

ALIMERA SCIENCES INC  
Form 10-Q  
November 03, 2017  
Table of Contents

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2017  
or

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: 001-34703

Alimera Sciences, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 20-0028718  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
6120 Windward Parkway, Suite 290 30005  
Alpharetta, GA  
(Address of principal executive offices) (Zip Code)  
(678) 990-5740  
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a)(2)(B) of the Exchange Act.

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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 November 2, 2017 there were 69,148,344 shares of the registrant's Common Stock issued and outstanding.

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Table of Contents

ALIMERA SCIENCES, INC.  
QUARTERLY REPORT ON FORM 10-Q  
INDEX

PART I. FINANCIAL INFORMATION

<u>Item 1. Interim Condensed Consolidated Financial Statements (unaudited)</u>	<u>4</u>
<u>Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016</u>	<u>4</u>
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2017 and 2016</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>46</u>

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>47</u>
<u>Item 1A. Risk Factors</u>	<u>47</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>48</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>48</u>
<u>Item 5. Other Information</u>	<u>48</u>
<u>Item 6. Exhibits</u>	<u>49</u>

---

Table of Contents

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

Various statements in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this report regarding Alimera Sciences, Inc.’s (we, our, Alimera or the Company) strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. These statements are subject to risks and uncertainties and are based on information currently available to our management. Words such as, but not limited to, “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “contemplates,” “predict,” “project,” “target,” “likely,” “potential,” “will,” “would,” “should,” “could,” or the negative of these terms and similar expressions or words, identify forward-looking statements. The events and circumstances reflected in our forward-looking statements may not occur and actual results could differ materially from those projected in our forward-looking statements. Meaningful factors which could cause actual results to differ include, but are not limited to:

uncertainty as to our ability to achieve profitability and positive cash flow through the commercialization of ILUVIEN® in the European Economic Area, the United States and other regions of the world where we sell ILUVIEN;

our ability to operate our business in compliance with the covenants and restrictions that we are subject to under our credit facility;

dependence on third-party manufacturers to manufacture ILUVIEN or any future products or product candidates in sufficient quantities and quality.

our ability to raise sufficient additional funding and our need to raise such funds;

uncertainty as to the pricing and reimbursement guidelines for ILUVIEN or any future products or product candidates, including ILUVIEN;

our ability to successfully commercialize ILUVIEN following regulatory approval in additional markets;

delay in or failure to obtain regulatory approval of ILUVIEN for non-infectious posterior uveitis or diabetic macular edema in additional countries or any future products or product candidates; and

the extent of government regulations.

All written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We caution investors not to rely too heavily on the forward-looking statements we make or that are made on our behalf. We undertake no obligation and specifically decline any obligation, to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in any annual, quarterly or current reports that we may file with the Securities and Exchange Commission.

We encourage you to read the discussion and analysis of our financial condition and our unaudited interim condensed consolidated financial statements contained in this report. We also encourage you to read Item 1A of Part II of this Quarterly Report on Form 10-Q entitled “Risk Factors” and Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which contains a more complete discussion of the risks and uncertainties associated with our business. In addition to the risks described above, other unknown or unpredictable factors also could affect our results. There can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us.

Therefore, no assurance can be given that the outcomes stated in such forward-looking statements and estimates will be achieved.

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. Interim Condensed Consolidated Financial Statements (unaudited)

## ALIMERA SCIENCES, INC.

## CONSOLIDATED BALANCE SHEETS

	September 30, 2017	December 31, 2016
	(In thousands, except share and per share data)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 25,624	\$ 30,979
Restricted cash	34	31
Accounts receivable, net	13,454	13,839
Prepaid expenses and other current assets	2,752	2,107
Inventory, net (Note 5)	1,738	446
Total current assets	43,602	47,402
<b>NON-CURRENT ASSETS:</b>		
Property and equipment, net	1,514	1,787
Intangible asset, net (Note 6)	19,153	20,604
Deferred tax asset	489	436
<b>TOTAL ASSETS</b>	<b>\$ 64,758</b>	<b>\$ 70,229</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 5,303	\$ 4,986
Accrued expenses (Note 7)	3,514	3,758
Derivative warrant liability	—	188
Capital lease obligations	187	191
Total current liabilities	9,004	9,123
<b>NON-CURRENT LIABILITIES:</b>		
Note payable (Note 9)	34,016	33,084
Capital lease obligations — less current portion	199	274
Other non-current liabilities	775	2,162
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value — 10,000,000 shares authorized at September 30, 2017 and December 31, 2016:		
Series A Convertible Preferred Stock, 1,300,000 authorized and 600,000 issued and outstanding at September 30, 2017 and December 31, 2016; liquidation preference of 19,227 \$24,000 at September 30, 2017 and December 31, 2016		19,227
Series B Convertible Preferred Stock, 8,417 authorized and 8,416.251 issued and outstanding at September 30, 2017 and December 31, 2016; liquidation preference of 49,568 \$50,750 at September 30, 2017 and December 31, 2016		49,568
Common stock, \$.01 par value — 150,000,000 shares authorized, 69,105,380 shares issued and outstanding at September 30, 2017 and 64,862,904 shares issued and outstanding at December 31, 2016	691	649
Additional paid-in capital	340,301	330,781
Common stock warrants	3,707	3,707
Accumulated deficit	(391,851	) (377,074
Accumulated other comprehensive loss	(879	) (1,272
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>20,764</b>	<b>25,586</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 64,758</b>	<b>\$ 70,229</b>

See Notes to Consolidated Financial Statements.

4

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Table of Contents

ALIMERA SCIENCES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except share and per share data)			
NET REVENUE	\$9,784	\$ 8,298	\$26,770	\$ 23,656
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,039 )	(486 )	(2,395 )	(1,420 )
GROSS PROFIT	8,745	7,812	24,375	22,236
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	5,420	3,261	9,768	9,486
GENERAL AND ADMINISTRATIVE EXPENSES	3,320	3,645	9,596	11,079
SALES AND MARKETING EXPENSES	6,002	7,452	16,564	22,071
DEPRECIATION AND AMORTIZATION	679	697	2,012	2,082
RECOVERABLE COLLABORATION COSTS	(2,851 )	—	(2,851 )	—
OPERATING EXPENSES	12,570	15,055	35,089	44,718
NET LOSS FROM OPERATIONS	(3,825 )	(7,243 )	(10,714 )	(22,482 )
INTEREST EXPENSE, NET AND OTHER	(1,431 )	(1,330 )	(4,152 )	(3,842 )
UNREALIZED FOREIGN CURRENCY LOSS, NET	(6 )	(51 )	(6 )	(31 )
CHANGE IN FAIR VALUE OF DERIVATIVE WARRANT LIABILITY	—	(588 )	188	1,755
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	—	—	(2,564 )
NET LOSS BEFORE TAXES	(5,262 )	(9,212 )	(14,684 )	(27,164 )
PROVISION FOR TAXES	(23 )	(33 )	(93 )	(84 )
NET LOSS	\$(5,285)	\$(9,245)	\$(14,777)	\$(27,248)
NET LOSS PER SHARE — Basic and diluted	\$(0.08)	\$(0.16)	\$(0.22)	\$(0.56)
WEIGHTED AVERAGE SHARES OUTSTANDING — Basic and diluted	68,430,856	66,103,534	66,272,691	48,759,381

See Notes to Consolidated Financial Statements.

Table of Contents

ALIMERA SCIENCES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
NET LOSS	\$(5,285)	\$(9,245)	\$(14,777)	\$(27,248)
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustments	118	30	393	79
TOTAL OTHER COMPREHENSIVE INCOME	118	30	393	79
COMPREHENSIVE LOSS	\$(5,167)	\$(9,215)	\$(14,384)	\$(27,169)

See Notes to Consolidated Financial Statements.



Table of Contents

ALIMERA SCIENCES, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

	Nine Months Ended September 30, 2017      2016 (In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(14,777)	\$(27,248)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,012	2,082
Inventory reserve	34	39
Unrealized foreign currency transaction loss	6	31
Loss on early extinguishment of debt	—	2,564
Amortization of debt discount	1,055	795
Stock-based compensation expense	3,703	3,753
Change in fair value of derivative warrant liability	(188	) (1,755 )
Changes in assets and liabilities:		
Accounts receivable	594	(3,564 )
Prepaid expenses and other current assets	(548	) (514 )
Inventory	(1,295	) 612
Accounts payable	98	(2,101 )
Accrued expenses and other current liabilities	(333	) 1,256
Other long-term liabilities	(1,528	) 1,354
Net cash used in operating activities	(11,167	) (22,696 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(234	) (122 )
Net cash used in investing activities	(234	) (122 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	1	157
Proceeds from sale of common stock	6,042	27,547
Payment of issuance cost of common stock	(183	) (1,227 )
Payment of debt costs	—	(715 )
Changes in restricted cash	(3	) —
Payment of capital lease obligations	(110	) (178 )
Net cash provided by financing activities	5,747	25,584
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	299	12
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,355	) 2,778
CASH AND CASH EQUIVALENTS — Beginning of period	30,979	31,075
CASH AND CASH EQUIVALENTS — End of period	\$25,624	\$33,853
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for interest	\$3,068	\$2,977
Cash paid for income taxes	\$66	\$299
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment acquired under capital leases	\$175	\$76
Common stock issuance costs accrued but unpaid	\$—	\$114
Note payable end of term payment accrued but unpaid	\$1,400	\$1,400
There were no dividend payments made during the nine months ended September 30, 2017 and 2016.		

