

Pacira Pharmaceuticals, Inc.  
Form 10-Q  
April 30, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

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

For the transition period from     to

Commission File Number: 001-35060

PACIRA PHARMACEUTICALS, INC.  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 23, 2015, 36,443,244 shares of the registrant’s common stock, \$0.001 par value per share, were outstanding.

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PACIRA PHARMACEUTICALS, INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2015

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## PART I — FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

PACIRA PHARMACEUTICALS, INC.  
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share amounts)

	March 31, 2015	December 31, 2014 (Note 2)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$40,897	\$ 37,520
Restricted cash	—	1,509
Short-term investments	113,989	119,138
Accounts receivable, net	24,511	22,366
Inventories, net	36,264	29,263
Prepaid expenses and other current assets	4,089	4,461
Total current assets	219,750	214,257
Long-term investments	19,938	24,431
Fixed assets, net	67,206	60,632
Goodwill	25,381	23,761
Intangibles, net	323	403
Other assets	2,432	2,588
Total assets	\$335,030	\$ 326,072
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$5,565	\$ 6,758
Accrued expenses	25,296	28,311
Convertible senior notes	104,135	103,100
Current portion of royalty interest obligation	—	276
Current portion of deferred revenue	1,426	1,426
Income taxes payable	31	139
Total current liabilities	136,453	140,010
Deferred revenue	9,152	9,508
Other liabilities	5,404	5,409
Total liabilities	151,009	154,927
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, par value \$0.001; 5,000,000 shares authorized, none issued and outstanding at	—	—
March 31, 2015 and December 31, 2014		
Common stock, par value \$0.001, 250,000,000 shares authorized; 36,343,731 shares issued and		
outstanding at March 31, 2015; 36,150,620 shares issued and outstanding at	36	36
December 31, 2014		
Additional paid-in capital	492,898	481,334

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Accumulated deficit	(308,885	) (310,145	)
Accumulated other comprehensive loss	(28	) (80	)
Total stockholders' equity	184,021	171,145	
Total liabilities and stockholders' equity	\$335,030	\$ 326,072	

See accompanying condensed notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Net product sales	\$57,086	\$35,742
Collaborative licensing and development revenue	356	252
Royalty revenue	874	668
Total revenues	58,316	36,662
Operating expenses:		
Cost of goods sold	17,580	18,127
Research and development	5,967	5,204
Selling, general and administrative	31,428	22,589
Total operating expenses	54,975	45,920
Income (loss) from operations	3,341	(9,258 )
Other (expense) income:		
Interest income	155	42
Interest expense	(1,996 )	(2,107 )
Royalty interest obligation	(71 )	(120 )
Other, net	(117 )	(34 )
Total other expense, net	(2,029 )	(2,219 )
Income (loss) before income taxes	1,312	(11,477 )
Income tax expense	(52 )	—
Net income (loss)	\$1,260	\$(11,477 )
Net income (loss) per share:		
Basic and diluted net income (loss) per common share	\$0.03	\$(0.34 )
Weighted average common shares outstanding:		
Basic	36,235	33,711
Diluted	41,779	33,711

See accompanying condensed notes to consolidated financial statements.

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

(Unaudited)  
 (In thousands)

	Three Months Ended		
	March 31,		
	2015	2014	
Net income (loss)	\$1,260	\$(11,477	)
Other comprehensive income:			
Net unrealized gain on investments	52	—	
Total other comprehensive income	52	—	
Comprehensive income (loss)	\$1,312	\$(11,477	)

See accompanying condensed notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2015

(Unaudited)  
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)		Total
	Shares	Amount					
Balances at December 31, 2014	36,151	\$36	\$481,334	\$(310,145 )	\$(80 )		\$171,145
Exercise of stock options	193	—	4,047	—	—		4,047
Stock-based compensation	—	—	7,517	—	—		7,517
Net unrealized gain on investments	—	—	—	—	52		52
Net income	—	—	—	1,260	—		1,260
Balances at March 31, 2015	36,344	\$36	\$492,898	\$(308,885 )	\$(28 )		\$184,021

See accompanying condensed notes to consolidated financial statements.



