each Party shall adopt and maintain programs and procedures that are reasonably calculated to protect the confidentiality of Confidential Information and shall be responsible to the other Party for any disclosure or

misuse of Confidential Information that results from a failure to comply with the terms of this Article 12 by such Party or such Party's Representatives. Such programs and procedures shall include those set forth below in Section 12.1(b) and Section 12.1(c) below. Each Party shall promptly report to the other Party any actual or suspected violation of the terms of this Article 12 and shall take all reasonable further steps requested by the other Party to prevent, control or remedy any such violation. A breach of this Article 12 by a Party's Representatives shall be considered a breach by the Party itself.

(b) Novo Nordisk acknowledges that it may receive Manufacturing Information under this Agreement. Pacira will clearly mark Manufacturing Information as "Confidential" on each page of such document containing Manufacturing Information. Novo Nordisk agrees that it will limit access to Manufacturing Information to those who have a need to know. Novo Nordisk will provide Pacira with a list of the Novo Nordisk employees who receive the Manufacturing Information. Novo Nordisk will update the list every [**] from the date of first receipt of Manufacturing Information for the duration of this Agreement. Novo Nordisk agrees to store documents containing Manufacturing Information [**]. Novo Nordisk will make [**] containing Manufacturing Information.

(c) In the event that Novo Nordisk manufactures the Licensed Product for clinical trials and for commercial purposes, Novo Nordisk agrees that access to the manufacturing area for the Licensed Product (**"Area"**) shall [**]. Novo Nordisk will also use Commercially Reasonable Efforts to ensure that [**].

(d) Should Novo Nordisk use a Third Party to manufacture the Licensed Product, Novo Nordisk shall secure the same duties and obligations from the Third Party as set forth in this Section 12.1 for Novo Nordisk. In addition, Novo Nordisk shall bind consultants who have contact with Manufacturing Information and the Area with the same terms.

12.2 Limitations on Obligations. The obligations of each Party specified in this Article 12 shall not apply, and such Party shall have no further obligations, with respect to any Confidential Information of the other Party that the receiving Party can prove by competent written evidence:

(a) is now, or hereafter becomes, through no act or failure to act on the part of the receiving Party or its Affiliates, generally known or available to the public;

(b) is known by the receiving Party or its Affiliates at the time of receiving such information otherwise than as a result of the receiving Party's or its Affiliates' breach of any legal obligation, as evidenced by its or its Affiliates' records;

(c) becomes known to the receiving Party or its Affiliates through disclosure, as a matter of right and without restriction on disclosure, by a Third Party who is under no obligation of non-disclosure to the disclosing Party or its Affiliates; or

(d) is independently developed by a Party without the aid, reference to, reliance upon or use of the Confidential Information of the disclosing Party, as evidenced by such Party's written records; or

(e) is the subject of a written permission to disclose provided by the disclosing Party.

12.3 Exceptions. Each Party may disclose Confidential Information belonging to the other Party to the extent such disclosure is necessary in the following instances:

(a) filing or prosecuting patents as permitted by this Agreement in order to obtain Patent Rights that a Party is expressly permitted to obtain under this Agreement;

(b) regulatory filings for Licensed Product as permitted by this Agreement;

(c) prosecuting or defending litigation as permitted by this Agreement; and

(d) complying with applicable court orders (or complying with oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) or governmental regulations or law, including the rules of the U.S. Securities and Exchange Commission and any stock exchange;

provided that, if a Party is required to make a disclosure of the other Party's Confidential Information pursuant to Section 12.3(c) or (d), it shall, except where impracticable, give reasonable advance notice to the other Party of such disclosure request or requirement so that the other Party may seek an appropriate protective order or other appropriate remedy or waive compliance with the provisions of this Agreement. The Party that is required to make the disclosure shall reasonably cooperate with the other Party (at such other Party's sole cost and expense) to obtain such a protective order or other remedy. If such order or other remedy is not obtained, or the other Party waives compliance with the provisions of this Agreement, then such Party shall only disclose that portion of the Confidential Information which it is advised by counsel that it is legally required to so disclose and shall use reasonable efforts to obtain reliable assurance (at the other Party's sole cost and expense) that confidential treatment will be accorded the Confidential Information so disclosed. Without limiting the generality of the foregoing, the Parties shall consult with each other on the provisions of this Agreement to be redacted in any filings made by either Party with the U.S. Securities and Exchange Commission or foreign counterpart or as otherwise required by law.