See Notes to Consolidated Financial Statements.

7

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Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Alimera Sciences, Inc., together with its wholly-owned subsidiaries (the Company), is a pharmaceutical company that specializes in the commercialization and development of prescription ophthalmic pharmaceuticals. The Company was formed on June 4, 2003 under the laws of the State of Delaware.

The Company is presently focused on diseases affecting the back of the eye, or retina, because the Company's management believes these diseases are not well treated with current therapies and represent a significant market opportunity. The Company's only commercial product is ILUVIEN<sup>®</sup>, which has received marketing authorization in the United States (U.S.), Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden and the United Kingdom. In the U.S., ILUVIEN is indicated for the treatment of diabetic macular edema (DME) in patients who have been previously treated with a course of corticosteroids and did not have a clinically significant rise in intraocular pressure (IOP). In the European Economic Area (EEA) countries in which ILUVIEN has received marketing authorization, it is indicated for the treatment of vision impairment associated with DME considered insufficiently responsive to available therapies.

As part of the approval process in the EEA, the Company committed to conduct a five-year, post-authorization, open label registry study in 800 patients treated with ILUVIEN per the labeled indication. In the fourth quarter of 2016, the Company requested approval to modify its protocol to cap enrollment in the study due to its post market safety surveillance not showing any unexpected safety signals. The Company received regulatory approval to cap enrollment in the study from the Medicines & Healthcare products Regulatory Agency (MHRA) in July 2017. As of September 30, 2017, 562 patients were enrolled in this study.

The Company launched ILUVIEN in Germany and the United Kingdom in the second quarter of 2013, in the U.S. and Portugal in the first quarter of 2015. The Company began selling ILUVIEN in Austria in the first quarter of 2017 and the Company expects to begin sales of ILUVIEN in Ireland in the fourth quarter of 2017.

In addition, the Company has entered into various agreements under which distributors will provide regulatory, reimbursement or sales and marketing support for future commercialization of ILUVIEN in several countries in the Middle East, as well as France, Italy, Spain, Australia, New Zealand and Canada. In the third quarter of 2016, the Company's Middle East distributor launched ILUVIEN and initiated named patient sales in the United Arab Emirates. The Company's Italian distributor launched ILUVIEN in Italy in the second quarter of 2017. As of September 30, 2017, the Company has recognized sales of ILUVIEN to our distributors in the Middle East, Italy and Spain.

In July 2017, the Company amended its license with pSivida US, Inc. (pSivida) for the technology underlying ILUVIEN to include the treatment of uveitis, including non-infectious posterior uveitis (NIPU) in Europe, the Middle East and Africa (Note 8). Uveitis is an inflammatory disease of the uveal tract, which is comprised of the iris, ciliary body and choroid, that can lead to severe vision loss and blindness. The Company plans to file an application for a new indication for ILUVIEN for NIPU in the 17 EEA countries where ILUVIEN is currently approved for the treatment of DME.

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. BASIS OF PRESENTATION

The Company has prepared the accompanying unaudited interim condensed consolidated financial statements and notes thereto (Interim Financial Statements) in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial information and the instructions to Form 10-Q and Article 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of the Company's management, the accompanying Interim Financial Statements reflect all adjustments, which include normal recurring adjustments, necessary to present fairly the Company's interim financial information.

The Interim Financial Statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2016 and related notes included in the Company's Annual Report on Form 10-K, which was filed with the SEC on March 3, 2017. The financial results for any interim period are not necessarily indicative of the expected financial results for the full year.

Modification of Segment Footnote

The Company modified its segment footnote for the three and nine months ended September 30, 2016 for an immaterial change and removed, within the segment footnote, certain non-cash expenses including \$1,134,000 of stock-based compensation expense and \$697,000 of depreciation and amortization from the Company's U.S. and International segments for the three months ended September 30, 2016 and \$3,753,000 of stock-based compensation expense and \$2,082,000 of depreciation and amortization from the Company's U.S. and International segments for the nine months ended September 30, 2016. These amounts are appropriately classified as Other within the segment footnote of these Interim Financial Statements. Additionally, in the Company's Annual Report on Form 10-K filing for the year ended December 31, 2016, the Company disclosed that the Company's chief operating decision maker separately managed and evaluated each segment primarily upon net loss from operations. The modification made in these financial statements clarifies that the chief operating decision maker manages and evaluates each segment based on net loss from operations adjusted for certain non-cash items, such as stock-based compensation expense and depreciation and amortization.

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Financial Statements included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016.

Research and Development Expenses

Research and development expenses were \$3,299,000 and \$514,000 for the three months ended September 30, 2017 and 2016, respectively. Research and development expenses were \$3,652,000 and \$1,616,000 for the nine months ended September 30, 2017 and 2016, respectively. These research and development expenses do not include medical affairs expenses. Included in expenses for the three and nine months ended September 30, 2017, was a non-cash charge of \$2,851,000 for in-process Research and Development for the license of uveitis, including NIPU, in Europe, the Middle East and Africa, from pSivida (Note 8).

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies that are adopted by us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

Adoption of New Accounting Standards

In August 2014, the FASB issued Accounting Standards Update (ASU) 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. The adoption of this guidance did not have a material impact on the Company's financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This update requires entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those years. The adoption of this guidance did not have a material impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718). This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's financial statements.

Accounting Standards Issued but Not Yet Effective

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), as subsequently amended. ASU 2014-09 provides a single, comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017 for public entities, with early adoption permitted in the annual reporting period beginning after December 15, 2016. The Company is currently analyzing the effect of the standard to evaluate the impact of the new standard on its revenue recognition for customer contracts. This includes reviewing current accounting policies and

practices to identify potential differences that would result from applying the requirements under the new standard. The Company currently recognizes revenue upon shipment of products. The assessment at this stage is that the Company does not expect the adoption of the new revenue recognition standard to have a material impact on its financial statements. The Company has completed a preliminary review of its contracts with its customers and identified the variable consideration provisions of the new guidance as potentially having the most

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

impact on the Company's method of recognizing revenue. The Company will adopt the standard in the first quarter of 2018 using the modified retrospective method by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard requires all leases with durations greater than twelve months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018, although early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption on its financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company has evaluated the adoption on its financial statements and other than certain reclassifications within the Company's cash flow statements, the Company does not expect the impact of the adoption to have a material effect on its financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. ASU 2016-18 requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company does not expect the impact of the adoption to have a material effect on its financial statements.

#### 4. GOING CONCERN

The accompanying Interim Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Interim Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

To date, the Company has incurred recurring losses, negative cash flow from operations and has accumulated a deficit of \$391,851,000 from inception through September 30, 2017. As of September 30, 2017, the Company had approximately \$25,624,000 in cash and cash equivalents. The Company's ability to achieve profitability and positive cash flow is dependent upon its ability to increase revenue and contain its expenses.

Further, the Company must maintain compliance with the debt covenants of the Term Loan Agreement (as defined below) (Notes 9 and 17). For September 2017, the Consolidated Group did not meet the six-month revenue covenant required under the Term Loan Agreement. As a result, the Consolidated Group was required to demonstrate it had \$35,000,000 in liquidity (as defined in the Term Loan Agreement) as of the last business day in September 2017. On the last business day in September 2017, the Consolidated Group was not able to demonstrate it had \$35,000,000 in liquidity. However, the Consolidated Group was able to demonstrate that it had \$35,000,000 in liquidity on the business day immediately before the last business day in September 2017, the first business day in October 2017 and the last business day in October 2017. As a result, Hercules Capital, Inc. (Hercules) waived the Company's non-compliance with the \$35,000,000 liquidity requirement for September 2017.

During the nine months ended September 30, 2017, the Company raised \$6,001,000 of additional equity via the Company's at-the-market offering facility, which expired on August 13, 2017, in order to raise additional funds for operations and ensure compliance with its debt covenants. In management's opinion, the uncertainty regarding future revenues raises doubt about the Company's ability to continue as a going concern without access to alternate or additional debt or equity financing, over the course of the next twelve months.