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CONSOLIDATED STATEMENTS OF CASH FLOWS(Unaudited)  
(In thousands)

	Three Months Ended March 31,	
	2015	2014
Operating activities:		
Net income (loss)	\$1,260	\$(11,477 )
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation of fixed assets and amortization of intangibles	2,743	2,603
Amortization of unfavorable lease obligation and debt issuance costs	122	122
Amortization of debt discount	1,035	1,035
Loss on disposal of fixed assets	—	8
Stock-based compensation	7,517	3,975
Changes in operating assets and liabilities:		
Restricted cash	1,509	1,633
Accounts receivable, net	(2,145 )	(1,379 )
Inventories	(7,001 )	193
Prepaid expenses and other current assets	372	237
Accounts payable and accrued expenses	(4,316 )	(1,531 )
Royalty interest obligation	(276 )	(181 )
Other liabilities	29	278
Deferred revenue	(356 )	(252 )
Net cash provided by (used in) operating activities	493	(4,736 )
Investing activities:		
Purchases of fixed assets	(9,237 )	(3,808 )
Purchases of short-term investments	(49,937 )	(18,946 )
Sales of short-term investments	59,631	32,772
Payment of contingent consideration	(1,620 )	(999 )
Net cash provided by (used in) investing activities	(1,163 )	9,019
Financing activities:		
Proceeds from exercise of stock options	4,047	1,964
Net cash provided by financing activities	4,047	1,964
Net increase in cash and cash equivalents	3,377	6,247
Cash and cash equivalents, beginning of period	37,520	12,515
Cash and cash equivalents, end of period	\$40,897	\$18,762
Supplemental cash flow information:		
Cash paid for interest, including royalty interest obligation	\$2,297	\$2,251
Cash paid for income taxes	\$160	\$—

See accompanying condensed notes to consolidated financial statements.

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PACIRA PHARMACEUTICALS, INC.  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1—DESCRIPTION OF BUSINESS

Pacira Pharmaceuticals, Inc. and its subsidiaries (collectively, the “Company” or “Pacira”) is a specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products, based on its proprietary DepoFoam® extended release drug delivery technology, primarily for use in hospitals and ambulatory surgery centers. The Company’s lead product, EXPAREL®, which consists of bupivacaine encapsulated in DepoFoam, was approved by the United States Food and Drug Administration, or FDA, on October 28, 2011 and launched commercially in April 2012. DepoFoam is also the basis for the Company’s other FDA-approved commercial product, DepoCyt(e), which the Company manufactures for its commercial partners.

Pacira is subject to risks common to companies in similar industries and stages of development, including, but not limited to, competition from larger companies, reliance on revenue from few customers and products, reliance on a single manufacturing site, new technological innovations, dependence on key personnel, reliance on third-party service providers and sole source suppliers, protection of proprietary technology and compliance with government regulations.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America, or GAAP, and in accordance with the rules and regulations of the Securities and Exchange Commission for interim reporting. Pursuant to these rules and regulations, certain information and footnote disclosures normally included in complete annual financial statements have been condensed or omitted. Income taxes payable have been reclassified to conform to the current presentation. Therefore, these interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

The consolidated financial statements at March 31, 2015, and for the three months ended March 31, 2015 and 2014, are unaudited, but include all adjustments (consisting of only normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial information set forth herein in accordance with GAAP. The balance sheet as of December 31, 2014 has been derived from the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

Concentration of Major Customers

The Company’s customers are national and regional wholesalers of pharmaceutical products as well as commercial, collaborative and licensing partners. The Company sells EXPAREL through a drop-ship program under which orders are processed through wholesalers (including AmerisourceBergen Health Corporation, Cardinal Health, Inc. and

McKesson Drug Company), but shipments of the product are sent directly to individual accounts, such as hospitals, ambulatory surgery centers and individual doctors. The table below includes the percentage of revenue comprised by the Company's three largest customers (i.e., wholesalers or commercial partners) in each period presented:

	Three Months Ended	
	March 31,	
	2015	2014
Largest customer	29%	32%
Second largest customer	29%	29%
Third largest customer	28%	23%
	86%	84%

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## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2014-09, Revenue from Contracts with Customers, which requires that an entity recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to its customers. In order to achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This update will replace existing revenue recognition guidance under GAAP when it becomes effective for the Company beginning January 1, 2017, with early adoption not permitted. The updated standard will permit the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the impact of this update on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. The update is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. The adoption of ASU 2015-03 is not expected to have a material impact on the Company's consolidated financial position.