12.4 Publications. If Novo Nordisk proposes to publish or present on any results or data related to the manufacture or use of DepoFoam (excluding publications or presentations which include only a standard source reference to DepoFoam, consistent with scientific journal publication practices), Pacira shall have the right to review and comment on any material proposed for such publication or presentation by Novo Nordisk, such as by oral presentation at scientific conferences or seminars, scientific journal manuscripts or abstracts. Before any such material is submitted for publication or presentation, Novo Nordisk shall deliver a complete copy of such material to Pacira at least [**] days prior to the proposed submission for publication or presentation, and Pacira shall use reasonable efforts to give its comments to Novo Nordisk within [**] days following delivery of such material. With respect to oral presentation materials and abstracts, Pacira shall use reasonable efforts to expedite review of such material and to provide comments (if any) to Novo Nordisk within [**] days following the date of delivery of such material to Pacira. Novo Nordisk shall (a) give due consideration to any editorial comments of Pacira, (b) comply with Pacira's request to delete references to Pacira's Confidential Information in any such material, and (c) delay any submission for publication or presentation for a period of up to an additional [**] days for the purpose of preparing and filing appropriate patent applications in accordance with the terms of Article 9 hereof.

12.5 Announcements. Except as expressly permitted in this Agreement, neither Party shall issue any public announcement, press release or other public disclosure regarding this Agreement or its subject matter, nor use the name of the other Party in any publicity, advertising or announcement, without the other Party's prior written consent, except for any such disclosure that is, in the opinion of counsel to the Party proposing to make such disclosure, required by law or the rules or regulations of the U.S. Securities and Exchange Commission or of a stock exchange on which the securities of such Party are listed, provided that such disclosure is subject to the proviso in Section 12.3 to the extent practicable. Notwithstanding anything to the contrary contained in this Agreement, each Party may disclose the terms of this Agreement (but not other Confidential Information received from the other Party) to (i) actual or potential lenders or investors of such Party, (ii) actual or potential acquirors of such Party, (iii) in the case of Pacira, subject to redaction of financial terms, references to [**] (which redactions shall be mutually agreed by the Parties in advance, such agreement not to be unreasonably withheld by either Party), to actual or potential strategic partners of Pacira that are a licensee of Licensed Patents or a sublicensee of Formulation Intellectual Property or Joint Technology in accordance with Section 2.3(b), and (iv) its legal, accounting and tax advisors, in each case who are bound to obligations of confidentiality and non-use substantially equivalent in scope to those set forth in this Article 12.

12.6 Securities Laws. Each Party hereby acknowledges that it is aware, and that such Party shall advise its Representatives who are informed of the matters which are

the subject of this Agreement, that the United States securities laws place certain restrictions on any person who has material, non-public information concerning the issuer with respect to purchasing or selling securities of such issuer or from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities.

12.7 Term of Confidentiality. The confidentiality and non-use obligations imposed on each Party under this Article 12 shall continue with respect to a particular item of Confidential Information of the other Party until the later of (a) [**] years after expiration of this Agreement, or (b) the [**] anniversary of the disclosure of such Confidential Information to such Party pursuant to this Agreement; provided, however, that the confidentiality and non-use obligations imposed by this Agreement with respect to [**] or any Manufacturing Information shall continue in perpetuity.

13. Term and Termination

13.1 Term. The term of this Agreement shall commence on the Effective Date and shall expire, on a country-by-country basis, upon the date of expiration of all payment obligations under Sections 3 and 4 of this Agreement with respect to the Licensed Product in such country. Upon such expiration (but not after early termination) Novo Nordisk shall then have a fully paid-up non-exclusive license under Pacira Intellectual Property for that Licensed Product in such country.

13.2 Termination by Novo Nordisk; Certain Effects of Such Termination.

(a) Until the date when the Technology Transfer is initiated, Novo Nordisk shall have the right to terminate this Agreement as a whole for convenience and without cause at any time upon sixty (60) days written notice to Pacira. Upon such notice, Pacira shall use reasonable efforts to terminate and/or reassign Pacira personnel working under the Work Plan and reduce costs incurred by Pacira under the Work Plan. Upon such termination, Novo Nordisk shall (i) compensate Pacira for all work performed by Pacira up to the date of termination, (ii) reimburse Pacira for all FTE Costs incurred by Pacira to the extent that [**]; and (iii) pay Pacira for any other costs reasonably incurred by Pacira in [**].