In order to meet the Company's working capital needs through the next twelve months and maintain compliance with its debt covenants, the Company may need to raise alternate or additional debt or equity financing. The Company implemented a cost savings program in late 2016 that the Company believes will help decrease cash burn over the

next twelve months. While the Company has historically been able to raise additional capital through issuance of equity and/or debt financing, and while the Company has a plan in place to reduce spending in order to satisfy its obligations due within one year from the date of issuance of these financial statements, there can be no guarantees on the Company's ability to maintain debt compliance, raise additional equity, or successfully implement its cost reduction plans. Accordingly, there is substantial doubt about the Company's ability to continue as a going concern within one year after these financial statements are issued.



Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 5. INVENTORY

Inventory consisted of the following:

	September 30, 2017	December 31, 2016
	(In thousands)	
Component parts (1)	\$ 687	\$ 115
Work-in-process (2)	308	18
Finished goods	743	353
Total inventory	1,738	486
Inventory reserve	—	(40 )
Inventory — net	\$ 1,738	\$ 446

(1) Component parts inventory consists of manufactured components of the ILUVIEN applicator.

(2) Work-in-process primarily consists of completed units of ILUVIEN that are undergoing, but have not completed, quality assurance testing or stability testing as required by regulatory authorities in Europe and the U.S.

## 6. INTANGIBLE ASSET

As a result of the U.S. Food and Drug Administration's (FDA) approval of the New Drug Application (NDA) for ILUVIEN in September 2014, the Company was required to pay pSivida a milestone payment of \$25,000,000 (the pSivida Milestone Payment) in October 2014. The Company had no intangible assets prior to September 2014.

The gross carrying amount of the intangible asset is \$25,000,000, which is being amortized over approximately 13 years from the payment date. The amortization expense related to the intangible asset was \$489,000 for the three months ended September 30, 2017 and 2016, respectively. The amortization expense related to the intangible asset was \$1,451,000 and \$1,457,000 for the nine months ended September 30, 2017 and 2016, respectively. The net book value of the intangible asset was \$19,153,000 and \$20,604,000 as of September 30, 2017 and December 31, 2016, respectively.

The estimated future amortization expense as of September 30, 2017 for the remaining periods in the next five years and thereafter is as follows:

Years Ending December 31	(In thousands)
2017	\$ 489
2018	1,940
2019	1,940
2020	1,946
2021	1,940
Thereafter	10,898
Total	\$ 19,153

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 7. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	September 30, 2017	December 31, 2016
	(In thousands)	
Accrued clinical investigator expenses	\$556	\$ 1,122
Accrued compensation expenses	514	1,020
Accrued rebate, chargeback and other revenue reserves	300	809
Accrued End of Term Payment (Note 9)	1,400	—
Other accrued expenses	744	807
Total accrued expenses	\$3,514	\$ 3,758

## 8. LICENSE AGREEMENTS

## pSivida Agreement

The Company entered into an agreement with pSivida for the use of fluocinolone acetonide (FAC) in pSivida's proprietary delivery device in February 2005, which was subsequently amended a number of times (as amended, the pSivida Agreement). The pSivida Agreement provides the Company with a worldwide exclusive license to utilize certain underlying technology used in the development and commercialization of ILUVIEN.

## 2008 Amended and Restated Collaboration Agreement

Pursuant to the payment terms of the 2008 Amended and Restated Agreement (the 2008 Agreement), the Company was required to share 20% of the net profits of ILUVIEN, determined on a cash basis and 33% of any lump sum milestone payments received from a sub-licensee of ILUVIEN, as defined by the 2008 Agreement. In connection with the 2008 Agreement, the Company was entitled to recover 20% of commercial losses associated with ILUVIEN, as defined in the pSivida Agreement, that could be offset in any future quarter out of payments of pSivida's share of net profits (the Future Offset). As of December 31, 2016, the total Future Offsets available to reduce future net profit payments to pSivida, as defined in the 2008 Agreement, was \$24,475,000. In connection with the New Collaboration Agreement discussed below, the Company and pSivida agreed to cap the Future Offset amount at June 30, 2017 to \$25,000,000. The Future Offset was not previously reflected on the Company's balance sheet due to the uncertainty of future realizability.

## May 2017 Amendment

In the second quarter of 2016, pSivida disputed portions of the Company's claimed commercialization costs for the year ended December 31, 2014. On May 3, 2017, the Company and pSivida settled this dispute and amended and clarified certain definitions and clauses of the 2008 Agreement. As part of this settlement, the Company and pSivida agreed no additional amounts would be due for the year ended December 31, 2014 and effectively no audits would occur for the years ended December 31, 2015 and 2016. As a result of this settlement and amendment, Future Offsets was reduced from \$25,828,000 to \$24,475,000 as of December 31, 2016.

## New Collaboration Agreement - Second Amended and Restated Collaboration Agreement

On July 10, 2017, the Company and pSivida entered into a Second Amended and Restated Collaboration Agreement (the New Collaboration Agreement), which amends and restates the pSivida Agreement.

Prior to entering into the New Collaboration Agreement, the Company held the worldwide license from pSivida for the use of FAC in pSivida's proprietary delivery device for the treatment of all ocular diseases other than uveitis. The New Collaboration Agreement expands the license to include uveitis, including NIPU, in Europe, the Middle East and Africa and allows the Company to also pursue an indication for posterior uveitis for ILUVIEN in those territories.

The New Collaboration Agreement converts the Company's obligation to share 20% of its net profits to a royalty payable on global net revenues of ILUVIEN. The Company will begin paying a 2% royalty on net revenues and other related consideration to pSivida beginning effective July 1, 2017. This royalty amount will increase to 6% upon the

earliest of January 1, 2019, the receipt of the first marketing approval for ILUVIEN for the treatment of NIPU, or one year from the Company's filing of a marketing authorization application in the EU for NIPU. The Company will pay an additional 2% royalty on global

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

net revenues and other related consideration in excess of \$75,000,000 in any year. During the three months ended September 30, 2017, the Company recognized approximately \$196,000 of royalty expense, which is included in cost of goods sold, excluding depreciation and amortization, due to this royalty. As of September 30, 2017, this amount was included in the Company's accounts payable.

The New Collaboration Agreement did not require an upfront cash payment by the Company. In connection with the New Collaboration Agreement, the Company agreed to forgive \$10,000,000 of the total \$25,000,000 of the Future Offset at the amendment date. Following the signing of the New Collaboration Agreement, the Company retains a right to recover up to the remaining \$15,000,000 of the Future Offset. The Company will be able to recover up to \$15,000,000 as a reduction of future royalties as follows:

In the first two years following the increase in royalty amount to 6%, the royalty will be reduced to 4% for net revenues and other related consideration up to \$75,000,000 annually and 5% for net revenues and other related consideration in excess of \$75,000,000 on an annual basis; and

Beginning with the third year following the increase in royalty amount to 6%, the royalty will be reduced to 5.2% for net revenues and other related consideration up to \$75,000,000 annually and to 6.8% for net revenues and other related consideration in excess of \$75,000,000 on an annual basis.

The Company will forgive up to \$5,000,000 of the remaining \$15,000,000 of Future Offsets upon the earlier of the approval of ILUVIEN for posterior uveitis in any EU country or January 1, 2020, unless certain conditions under the New Collaboration Agreement are not met. If the amounts recoverable by the Company associated with the Future Offsets are less than \$5,000,000 at that time, the Company will pay pSivida the difference in cash.

The Company valued the transaction utilizing a present value analysis at approximately \$2,851,000. Because there was no approved indication for ILUVIEN for uveitis at the time, the Company expensed the \$2,851,000 as a non-cash charge as in-process Research and Development Expense in the third quarter of 2017. The Company also recognized \$2,851,000 for Recoverable Collaboration Costs for the value of the right of offset as a reduction of operating expenses. As a result, there was no impact on the Company's operating loss or net loss for the three and nine months ended September 30, 2017.

General Discussion of pSivida Agreement

The Company's license rights to pSivida's proprietary delivery device could revert to pSivida if the Company were to (i) fail twice to cure its breach of an obligation to make certain payments to pSivida following receipt of written notice thereof; (ii) fail to cure other breaches of material terms of the pSivida Agreement within 30 days after notice of such breaches or such longer period (up to 90 days) as may be reasonably necessary if the breach cannot be cured within such 30-day period; (iii) file for protection under the bankruptcy laws, make an assignment for the benefit of creditors, appoint or suffer appointment of a receiver or trustee over its property, file a petition under any bankruptcy or insolvency act or have any such petition filed against it and such proceeding remains undismissed or unstayed for a period of more than 60 days; or (iv) notify pSivida in writing of its decision to abandon its license with respect to a certain product using pSivida's proprietary delivery device.