## NOTE 3—INVENTORIES

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

	March 31, 2015	December 31, 2014
Raw materials	\$10,355	\$9,263
Work-in-process	12,511	8,617
Finished goods	13,398	11,383
Total	\$36,264	\$29,263

## NOTE 4—FIXED ASSETS

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

	March 31, 2015	December 31, 2014
Machinery and laboratory equipment	\$30,167	\$29,697
Computer equipment and software	3,932	3,754
Office furniture and equipment	1,001	1,001
Leasehold improvements	26,560	26,350
Construction in progress	28,323	19,944
Total	89,983	80,746
Less: accumulated depreciation	(22,777)	(20,114)
Fixed assets, net	\$67,206	\$60,632

For the three months ended March 31, 2015 and 2014, depreciation expense was \$2.7 million and \$2.1 million, respectively. For the three months ended March 31, 2015 and 2014, capitalized interest on the construction of manufacturing sites was \$0.2 million and \$0.1 million, respectively.

## NOTE 5—GOODWILL AND INTANGIBLE ASSETS

In March 2007, the Company acquired from SkyePharma Holding, Inc., or Skyepharma, its California operating subsidiary, referred to herein as the Acquisition. The Company's goodwill arose in April 2012 from a contingent milestone payment to Skyepharma in connection with the Acquisition. The Acquisition was accounted for under Statement of Financial Accounting Standards 141, Accounting for Business Combinations, which was the effective GAAP standard at the Acquisition date. In connection with the Acquisition, the Company agreed to certain earn-out payments based on a percentage of net sales

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of EXPAREL collected and certain other yet-to-be-developed products, as well as milestone payments for EXPAREL, as follows:

- (i) \$10.0 million upon the first commercial sale in the United States (met April 2012);
- (ii) \$4.0 million upon the first commercial sale in a major EU country (United Kingdom, France, Germany, Italy and Spain);
- (iii) \$8.0 million when annual net sales collected reach \$100.0 million (met September 2014);
- (iv) \$8.0 million when annual net sales collected reach \$250.0 million; and
- (v) \$32.0 million when annual net sales collected reach \$500.0 million.

The first milestone was met in April 2012, resulting in a \$10.0 million payment to Skyepharma. The Company recorded this payment net of a \$2.0 million contingent consideration liability recognized at the time of the Acquisition, resulting in \$8.0 million recorded as goodwill. In September 2014, the Company made an \$8.0 million milestone payment to Skyepharma in connection with achieving \$100.0 million of annual EXPAREL net sales collected. For purposes of meeting future milestone payments, annual net sales are measured on a rolling quarterly basis. Cumulatively through March 31, 2015, the Company has recorded an additional \$9.4 million as goodwill for earn-out payments which are based on a percentage of net sales of EXPAREL collected. Any remaining earn-out payments will also be treated as additional costs of the Acquisition and, therefore, recorded as goodwill if and when each contingency is resolved.

The change in the carrying value of goodwill is summarized as follows (in thousands):

	Carrying Value of Goodwill
Balance at December 31, 2014	\$23,761
Percentage payments on collections of net sales of EXPAREL	1,620
Balance at March 31, 2015	\$25,381

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

March 31, 2015	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net	Estimated Useful Life
Amortizable intangible assets:				
Core technology	\$2,900	\$(2,577)	) \$323	9 Years
Developed technology	11,700	(11,700)	) —	7 Years
Trademarks and trade names	400	(400)	) —	7 Years
Total intangible assets	\$15,000	\$(14,677)	) \$323	
December 31, 2014	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net	Estimated Useful Life
Amortizable intangible assets:				
Core technology	\$2,900	\$(2,497)	) \$403	9 Years
Developed technology	11,700	(11,700)	) —	7 Years
Trademarks and trade names				