(b) Beginning on the date when the Technology Transfer is initiated, Novo Nordisk shall have the right to terminate this Agreement as a whole for convenience and without cause at any time upon sixty (60) days written notice to Pacira. Upon such notice, Pacira shall use reasonable efforts to terminate and/or reassign Pacira personnel working under the Work Plan and reduce costs incurred by Pacira under the Work Plan. Upon such termination, Novo Nordisk shall (i) compensate Pacira for all work performed by Pacira up to the date of termination,

(ii) reimburse Pacira for all FTE Costs incurred by Pacira to the extent that Pacira is unable to terminate personnel or reassign personnel working under the Work Plan to other areas, and (iii) pay Pacira for any other costs reasonably incurred by Pacira in winding-down any activities under the Work Plan. In addition, unless such termination is due to (x) the receipt by Novo Nordisk of a non-approval letter from a Regulatory Authority or of a letter from any Regulatory Authority ordering or requiring that clinical trials of a Licensed Product be terminated or (y) a technical issue, such as feasibility, CMC, efficacy, safety, regulatory and/or toxicology, with respect to a Licensed Product which cannot be overcome and/or reduced by Novo Nordisk's Commercially Reasonable Efforts, Novo Nordisk shall pay Pacira a fee for termination under this Section 13.2 (the **"Termination Fee"**) equal to [**] associated with [**] that, but for termination was [**]. If termination is due to one of the circumstances described under (x) or (y) above (or, for purposes of clarity, if Novo Nordisk terminates this Agreement as a result of Pacira's material breach), Novo Nordisk shall have the right to terminate under this Section 13.2 without paying any Termination Fee. Further, the above Termination Fee shall not be due if Novo Nordisk terminates this Agreement under this Section 13.2 after Regulatory Approval of the Licensed Product has been obtained from the EMA or the FDA.

(c) After commercialization of the Licensed Product, Novo Nordisk shall have the right to terminate this Agreement as a whole, or on a country-by-country basis (provided that, if Novo Nordisk terminates this Agreement with respect to all of the Major Market Countries, then this Agreement shall terminate as a whole), for any reason or for no reason and at any time, upon ninety (90) days prior written notice to Pacira. If Novo Nordisk terminates this Agreement with respect to a particular country, then the licenses granted by Pacira to Novo Nordisk under Section 2.1 and by Novo Nordisk to Pacira under Section 2.3(a), if then in effect, shall automatically terminate with respect to such country and revert to Pacira or Novo Nordisk as applicable, and Novo Nordisk shall cease to have any right or license to develop, manufacture or commercialize such Licensed Product in such country/countries, but this Agreement shall otherwise remain in full force and effect in accordance with its terms.

13.3 Termination by Pacira.

(a) Pacira shall have the right to terminate this Agreement as a whole, upon written notice to Novo Nordisk, in the event that (i) Novo Nordisk decides to discontinue or terminate the development and commercialization of the Licensed Product as set forth in Section 2.8(a), or (ii) Regulatory Approval for the Licensed Product in all of the countries in the Territory have been withdrawn by Novo Nordisk or by the applicable Regulatory Authorities and the Licensed Product is removed from the entire market.

(b) If Novo Nordisk or any of its Affiliates or sublicensees hereunder (i) initiates or requests an interference or opposition proceeding with respect to any Licensed Patent, or (ii) makes, files or maintains any claim, demand, lawsuit, or cause of action to challenge the validity or enforceability of any Licensed Patent, Pacira shall have the right to terminate this Agreement upon thirty (30) days' prior written notice to Novo Nordisk, provided Pacira has not asserted any Licensed Patent against Novo Nordisk. Any such termination shall become effective if Novo Nordisk or its Affiliate or sublicensee, as applicable, has not withdrawn such action before the end of the above notice period.

13.4 Termination for Material Breach. If a Party is in material breach of its obligations hereunder and the other Party provides written notice to the breaching Party specifying the nature of such breach, the breaching Party shall either cure such breach or produce a plan for such cure reasonably acceptable to the other Party within [**] calendar days after such written notice. If the breaching Party does not provide a plan for cure, or comply with a plan reasonably acceptable to the non-breaching Party, the non-breaching Party shall have the right to terminate this Agreement and/or any licenses granted hereunder, including the right to terminate this Agreement on a country-by-country basis and/or license-by-license basis, by giving written notice of termination to the breaching Party. For purposes of clarity, if Novo Nordisk terminates this Agreement for material breach by Pacira, then Novo Nordisk shall only owe compensation to Pacira for work performed and costs incurred to the date of such termination.