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 9. LOAN AGREEMENTS

## Hercules Loan Agreement

## 2014 Loan Agreement

In April 2014, Limited, a subsidiary of the Company, entered into a loan and security agreement (2014 Loan Agreement) with Hercules providing for a term loan of up to \$35,000,000 (2014 Term Loan), which Limited and Hercules amended in November 2015 (the First Loan Amendment), March 2016 (the Second Loan Amendment), May 2016 (the Third Loan Amendment), October 2016 (the Fourth Loan Amendment) and May 2017 (the Fifth Loan Amendment and, collectively with the 2014 Loan Agreement, the First Loan Amendment, the Second Loan Amendment, the Third Loan Amendment and the Fourth Loan Amendment, the Term Loan Agreement). Under the 2014 Loan Agreement, Hercules made an advance in the initial principal amount of \$10,000,000 to Limited at closing to provide Limited with additional working capital for general corporate purposes and to repay a 2013 term loan with Silicon Valley Bank. Hercules made an additional advance of \$25,000,000 to Limited in September 2014, following the approval of ILUVIEN by the FDA to fund the pSivida Milestone Payment. The 2014 Loan Agreement provided for interest only payments through November 2015. Interest on the 2014 Term Loan accrued at a floating per annum rate equal to the greater of (i) 10.90%, or (ii) the sum of (A) 7.65%, plus (B) the prime rate. Following the interest only period the 2014 Term Loan was due and payable to Hercules in equal monthly payments of principal and interest through May 1, 2018.

## First Loan Amendment

In November 2015, Limited and Hercules amended the 2014 Loan Agreement to extend the interest only payments through May 2017. In connection with the First Loan Amendment, Limited paid to Hercules an amendment fee of \$262,500 and agreed to make an additional payment of \$1,050,000, equal to 3% of the 2014 Term Loan at the time of the final payment (End of Term Payment).

Limited and the Company, on a consolidated basis with the Company's other subsidiaries (the Consolidated Group), agreed to customary affirmative and negative covenants and events of default in connection with these arrangements. The occurrence of an event of default could result in the acceleration of Limited's obligations under the Term Loan Agreement and an increase to the applicable interest rate and would permit Hercules to exercise remedies with respect to the collateral under the Term Loan Agreement. In connection with the First Loan Amendment, Limited agreed to covenants regarding certain revenue thresholds and a liquidity threshold.

## Second Loan Amendment

In January 2016, the revenue threshold covenant was not met by the Consolidated Group and as a result, in March 2016, Limited and Hercules entered into the Second Loan Amendment, which further amended certain terms of the 2014 Loan Agreement. In conjunction with the Second Loan Amendment, Hercules waived this covenant violation. The Second Loan Amendment adjusted the revenue covenant to a rolling three-month calculation, first measured for the three months ended May 31, 2016. In addition, the Second Loan Amendment increased the liquidity covenant. Upon execution of the Second Loan Amendment, Limited paid Hercules an amendment fee of \$350,000 and agreed to increase the End of Term Payment to \$1,400,000 from \$1,050,000, which is payable in May 2018.

The Company concluded that the Second Loan Amendment resulted in a substantial modification of the terms of debt when considered with the First Loan Amendment in accordance with the guidance in ASC 470-50, Debt. As a result, the Company accounted for the Second Loan Amendment as an extinguishment and recognized a loss on early extinguishment of debt of approximately \$2,564,000 within the consolidated statement of operations for the year ended December 31, 2016. The loss on early extinguishment consisted primarily of the unamortized debt discount associated with the warrant and debt issuance costs incurred prior to the Second Loan Amendment, the incremental fair value of the warrant as a result of modifying the terms of the warrant and the debt issuance costs of \$360,000 paid to Hercules for the Second Loan Amendment.

## Third Loan Amendment and July 2016 Waiver

In May 2016, Limited and Hercules entered into the Third Loan Amendment to expand the definition of liquidity to allow for the inclusion of cash of up to \$2,000,000 in bank accounts outside of the U.S. and the United Kingdom.

In July 2016, Limited obtained a waiver of the requirements of the liquidity covenant (the Waiver) because the Consolidated Group was not in compliance with the liquidity covenant as of June 30, 2016. The Waiver cured the default of the liquidity covenant then existing under the Term Loan Agreement and decreased the liquidity requirement. In addition, the

15

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Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Waiver modified the three-month revenue covenant so that it was not measured at July 31, 2016 and reduced the three-month revenue target to be measured at August 31, 2016. Following execution of the Waiver, Limited incurred a weekly ticking fee equal to 0.05% multiplied by the outstanding principal amount through the closing of the Company's public offering in August 2016 (Note 12), totaling \$65,000. Further, Limited paid Hercules a fee of \$350,000 associated with the Waiver.

**Fourth Loan Amendment**

In October 2016, Limited entered into the Fourth Loan Amendment with Hercules, which further amended certain terms of the Term Loan Agreement. Pursuant to the terms of the Fourth Loan Amendment, Hercules agreed to provide up to an additional \$10,000,000 to Limited with (i) the first \$5,000,000 available at Limited's option through June 30, 2017 subject to (A) the Consolidated Group's achievement of \$12,000,000 in trailing three month net product revenue and (B) no event of default having occurred since October 20, 2016 (the Effective Date) and (ii) the second \$5,000,000 available at Limited's option through December 31, 2017 subject to (A) the Consolidated Group's achievement of \$15,000,000 in trailing three month net product revenue, (B) no event of default having occurred since the Effective Date and (C) the prior \$5,000,000 having been advanced to Limited (the Additional Advances and, together with the 2014 Term Loan, the Term Loan). The Consolidated Group did not achieve the trailing three month net product revenue threshold prior to June 30, 2017 and as a result the additional \$10,000,000 is not available to Limited.

The Fourth Loan Amendment provides for interest only payments through November 30, 2018 (the Interest-Only Period). Pursuant to the Fourth Loan Amendment, interest on the Term Loan accrues at a floating per annum rate equal the greater of (i) 11.0% and (ii) the sum of (A) 11.0% plus (B) the prime rate as reported in The Wall Street Journal, or if not reported, the prime rate most recently reported in The Wall Street Journal, minus 3.5%. In addition to the interest described above, the principal balance of the Term Loan will bear "payment-in kind" interest at the rate of 1.0% (PIK Interest), which PIK Interest will be added to the outstanding principal balance of the Term Loan so as to increase the outstanding principal balance of the Term Loan on each payment date for the Term Loan and which amount will be payable when the aggregate outstanding principal amount of the Term Loan is payable. The Term Loan will be due and payable to Hercules in 24 equal monthly payments of principal and interest following the Interest-Only Period beginning on December 1, 2018 and matures in full on November 1, 2020. The interest rate on the Term Loan Agreement was 11.75% as of September 30, 2017.

Limited paid Hercules a facility charge of \$337,500 and reimbursed Hercules for legal and diligence fees incurred in connection with the Fourth Loan Amendment. If Limited prepays the Term Loan, it will pay Hercules a prepayment penalty (i) if such amounts are prepaid in any of the first 12 months following the Effective Date, equal to 3.0% of the principal amount of the Term Loan being repaid, (ii) if such amounts are prepaid after 12 months but prior to 24 months following the Effective Date, equal to 2.0% of the principal amount of the Term Loan being repaid, and (iii) if such amounts are prepaid at any time thereafter, equal to 1.0% of the principal amount of the Term Loan being repaid. The Consolidated Group also agreed to customary affirmative and negative covenants, including, without limitation, covenants relating to minimum liquidity, minimum trailing six-month net revenue and adjusted EBITDA and events of default in connection with these arrangements. The occurrence of an event of default could result in the acceleration of Limited's obligations under the Term Loan Agreement, as amended by the Fourth Loan Amendment and an increase to the applicable interest rate and would permit Hercules to exercise remedies with respect to the collateral under the Term Loan Agreement, as amended by the Fourth Loan Amendment. In the event that the Company maintains \$35,000,000 in liquidity, including cash and eligible accounts receivable, at the end of the month and has not been and is not in breach of the amended debt facility, the six-month trailing revenue covenant is waived for such month.

**Fifth Loan Amendment**

In May 2017, Limited entered into the Fifth Loan Amendment with Hercules, which further amended and clarified certain terms of the Term Loan Agreement. The amendment was not material.

**October 2017 Waiver**

For September 2017, the Consolidated Group did not meet the six-month revenue covenant required under the Term Loan Agreement. As a result, the Consolidated Group was required to demonstrate it had \$35,000,000 in liquidity as of the last business day in September 2017. On the last business day in September 2017, the Consolidated Group was not able to demonstrate it had \$35,000,000 in liquidity. However, the Consolidated Group was able to demonstrate that it had \$35,000,000 in liquidity on the business day immediately before the last business day in September 2017, the first business day in October 2017 and the last business day in October 2017. As a result, Hercules waived the Company's non-compliance with the \$35,000,000 liquidity requirement at the end of September 2017.



Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

General Discussion of the Term Loan Agreement

Pursuant to the Term Loan Agreement, Limited's obligations to Hercules are secured by a first-priority security interest in substantially all of Limited's assets, excluding intellectual property. Hercules does, however, maintain a negative pledge on Limited's intellectual property requiring Hercules' consent prior to the sale of such intellectual property. The Company and certain of the Company's other subsidiaries are guarantors of the obligations of Limited to Hercules under the Term Loan Agreement pursuant to separate guaranty agreements between Hercules and each of Limited and such subsidiaries (Guaranties). Pursuant to the Guaranties, the Company and these subsidiaries granted Hercules a first-priority security interest in substantially all of their respective assets excluding intellectual property. The Term Loan Agreement also places limitations on the Company's ability to declare or pay any dividend or distribution on any shares of capital stock.

2014 Warrant

In connection with Limited entering into the 2014 Loan Agreement, the Company issued a warrant to Hercules to purchase up to 285,016 shares of the Company's common stock at an exercise price of \$6.14 per share (the 2014 Warrant). Sixty percent of the 2014 Warrant was exercisable at the closing in April 2014 and the remaining forty percent became exercisable upon the funding of the additional \$25,000,000 to Limited in September 2014.

The Company agreed to amend the 2014 Warrant in connection with the First Loan Amendment to increase the number of shares issuable upon exercise to 660,377 and decrease the exercise price to \$2.65 per share. Upon entering into the Second Loan Amendment, the Company agreed to further amend the 2014 Warrant to increase the number of shares issuable upon exercise to 862,069 and decrease the exercise price to \$2.03 per share. In connection with the July 2016 Waiver, the Company agreed to further amend the 2014 Warrant to increase the number of shares issuable upon exercise to 1,258,993 and decrease the exercise price to \$1.39 per share.

2016 Warrant

In connection with Limited entering into the Fourth Loan Amendment, the Company agreed to issue a new warrant to Hercules (the 2016 Warrant) to purchase up to 458,716 shares of the Company's common stock at an exercise price of \$1.09 per share, which was equal to \$500,000 divided by the lowest volume-weighted average sale price for a share of the Company's common stock reported over any ten consecutive trading days during the period commencing on and including September 23, 2016 and ending on the earlier to occur of (i) December 30, 2016 (inclusive of such date), and (ii) the second trading day immediately preceding the date of closing of a merger event (as defined in the 2016 Warrant).

Fair Value of Debt

The weighted average interest rates of the Company's notes payable approximate the rate at which the Company could obtain alternative financing and the fair value of the warrants that were issued in connection with the Company's notes payable are immaterial. Therefore, the carrying amount of the notes approximated their fair value at September 30, 2017 and December 31, 2016.

10. LOSS PER SHARE (EPS)

Basic EPS is calculated in accordance with ASC 260, Earnings per Share, by dividing net income or loss attributable to common stockholders by the weighted average common stock outstanding. Diluted EPS is calculated in accordance with ASC 260 by adjusting weighted average common shares outstanding for the dilutive effect of common stock options, warrants and convertible preferred stock. In periods where a net loss is recorded, no effect is given to potentially dilutive securities, since the effect would be anti-dilutive. Common stock equivalent securities that would potentially dilute basic EPS in the future, but were not included in the computation of diluted EPS because to do so would have been anti-dilutive, were as follows:

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Series A convertible preferred stock	9,022,556	9,022,556	9,022,556	9,022,556
Series B convertible preferred stock	8,416,251	8,416,251	8,416,251	8,416,251
Series A convertible preferred stock warrants	4,511,279	4,511,279	4,511,279	4,511,279
Common stock warrants	1,795,663	1,336,947	1,795,663	1,336,947
Stock options	11,432,526	11,231,644	11,432,526	11,231,644
Restricted stock units	851,920	—	851,920	—
Total	36,030,195	34,518,677	36,030,195	34,518,677

18

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 11. PREFERRED STOCK

## Series A Convertible Preferred Stock

On October 2, 2012, the Company closed its preferred stock financing in which it sold units consisting of 1,000,000 shares of Series A Convertible Preferred Stock and warrants to purchase 300,000 shares of Series A Convertible Preferred Stock for gross proceeds of \$40,000,000, prior to the payment of approximately \$560,000 of related issuance costs. The powers, preferences and rights of the Series A Convertible Preferred Stock are set forth in the certificate of designation filed by the Company with the Secretary of State of the State of Delaware on October 1, 2012. Each share of Series A Convertible Preferred Stock, including any shares of Series A Convertible Preferred Stock issued upon exercise of the warrants, is convertible into shares of the Company's common stock at any time at the option of the holder at the rate equal to \$40.00 divided by \$2.66 (Conversion Price). The initial Conversion Price was subject to adjustment based on certain customary price based anti-dilution adjustments. These adjustment features lapsed in September 2014. Each share of Series A Convertible Preferred Stock shall automatically be converted into shares of common stock at the then-effective Conversion Price upon the occurrence of the later to occur of both (i) the Company receives and publicly announces the approval by the FDA of the Company's NDA for ILUVIEN and (ii) the date on which the Company consummates an equity financing transaction pursuant to which the Company sells to one or more third party investors either (a) shares of common stock or (b) other equity securities that are convertible into shares of common stock and that have rights, preference or privileges, senior to or on a parity with, the Series A Convertible Preferred Stock, in each case having an as-converted per share of common stock price of not less than \$10.00 and that results in total gross proceeds to the Company of at least \$30,000,000. The rights and preferences of Series A Convertible Preferred Stock also place limitations on the Company's ability to declare or pay any dividend or distribution on any shares of capital stock.

Each unit sold in the preferred stock financing included a warrant to purchase 0.30 shares of Series A Convertible Preferred Stock at an exercise price equal to \$44.00 per share. At the election of the holder of a warrant, the warrant may be exercised for the number of shares of common stock then issuable upon conversion of the Series A Convertible Preferred Stock that would otherwise be issued upon such exercise at the then-effective Conversion Price. These warrants are considered derivative instruments because the agreements provide for settlement in Series A Convertible Preferred Stock shares or common stock shares at the option of the holder, an adjustment to the warrant exercise price for common shares at some point in the future and contain anti-dilution provisions whereby the number of shares for which the warrants are exercisable and/or the exercise price of the warrants are subject to change in the event of certain issuances of stock at prices below the then-effective exercise price of the warrants. Therefore, the warrants were recorded as a liability at issuance. The warrant anti-dilution provisions lapsed in September 2014. At September 30, 2017 and December 31, 2016, the fair market value of the warrants was estimated to be approximately \$0 and \$188,000, respectively. During the three months ended September 30, 2017, the Company did not record a gain or a loss as a result of the change in fair value of the warrants. During the three months ended September 30, 2016, the Company recorded a loss of \$588,000 as a result of the change in fair value of the warrants. During the nine months ended September 30, 2017 and 2016, the Company recorded gains of \$188,000 and \$1,755,000, respectively, as a result of the change in fair value of the warrants. The rights to exercise these warrants expired on October 1, 2017.

In 2014, 6,015,037 shares of common stock were issued pursuant to the conversion of 400,000 shares of Series A Convertible Preferred Stock. As of September 30, 2017, there were 600,000 shares of Series A Convertible Preferred Stock issued and outstanding.

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## Series B Convertible Preferred Stock

On December 12, 2014, the Company closed a preferred stock financing in which it sold 8,291.873 shares of Series B Convertible Preferred Stock for a purchase price of \$6,030 per share, or an aggregate purchase price of \$50,000,000, prior to the payment of approximately \$432,000 of related issuance costs. The Company issued an additional 124.378 shares of Series B Convertible Preferred Stock as a subscription premium to the purchasers. The powers, preferences and rights of the Series B Convertible Preferred Stock are set forth in the certificate of designation filed by the Company with the Secretary of State of the State of Delaware. Each share of Series B Convertible Preferred Stock is convertible into 1,000 shares of the Company's common stock at any time at the option of the holder, provided that the holder will be prohibited from converting Series B Convertible Preferred Stock into shares of the Company's common stock if, as a result of such conversion, the holder, together with its affiliates, would own more than 9.98% of the total number of shares of the Company's common stock then issued and outstanding. The Series B Convertible Preferred Stock ranks junior to the Company's existing Series A Convertible Preferred Stock and senior to the Company's common stock, with respect to rights upon liquidation. The Series B Convertible Preferred Stock ranks junior to all existing and future indebtedness. Except as otherwise required by law (or with respect to approval of certain actions), the Series B Convertible Preferred Stock do not have voting rights. The Series B Convertible Preferred Stock is not redeemable at the option of the holder. The Series B Convertible Preferred Stock is not subject to any price-based or other anti-dilution protections and does not provide for any accruing dividends.