13.5 Termination for Insolvency Event. If a Party becomes insolvent, is dissolved or liquidated, files or has filed against it a petition in bankruptcy, reorganization, dissolution or liquidation or similar action filed by or against it, is adjudicated as bankrupt, or has a receiver appointed for its business occur (any of the preceding events, an **"Insolvency Event"**), then such Party shall promptly notify the other Party in writing that such event has occurred. If any Insolvency Event is not cured within ninety (90) calendar days after such Insolvency Event, the other Party shall have the right to terminate this Agreement and/or any licenses granted hereunder, including the right to terminate this Agreement on a country-by-country basis and/or Licensed Product by Licensed Product basis, by giving written notice of termination to the other Party.

13.6 Effect of Termination.

(a) Upon termination of this Agreement by Novo Nordisk for material breach by Pacira pursuant to Section 13.4:

(i) the license granted by Novo Nordisk under Section 2.3 shall automatically terminate and revert to Novo Nordisk; provided that any sublicense to Formulation Intellectual Property and Joint Technology granted by Pacira to Third Parties prior to such termination pursuant to Section 2.3(b) shall survive as a direct license between the applicable

Third Party and Novo Nordisk only to the extent Pacira has notified Novo Nordisk of such sublicense and thereafter Novo Nordisk has the right to terminate such license as required under the last sentence of Section 2.3(b);

(ii) the licenses granted by Pacira to Novo Nordisk under Section 2.1 shall remain in effect with respect to Pacira Intellectual Property used in the development, manufacture or commercialization of the Licensed Product as of the effective date of termination and subject to compliance by Novo Nordisk with all applicable payment obligations under this Agreement; and

(iii) the Quality Agreement shall automatically terminate.

(b) Upon termination of this Agreement by Novo Nordisk pursuant to Section 13.2, or termination of this Agreement by Pacira under Section 13.3 or for material breach by Novo Nordisk pursuant to Section 13.4:

(i) the licenses granted by Pacira under Section 2.1 shall automatically terminate and revert to Pacira;

(ii) Novo Nordisk shall transfer to Pacira as soon as reasonably practicable all information (A) developed by Novo Nordisk during the Term that is Pacira Foreground Intellectual Property, and/or (B) received by Novo Nordisk during the Technology Transfer process described in Article 4, including any and all Manufacturing Information;

(iii) Pacira shall use reasonable efforts to terminate and/or reassign Pacira personnel working under the Work Plan and reduce costs incurred by Pacira under the Work Plan. Upon such termination, Novo Nordisk shall (i) compensate Pacira for all work performed by Pacira up to the date of termination, (ii) reimburse Pacira for all FTE Costs incurred by Pacira to the extent that [**], and (iii) pay Pacira for any other costs reasonably incurred by Pacira in [**]; and

(iv) the Quality Agreement shall automatically terminate.

(c) Except as otherwise specifically set forth in this Agreement, all rights and obligations of the Parties shall terminate upon the expiration or termination of this Agreement, provided, however, that expiration or termination of this Agreement shall not relieve the Parties of any rights or obligations accruing prior to such expiration or termination.

(d) Within [**] days following the expiration or termination of this Agreement, except to the extent and for so long as Novo Nordisk retains license rights under

Section 13.6(a), upon the written request of the other Party, promptly return to the other Party all Confidential Information of the other Party (and all copies and reproductions thereof). In addition, each Party shall destroy (a) that portion of any notes, reports or other documents prepared by such Party which contain Confidential Information of the other Party, and (b) any Confidential Information of the other Party (and all copies and reproductions thereof) which is in electronic form or cannot otherwise be returned to the other Party. Alternatively, upon written request of the other Party, each Party shall promptly destroy all Confidential Information of the other Party (and all copies and reproduction thereof) and that portion of any notes, reports or other documents prepared by such Party which contain Confidential Information of the other Party. Notwithstanding the foregoing, each Party and its Representatives (i) may retain solely for compliance purposes copies of the Confidential Information of the other Party in order comply with law or regulation, and (ii) need not destroy electronic archives and backups made in the ordinary course of business where it would be commercially impracticable to do so. Moreover, notwithstanding the return or destruction of the Confidential Information of the other Party, each Party and its Representatives shall continue to be bond by their obligations of confidentiality and other obligations hereunder.