The Company determined that the conversion option of the Series B Convertible Preferred Stock represented a beneficial conversion feature, as the conversion feature had intrinsic value to the holder on the commitment date as a result of the subscription premium. Therefore, the Company recorded a beneficial conversion feature of \$750,000 as an increase in additional paid in capital. Because the Series B Convertible Preferred Stock was immediately convertible into common stock at the option of the holder at issuance, the Company immediately accreted the full value of the beneficial conversion feature to the carrying value of the Series B Convertible Preferred Stock on that date.

## 12. COMMON STOCK

In September 2014, the Company entered into a sales agreement with Cowen and Company, LLC (Cowen) to offer shares of its common stock from time to time through Cowen for the offer and sale of the shares up to an aggregate offering price of \$35,000,000. During the nine months ended September 30, 2017, the Company sold a total of 4,203,015 shares of its common stock at a weighted average purchase price of \$1.45 per share resulting in gross proceeds of approximately \$6,001,000, prior to the payment of approximately \$183,000 of sales agent discounts and commissions and related issuance costs. During the year ended December 31, 2016, the Company sold a total of 662,779 shares of its common stock at a weighted average purchase price of \$1.83 per share, resulting in gross proceeds of \$1,211,000, prior to the payment of approximately \$62,000 of sales agent discounts and commissions and related issuance costs. Proceeds from the offering were used for general corporate and working capital purposes. The Company's sales agreement with Cowen to sell additional shares expired on August 13, 2017.

In addition, in August 2016, pursuant to an underwriting agreement with Cowen, as representative of the several underwriters named therein, the Company closed a public offering in which it sold 18,900,000 shares of its common stock at a price to the public of \$1.40 per share. The offering resulted in gross proceeds of \$26,460,000, prior to the payment of approximately \$1,309,000 of underwriter discounts and commissions and related issuance costs.

During the three and nine months ended September 30, 2017 and 2016, 38,732 and 41,413 shares of the Company's common stock were acquired through its employee stock purchase plan resulting in proceeds of \$41,000 and \$78,000, respectively.

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 13. STOCK INCENTIVE PLANS

## Stock Option Plans

During the three months ended September 30, 2017 and 2016, the Company recorded compensation expense related to stock options of approximately \$1,054,000 and \$1,116,000, respectively. During the nine months ended September 30, 2017 and 2016, the Company recorded compensation expense related to stock options of approximately \$3,033,000 and \$3,683,000, respectively. As of September 30, 2017, the total unrecognized compensation cost related to non-vested stock options granted was \$5,905,000 and is expected to be recognized over a weighted average period of 2.03 years. The following table presents a summary of stock option activity for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September		Nine Months Ended September	
	30, 2017	2016	30, 2017	2016
	Options	Options	Options	Options
	Weighted Average Exercise Price	Weighted Average Exercise Price	Weighted Average Exercise Price	Weighted Average Exercise Price
Options outstanding at beginning of period	11,481,802	10,648,703	10,804,412	9,475,899
Grants	74,000	749,250	1,722,800	2,169,750
Forfeitures	(122,546)	(114,837)	(1,093,957)	(313,297)
Exercises	(729)	(51,471)	(729)	(100,699)
Options outstanding at period end	11,432,526	11,231,648	11,432,526	11,231,648
Options exercisable at period end	8,018,852	7,116,652	8,018,852	7,116,652
Weighted average per share fair value of options granted during the period	\$1.12	\$1.17	\$0.95	\$1.56

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options expected to vest as of September 30, 2017:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	11,432,526	\$ 2.95	6.44 years	\$ 223
Exercisable	8,018,852	3.21	5.51 years	36
Outstanding, vested and expected to vest	11,036,592	2.98	6.35 years	193

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options expected to vest as of December 31, 2016:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	10,804,412	\$ 3.22	6.45 years	\$ —
Exercisable	7,363,400	3.29	5.42 years	—
Outstanding, vested and expected to vest	10,374,846	3.23	6.35 years	—

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Employee Stock Purchase Plan

During the three months ended September 30, 2017 and 2016, the Company recorded compensation expense related to its employee stock purchase plan of approximately \$10,000 and \$18,000, respectively. During the nine months ended September 30, 2017 and 2016, the Company recorded compensation expense related to its employee stock purchase plan of approximately \$30,000 and \$69,000, respectively.

Restricted Stock Units

During the nine months ended September 30, 2017, the Company granted 964,720 restricted stock units (RSUs) to its employees in lieu of a cash bonus program for 2017. As of September 30, 2017, 851,920 RSUs were outstanding. During the three and nine months ended September 30, 2017, the Company recorded compensation expense related these RSUs of approximately \$238,000 and \$639,000, respectively.

14. INCOME TAXES

In accordance with ASC 740, Income Taxes, the Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities at the enacted tax rates in effect for the year in which the differences are expected to reverse. The Company records a valuation allowance against its net deferred tax asset to reduce the net carrying value to an amount that is more likely than not to be realized.

At the end of each interim period, the Company makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year. This estimate reflects, among other items, the Company's best estimate of operating results and foreign currency exchange rates. The Company's quarterly income tax rate may differ from its estimated annual effective tax rate because accounting standards require the Company to exclude the actual results of certain entities expected to generate a pretax loss when applying the estimated annual effective tax rate to the Company's consolidated pretax results in interim periods. In estimating the annual effective tax rate, the Company does not include the estimated impact of unusual and/or infrequent items, including the reversal of valuation allowances, which may cause significant variations in the customary relationship between income tax expense (benefit) and pretax income (loss) in quarterly periods. The income tax expense (benefit) for such unusual and/or infrequent items is recorded in the quarterly period such items are incurred.

The Company's income tax expense and resulting effective tax rate are based upon the respective estimated annual effective tax rates applicable for the respective periods adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions and other items. The Company's effective tax rate for the nine months ended September 30, 2017 properly excluded tax benefits associated with year-to-date pre-tax losses generated in the U.S. and the Netherlands. Income tax positions are considered for uncertainty in accordance with ASC 740-10. The Company has recorded unrecognized tax benefits related to research and development tax credits. In accordance with ASC 740-10, such attributes are reduced to the amount that is expected to be recognized in the future. The Company has not accrued interest or penalties as no research and development credits have been utilized due to significant net operating losses (NOLs) available. The Company does not expect any decreases to the unrecognized tax benefits within the next twelve months due to any lapses in statute of limitations. Tax years since 2003 remain subject to examination in Georgia, Tennessee and at the federal level. The time period is longer than the standard statutory 3-year period due to NOLs from 2003 being available for utilization. The statute of limitations on these years will close when the NOLs expire or when the statute closes on the years in which the NOLs are utilized. Tax years since 2012 remain subject to examination in the United Kingdom and the Netherlands. Tax years since 2013 remain subject to examination in Germany.

Significant management judgment is involved in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. Due to uncertainties with respect to the realization of deferred tax assets due to the history of operating losses, a valuation allowance has been established against the net deferred tax asset balance in the U.S. and the Netherlands. The valuation allowance is based on management's estimates of taxable income in the jurisdictions in which the Company operates and the period over which deferred tax assets will be recoverable. In the event that actual results differ from these estimates or the

Company adjusts these estimates in future periods, a change in the valuation allowance may be needed, which could materially impact its financial position and results of operations.

At December 31, 2016, the Company had federal NOL carry-forwards of approximately \$104,892,000 and state NOL carry-forwards of approximately \$80,622,000 available to reduce future taxable income. The Company's federal NOL carry-forwards remain fully reserved as of September 30, 2017. If not utilized, the federal NOL carry-forwards will expire at various dates between 2029 and 2036 and the state NOL carry-forwards will expire at various dates between 2020 and 2036.

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOL carry-forwards may be subject to annual limitations under Internal Revenue Code (IRC) Section 382 (Section 382) (or comparable provisions of state law) in the event that certain changes in ownership of the Company were to occur. The Company periodically evaluates its NOL carry-forwards and whether certain changes in ownership have occurred that would limit the Company's ability to utilize a portion of its NOL carry-forwards. If it is determined that significant ownership changes have occurred since the Company generated its NOL carry-forwards, it may be subject to annual limitations on the use of these NOL carry-forwards under Section 382 (or comparable provisions of state law). The Company has determined that a Section 382 change in ownership occurred in late 2015. Therefore, the annual utilization of the Company's NOLs are subject to certain limitations under Section 382 and other limitations under state tax laws. The Company is currently in the process of calculating these limitations. Any reduction to the Company's NOL deferred tax asset due to the annual Section 382 limitation and the NOL carryforward period would result in an offsetting reduction in valuation allowance recorded against the NOL deferred tax asset. Therefore, any limitation would not have an impact on the statements of operations for the periods presented. The results of the analysis on the impact to the Company's NOLs will be disclosed at a later date.

As of December 31, 2016, the Company had cumulative book losses in foreign subsidiaries of \$92,939,000. The Company has not recorded a deferred tax asset for the excess of tax over book basis in the stock of its foreign subsidiaries. The Company anticipates that its foreign subsidiaries will be profitable and have earnings in the future. Once the foreign subsidiaries do have earnings, the Company intends to indefinitely reinvest in its foreign subsidiaries all undistributed earnings of and original investments in such subsidiaries. As a result, the Company has not recorded a deferred tax liability related to excess of book over tax basis in the stock of its foreign subsidiaries in accordance with ASC 740-30-25.

**15. FAIR VALUE**

The Company applies ASC 820, Fair Value Measurements, in determining the fair value of certain assets and liabilities. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches. The hierarchy of those valuation approaches is broken down into three levels based on the reliability of inputs as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The valuation under this approach does not entail a significant degree of judgment.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, (e.g., interest rates and yield curves observable at commonly quoted intervals or current market) and contractual prices for the underlying financial instrument, as well as other relevant economic measures.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

There have been no changes in the methodologies used at September 30, 2017 and December 31, 2016.



Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following fair value table presents information about the Company's assets and liabilities measured at fair value on a recurring basis:

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents (1)	\$—	—\$	—\$	—
Assets measured at fair value	\$—	—\$	—\$	—
Liabilities:				
Derivative warrant liability (2)	\$—	—\$	—\$	—
Liabilities measured at fair value	\$—	—\$	—\$	—

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents (1)	\$—	\$—	—\$	—
Assets measured at fair value	\$—	\$—	—\$	—
Liabilities:				
Derivative warrant liability (2)	\$—	\$188	—\$	\$188
Liabilities measured at fair value	\$—	\$188	—\$	\$188

(1) The carrying amounts approximate fair value due to the short-term maturities of the cash equivalents.

The Company uses the Black-Scholes option pricing model and assumptions that consider, among other variables, (2) the fair value of the underlying stock, risk-free interest rate, volatility, expected life and dividend rates in estimating fair value for the warrants considered to be derivative instruments.

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 16. SEGMENT INFORMATION

For the three and nine months ended September 30, 2017 and 2016, there were three customers within the U.S. segment. Two of these customers, which are large pharmaceutical distributors, accounted for 73% and 75% of the Company's consolidated revenues for the three months ended September 30, 2017 and 2016, respectively. These two customers also accounted for 73% and 74% of the Company's consolidated revenues for the nine months ended September 30, 2016 and 2017, respectively. These same two customers within the U.S. segment accounted for approximately 83% and 90% of the Company's consolidated accounts receivable at September 30, 2017 and December 31, 2016, respectively.

The Company's chief operating decision maker is the Chief Executive Officer (CEO). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed and organized based upon geographic and regulatory environment. Each segment is separately managed and is evaluated primarily upon segment income or loss from operations. Non-cash items including stock-based compensation expense and depreciation and amortization are categorized as Other within the table below.

The following table presents a summary of the Company's reporting segments for the three months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017				Three Months Ended September 30, 2016			
	U.S.	International	Other	Consolidated	U.S.	International	Other	Consolidated
NET REVENUE	\$7,143	\$ 2,641	\$ —	\$ 9,784	\$6,184	\$ 2,114	\$ —	\$ 8,298
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(720 )	(319 )	—	(1,039 )	(374 )	(112 )	—	(486 )
GROSS PROFIT	6,423	2,322	—	8,745	5,810	2,002	—	7,812
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,360	984	3,076	5,420	1,984	1,083	194	3,261
GENERAL AND ADMINISTRATIVE EXPENSES	1,879	673	768	3,320	2,207	778	660	3,645
SALES AND MARKETING EXPENSES	4,141	1,551	310	6,002	5,410	1,762	280	7,452
DEPRECIATION AND AMORTIZATION	—	—	679	679	—	—	697	697
RECOVERABLE COLLABORATION COSTS	—	—	(2,851)	(2,851 )	—	—	—	—
OPERATING EXPENSES	7,380	3,208	1,982	12,570	9,601	3,623	1,831	15,055
SEGMENT LOSS FROM OPERATIONS	(957 )	(886 )	(1,982)	(3,825 )	(3,791 )	(1,621 )	(1,831)	(7,243 )
OTHER INCOME AND EXPENSES, NET	—	—	(1,437)	(1,437 )	—	—	(1,969)	(1,969 )
NET LOSS BEFORE TAXES				\$ (5,262 )				\$ (9,212 )

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents a summary of the Company's reporting segments for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30, 2017				Nine Months Ended September 30, 2016			
	U.S.	International	Other	Consolidated	U.S.	International	Other	Consolidated
	(In thousands)							
NET REVENUE	\$19,643	\$ 7,127	\$ —	\$26,770	\$17,511	\$ 6,145	\$ —	\$23,656
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,671 )	(724 )	—	(2,395 )	(964 )	(456 )	—	(1,420 )
GROSS PROFIT	17,972	6,403	—	24,375	16,547	5,689	—	22,236
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	4,016	2,243	3,509	9,768	5,560	3,217	709	9,486
GENERAL AND ADMINISTRATIVE EXPENSES	5,410	2,068	2,118	9,596	6,254	2,656	2,169	11,079
SALES AND MARKETING EXPENSES	11,707	3,930	927	16,564	15,904	5,292	875	22,071
DEPRECIATION AND AMORTIZATION	—	—	2,012	2,012	—	—	2,082	2,082
RECOVERABLE COLLABORATION COSTS	—	—	(2,851)	(2,851 )	—	—	—	—
OPERATING EXPENSES	21,133	8,241	5,715	35,089	27,718	11,165	5,835	44,718
SEGMENT LOSS FROM OPERATIONS	(3,161 )	(1,838 )	(5,715)	(10,714 )	(11,171 )	(5,476 )	(5,835)	(22,482 )
OTHER INCOME AND EXPENSES, NET	—	—	(3,970)	(3,970 )	—	—	(4,682)	(4,682 )
NET LOSS BEFORE TAXES				\$ (14,684 )				\$ (27,164 )

Table of Contents

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17. SUBSEQUENT EVENTS

As discussed in Notes 4 and 9, for September 2017, the Consolidated Group did not meet the six-month revenue covenant required under the Term Loan Agreement. As a result, the Consolidated Group was required to demonstrate it had \$35,000,000 in liquidity as of the last business day in September 2017. On the last business day in September 2017, the Consolidated Group was not able to demonstrate it had \$35,000,000 in liquidity. However, the Consolidated Group was able to demonstrate that it had \$35,000,000 in liquidity on the business day immediately before the last business day in September 2017, the first business day in October 2017 and the last business day in October 2017. As a result, Hercules waived the Company's non-compliance with the \$35,000,000 liquidity requirement for September 2017.

On October 20, 2017, the Company entered into a Common Stock Sales Agreement (the Sales Agreement) with H.C. Wainwright & Co., LLC (HCW). The Sales Agreement provides that, upon the terms and subject to the conditions set forth therein, the Company may issue and sell through HCW, acting as sales agent, shares (the Shares) of the Company's common stock having an aggregate offering price of up to \$25,000,000. The Company has no obligation to sell any Shares under the Sales Agreement. The issuance and sale, if any, of the Shares under the Sales Agreement is subject to the effectiveness of the Company's Registration Statement on Form S-3, filed with the Securities and Exchange Commission on October 20, 2017 (the Registration Statement). The Company makes no assurances as to if or whether the Registration Statement will become effective or, if it does become effective, as to the continued effectiveness of the Registration Statement. As of the filing of this Report on Form 10-Q, the Company has not sold any shares of common stock pursuant to the Sales Agreement.

Table of Contents

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Alimera Sciences, Inc., and its subsidiaries (we, Alimera or the Company) is a pharmaceutical company that specializes in the commercialization, research and development of prescription ophthalmic pharmaceuticals. We are presently focused on diseases affecting the back of the eye, or retina, because we believe these diseases are not well treated with current therapies and represent a significant market opportunity.

Our only commercial product is ILUVIEN®, which is approved to treat diabetic macular edema (DME). DME is a disease of the retina that affects individuals with diabetes and can lead to severe vision loss and blindness. ILUVIEN has received marketing authorization in the United States (U.S.), Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden and the United Kingdom. In the U.S., ILUVIEN is indicated for the treatment of DME in patients who have been previously treated with a course of corticosteroids and did not have a clinically significant rise in intraocular pressure (IOP). In the European Economic Area (EEA) countries in which ILUVIEN has received marketing authorization, it is indicated for the treatment of vision impairment associated with DME considered insufficiently responsive to available therapies.