13.7 Remedies. Expiration or termination of this Agreement shall not preclude either Party from claiming any other damages, compensation or other remedies available at law that it may be entitled to upon such expiration or termination.

13.8 Rights in Bankruptcy. The occurrence of an Insolvency Event in respect of Pacira, will not, in itself, impact either Party's license under this Agreement, nor adversely impact the right of Pacira to receive royalties or milestones. All rights and licenses granted under or pursuant to this Agreement by a Party to the other Party are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code, licenses of right to "intellectual property" as defined under the U.S. Bankruptcy Code. The Parties agree that each Party, as licensee of such rights under this Agreement, shall retain and may fully exercise all of its rights and elections under the U.S. Bankruptcy Code. The Parties further agree that, in the event of the commencement of a bankruptcy proceeding by or against a Party under the U.S. Bankruptcy Code (the "Party subject to such proceeding"), the other Party (the "non-subject Party") shall be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property and all embodiments of such intellectual property, shall be promptly delivered to the non-subject Party (i) upon any such commencement of a bankruptcy proceeding upon the non-subject Party's written request therefor, unless the Party subject to such proceeding elects to continue to perform all of its obligations under this Agreement, or (ii) if not delivered under (i) above, following the rejection of this Agreement by or on behalf of the Party subject to such proceeding upon written request therefor by the non-subject Party. In addition, in the event this Agreement is rejected by the trustee (or similar person) during a Pacira Insolvency Event, then the license granted by Novo Nordisk to Pacira under Section 2.3(a) shall

automatically terminate. Novo Nordisk agrees that in consideration of the rights granted under the license set forth in Section 2.1 it will pay to Pacira all royalty and milestone payments which would have been payable under this Agreement by Novo Nordisk in respect of the exercise of its rights under the license granted in this Agreement. The provisions of this Section 13.8 are without prejudice to any rights that a Party may have arising under any applicable insolvency statute or other applicable law.

13.9. Surviving Provisions. The provisions of Sections 2.3(b), 4.4 through 4.6 (to the extent that any amounts are due but unpaid hereunder), 8.1, 8.2, 8.5, 8.6, 9.1, 9.2, 9.4, 11.4, 11.5, 13.2 (as it relates to effects of termination only), 13.4 (last sentence only), 13.6 through 13.9, and Articles 3 (to the extent that any amounts are due but unpaid hereunder), 10, 12 and 14, shall survive the expiration or termination of this Agreement in accordance with their terms; provided that, without limiting the generality of Section 13.6(a) above, if Novo Nordisk terminates this Agreement under Section 13.4 for material breach, then Sections 2.1 (subject to Section 13.6(a)(ii) above), 2.7, 2.9, 3, 6.3 through 6.6, 9.3, 9.5, 9.6, 9.7 and 9.9 shall also survive.

14. Miscellaneous Provisions

14.1 Dispute Resolution. Except for JSC disputes (which shall be resolved pursuant to Section 5.3), each Party shall have the right to refer a dispute, controversy or claim in connection with this Agreement including without limitation if related to compliance with the terms of the Agreement, or the validity, breach, termination or interpretation of the Agreement, to the senior management within each Party for resolution. The senior management shall have thirty (30) days in which to meet in good faith to resolve the dispute, controversy or claim. If the senior management of the Parties are unable to resolve the matter within [**] days, the dispute, controversy or claim, shall be submitted promptly to the Chief Executive Officer of Pacira or its delegate and either the Chief Science Officer or the Chief Operating Officer of Novo Nordisk or their delegate for resolution. If one Party does not comply with the above, or such senior officers are unable to resolve the dispute, controversy or claim within [**] days, the dispute, controversy or claim shall be resolved as set forth in Section 14.2.

14.2 Governing Law; Waiver of Jury Trial. This Agreement shall be governed in all respects by the laws of the State of New York, USA, without regard to its choice of law provisions. Except for JSC disputes (which shall be resolved pursuant to Section 5.3), any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby which cannot be resolved pursuant to Section 14.2, shall be brought in the Federal court sitting in Manhattan, New York, New York, USA, and each of the Parties hereby irrevocably consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by

law, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. THE PARTIES AGREE THAT THEIR DISPUTES SHALL BE RESOLVED BY A JUDGE AND EACH PARTY WAIVES ANY RIGHT IT MAY HAVE TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, CROSS-CLAIM, COUNTERCLAIM, ASSERTED BY ONE PARTY AGAINST THE OTHER PARTY.

14.3 Equitable Relief. Each Party hereto acknowledges that the remedies at law of the other Party for a breach or threatened breach of this Agreement would be inadequate and, in recognition of this fact, any Party to this Agreement, without posting any bond, and in addition to all other remedies that may be available, shall be entitled to seek equitable relief in the form of specific performance, a temporary restraining order, a temporary or permanent injunction or any other equitable remedy in a court of competent jurisdiction that may then be available.

14.4 Entire Agreement; Modification. This Agreement (including the Exhibits hereto) and (subject to finalization of terms pursuant to Section 4.8) the Quality Agreement constitute both a final expression of the Parties' agreement and a complete and exclusive statement with respect to all of its respective terms. This Agreement supersedes all prior and contemporaneous agreements and communications, whether oral, written or otherwise, concerning any and all matters contained herein, including the Confidentiality Agreement, the Feasibility Agreement and the term sheet, dated [**], between the Parties. No trade customs, courses of dealing or courses of performance by the Parties shall be relevant to modify, supplement or explain any term(s) used in this Agreement. In the event of any inconsistency or conflict between the terms of this Agreement and the Quality Agreement, the terms of this Agreement shall govern. This Agreement may not be modified or supplemented by any purchase order, change order, acknowledgment, order acceptance, standard terms of sale, invoice or the like. This Agreement may only be modified or supplemented in a writing and signed by the Parties to this Agreement.

14.5 Relationship Between the Parties. The Parties' relationship, as established by this Agreement, is solely that of independent contractors. This Agreement does not create any partnership, joint venture or similar business relationship between the Parties. Neither Party is a legal representative of the other Party; neither Party can assume or create any obligation, representation, warranty or guarantee, express or implied, on behalf of the other Party for any purpose whatsoever.

14.6 Non-Waiver. The failure of a Party to insist upon strict performance of any provision of this Agreement or to exercise any right arising out of this Agreement shall neither impair that provision or right nor constitute a waiver of that provision or right, in whole or in part, in that instance or in any other instance. Any waiver by a Party of a particular provision or right shall be in writing, shall be as to a particular matter and, if applicable, for a particular period of time and shall be signed by such Party.

14.7 Assignment. Except as expressly provided hereunder, neither this Agreement nor any rights or obligations hereunder may be assigned or otherwise transferred by either Party without the prior written consent of the other Party (which consent shall not be unreasonably withheld); provided, however, that (a) either Party may assign this Agreement, and its rights and obligations hereunder, to an Affiliate, provided that such Party shall remain liable and responsible to the other Party for the performance and observance of all such duties and obligations by such Affiliate; and (b) either Party may assign this Agreement, and its rights and obligations hereunder, to a Third Party in connection with the transfer or sale of all or substantially all of the business of such Party to which this Agreement relates, whether by merger, sale of stock, sales of assets or otherwise, provided that the assigning Party shall remain liable and responsible to the non-assigning Party for the performance and observance of all such duties and obligations by such Third Party. The rights and obligations of the Parties under this Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Parties. Any assignment not in accordance with this Agreement shall be void.

14.8 No Third Party Beneficiaries. This Agreement is neither expressly nor impliedly made for the benefit of any party other than those executing it.

14.9 Severability. If, for any reason, any part of this Agreement is adjudicated invalid, unenforceable or illegal by a court of competent jurisdiction, such adjudication shall not affect or impair, in whole or in part, the validity, enforceability or legality of any remaining portions of this Agreement. All remaining portions shall remain in full force and effect as if the original Agreement had been executed without the invalidated, unenforceable or illegal part.

14.10 Notices. Any notice to be given under this Agreement must be in writing and delivered either (a) in person, (b) by any method of mail (postage prepaid) requiring return receipt, (c) by overnight courier confirmed thereafter to the Party to be notified at its address(es) given below, or at any address such Party has previously designated by prior written notice to the other, or (d) by sending it by facsimile to the facsimile number of the other Party as stated below. Notice shall be deemed sufficiently given for all purposes upon the earlier of: (x) the date of actual receipt; (y) if mailed, five business days after the date of postmark; or (z) if delivered by overnight courier, the next business day the overnight courier regularly makes deliveries.

If to Novo Nordisk, notices must be addressed to:

Novo Nordisk A/S
Novo Allé

2880 Bagsvaerd
Denmark
Attn: Head of Business Development

With a copy to: Novo Nordisk A/S

Novo Allé
2880 Bagsvaerd
Denmark
Attn: General Counsel

If to Pacira, notices must be addressed to:

Pacira Pharmaceuticals, Inc.
10450 Science Center Drive
San Diego, California 92121
U.S.A.
Attention: Chief Executive Officer
Facsimile: (858) 625-2439

With a copy to:

WilmerHale LLP
399 Park Avenue
New York, New York 10022
U.S.A.
Attention: Steven D. Singer, Esq.
Facsimile: (212) 230 8888

14.11 Force Majeure. Except for the obligation to make payment when due, each Party shall be excused from liability for the failure or delay in performance of any obligation under this Agreement by reason of any event beyond such Party's reasonable control including but not limited to Acts of God, fire, flood, explosion, earthquake, or other natural forces, war, civil unrest, accident, destruction or other casualty, any lack or failure of transportation facilities, any lack or failure of supply of raw materials, any strike or labor disturbance, or any other event similar to those enumerated above. Such excuse from liability shall be effective only to the extent and duration of the event(s) causing the failure or delay in performance and provided that the Party has not caused such event(s) to occur. Notice of a Party's failure or delay in performance due to force majeure must be given to the other Party within ten days after its occurrence. All delivery dates under this Agreement that have been affected by force majeure shall be tolled for the duration of such force majeure.

14.12 No Use of Names. Except as otherwise provided herein, nothing contained in this Agreement shall be construed as conferring any right on either Party to use in advertising, publicity or other promotional activities any name, trade name, trademark or other designation of the other Party, including any contraction, abbreviation or simulation of any of the foregoing, unless the express written permission of such other Party has been obtained.

14.13 Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original document, and all of which, together with this writing, shall be deemed one instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement.

Pacira Pharmaceuticals, Inc.

By:

/s/ David M. Stack

Name: David M. Stack
Title: President and Chief Executive Officer
Date: January 14, 2011

Novo Nordisk A/S

By:

/s/ Peter Kurtzhals

Name: Peter Kurtzhals
Title: Senior Vice President, Diabetes Research Unit
Date: 14-Jan, 2011

Exhibit A

Licensed Patents
(as of the Effective Date)

COUNTRY	SERIAL#	PATENT#

Confidential Materials omitted and filed separately with the Securities and Exchange Commission. A total of two pages were omitted.
[**]

Exhibit B

Novo Nordisk Competitors

[**]

Exhibit C

Existing Third Party License

[**]

Exhibit D

Exceptions to Certain Representations and Warranties

Exception to Section 11.2(c):

Pursuant to a Loan and Security Agreement and an IP Security Agreement, each dated November 24, 2010, with Hercules Technology Growth Capital, Inc. and Hercules Technology III, L.P. (the "Borrowers"), a security interest is granted to the Borrowers in all of Pacira's and its Affiliate's personal property now owned or hereafter acquired, including, without limitation, all intellectual property.

Exhibit E

Novo Nordisk A/S' Invoicing Instructions

In order to ensure timely settlement of invoices, you are kindly requested to observe the below guidelines when sending invoices or credit notes to Novo Nordisk.

All invoices should be sent to:
[**]

[**]

All invoices must include the following information:

[**]

Exhibit 23.1

Consent of Independent
Registered Public Accounting Firm

We consent to the inclusion in Amendment No. 4 to the Registration Statement on Form S-1 (File No. 333-170245) of Pacira Pharmaceuticals, Inc. of our report, which includes an explanatory paragraph relating to Pacira Pharmaceuticals, Inc.'s ability to continue as a going concern, dated November 1, 2010, except for the effects of the matters discussed in Note 1 ("Correction of Immaterial Errors") which are as of December 3, 2010 and ("Reverse Stock Split") which are as of January 12, 2011, on our audits of the consolidated financial statements of Pacira Pharmaceuticals, Inc. as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009. We also consent to the references to our firm under the captions "Experts" and "Selected Consolidated Financial Data."

/s/ J.H. Cohn LLP

Roseland, New Jersey
January 19, 2011