As part of the approval process for DME in Europe, we committed to conduct a five-year, post-authorization, open label registry study in 800 patients treated with ILUVIEN. In the fourth quarter of 2016, we requested approval to modify our protocol to cap enrollment in the study due to our post market safety surveillance not showing any unexpected safety signals. As of September 30, 2017, 562 patients were enrolled in this study. We received regulatory approval to cap enrollment in the study from the Medicines & Healthcare products Regulatory Agency (MHRA) in July 2017.

In July 2017, we amended our license for the technology underlying ILUVIEN to include the treatment of uveitis, including non-infectious posterior uveitis (NIPU), in Europe, the Middle East and Africa from pSivida US, Inc. (pSivida). Uveitis is an inflammatory disease of the uveal tract, which is comprised of the iris, ciliary body and choroid, that can lead to severe vision loss and blindness. We plan to file an application for a new indication for ILUVIEN for NIPU in the 17 EEA countries where ILUVIEN is currently approved for the treatment of DME. We launched ILUVIEN in Germany and the United Kingdom in the second quarter of 2013, in the U.S. and Portugal in the first quarter of 2015. We began selling ILUVIEN in Austria in the first quarter of 2017 and we expect to begin sales of ILUVIEN in Ireland in the fourth quarter of 2017.

In addition, we have entered into various agreements under which distributors will provide regulatory, reimbursement or sales and marketing support for future commercialization of ILUVIEN in several countries in the Middle East, as well as France, Italy, Spain, Australia, New Zealand and Canada. In the third quarter of 2016, our Middle East distributor launched ILUVIEN and initiated named patient sales in the United Arab Emirates. Our Italian distributor launched ILUVIEN in Italy in the second quarter of 2017. As of September 30, 2017, we have recognized sales of ILUVIEN to our distributors in the Middle East, Italy and Spain.

We commenced operations in June 2003. Since our inception we have incurred significant losses. As of September 30, 2017, we have accumulated a deficit of \$391.9 million. We expect to continue to incur losses as we:

- continue the commercialization of ILUVIEN in the U.S. and the EEA;
- seek the regulatory approval of ILUVIEN for NIPU in Europe, the Middle East and Africa;
- continue to seek regulatory approval of ILUVIEN for DME in other jurisdictions
- evaluate the use of ILUVIEN for the treatment of other diseases; and
- advance the clinical development of any future products or product candidates either currently in our pipeline, or that we may license or acquire in the future.

As of September 30, 2017, we had approximately \$25.6 million in cash and cash equivalents.

As a result of the limited revenue generated by ILUVIEN to date, our negative cash flow from operations and accumulated deficit raise substantial doubt about our ability to continue as a going concern. Our Interim Financial Statements do not include any adjustments that might result from the outcome of this uncertainty. We believe that we have sufficient funds to allow us to become cash flow positive in the countries in which we sell ILUVIEN. However, it is possible that we may determine that we may need to raise additional funds in the future in order to support our

business in these countries, to expand ILUVIEN into new geographies, to allow us to expand the indication of ILUVIEN, to maintain compliance with our debt

Table of Contents

covenants or other business development activities. We cannot be sure that additional financing will be available when needed or that, if available, the additional financing will be obtained on terms favorable to us or our stockholders.

Our Agreement with pSivida

pSivida Agreement

General Discussion of pSivida Agreement

We entered into an agreement with pSivida for the use of fluocinolone acetonide (FAc) in pSivida's proprietary delivery device in February 2005, which was subsequently amended and restated a number of times (as amended, the pSivida Agreement). The pSivida Agreement provides us with a worldwide exclusive license to utilize certain underlying technology used in the development and commercialization of ILUVIEN. ILUVIEN consists of a tiny polyimide tube with a permeable membrane cap on one end and an impermeable silicone cap on the other end that is filled with FAc in a polyvinyl alcohol matrix for delivery to the back of the eye for the treatment and prevention of eye diseases in humans (other than uveitis). The pSivida Agreement also provides us with a worldwide non-exclusive license to utilize pSivida's proprietary delivery device to deliver other corticosteroids to the back of the eye for the treatment and prevention of eye diseases in humans (other than uveitis) or to treat DME by delivering a compound to the back of the eye through a direct delivery method through an incision required for a 25-gauge or larger needle. We do not have the right to utilize pSivida's proprietary delivery device in connection with indications for diseases outside of the eye or for the treatment of uveitis. Further, the pSivida Agreement permits pSivida to grant to any other party the right to use its intellectual property (i) to treat DME through an incision smaller than that required for a 25-gauge needle, unless using a corticosteroid delivered to the back of the eye, (ii) to deliver any compound outside the back of the eye unless it is to treat DME through an incision required for a 25-gauge or larger needle, or (iii) to deliver non-corticosteroids to the back of the eye, unless it is to treat DME through an incision required for a 25-gauge or larger needle.

As a result of the U.S. Food and Drug Administration (FDA) approval of ILUVIEN in September 2014, we paid pSivida a milestone payment of \$25.0 million (the pSivida Milestone Payment) in October 2014.

2008 Amended and Restated Collaboration Agreement

Pursuant to the payment terms of the 2008 Amended and Restated Agreement (the 2008 Agreement), we were required to share 20% of the net profits of ILUVIEN, determined on a cash basis and 33% of any lump sum milestone payments received from a sub-licensee of ILUVIEN, as defined by the 2008 Agreement. In connection with the 2008 Agreement, we were entitled to recover 20% of commercial losses associated with ILUVIEN, as defined in the pSivida Agreement, that could be offset in any future quarter out of payments of pSivida's share of net profits (the Future Offset). As of December 31, 2016, the total Future Offsets available to reduce future net profit payments to pSivida, as defined in the 2008 Agreement, was \$24.5 million. In connection with the New Collaboration Agreement discussed below, we and pSivida agreed to cap the Future Offset amount at June 30, 2017 to \$25.0 million. The Future Offset was not previously reflected on our balance sheet due to the uncertainty of future realizability.

May 2017 Amendment

In the second quarter of 2016, pSivida disputed portions of our claimed commercialization costs for the year ended December 31, 2014. On May 3, 2017, we and pSivida settled this dispute and amended and clarified certain definitions and clauses of the 2008 Agreement. As part of this settlement, we and pSivida agreed no additional amounts would be due for the year ended December 31, 2014 and effectively no audits would occur for the years ended December 31, 2015 and 2016. As a result of this settlement and amendment, Future Offsets was reduced from \$25.8 million to \$24.5 million as of December 31, 2016.

New Collaboration Agreement - Second Amended and Restated Collaboration Agreement

On July 10, 2017, we and pSivida entered into a Second Amended and Restated Collaboration Agreement (the New Collaboration Agreement), which amends and restates the pSivida Agreement.

Prior to entering into the New Collaboration Agreement, we held the worldwide license from pSivida for the use of FAc in pSivida's proprietary delivery device for the treatment of all ocular diseases other than uveitis. The New Collaboration Agreement expands the license to include uveitis, including NIPU, in Europe, the Middle East and Africa and allows us to also pursue an indication for posterior uveitis for ILUVIEN in those territories.

The New Collaboration Agreement converts our obligation to share 20% of our net profits to a royalty payable on global net revenues of ILUVIEN. We will begin paying a 2% royalty on net revenues and other related consideration to pSivida beginning effective July 1, 2017. This royalty amount will increase to 6% upon the earliest of January 1, 2019, the receipt of

29

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Table of Contents

the first marketing approval for ILUVIEN for the treatment of NIPU, or one year from our filing of a marketing authorization application in the EU for NIPU. We will pay an additional 2% royalty on global net revenues and other related consideration in excess of \$75.0 million in any year. During the three months ended September 30, 2017, we recognized approximately \$196,000 of royalty expense, which is included in cost of goods sold, excluding depreciation and amortization, due to this royalty. As of September 30, 2017, this amount was included in our accounts payable.

The New Collaboration Agreement did not require an upfront cash payment from us. In connection with the New Collaboration Agreement, we agreed to forgive \$10.0 million of the total \$25.0 million of the Future Offset at the amendment date. Following the signing of the New Collaboration Agreement, we retain a right to recover up to an additional \$15.0 million of the Future Offset. We will be able to recover up to \$15.0 million as a reduction of future royalties as follows:

In the first two years following the increase in royalty amount to 6%, the royalty will be reduced to 4% for net revenues and other related consideration up to \$75.0 million annually and 5% for net revenues and other related consideration in excess of \$75.0 million on an annual basis; and

Beginning with the third year following the increase in royalty amount to 6%, the royalty will be reduced to 5.2% for net revenues and other related consideration up to \$75.0 million annually and to 6.8% for net revenues and other related consideration in excess of \$75.0 million on an annual basis.

We will forgive up to \$5.0 million of the remaining \$15.0 million of Future Offsets upon the earlier of the approval of ILUVIEN for posterior uveitis in any EU country or January 1, 2020, unless certain conditions under the New Collaboration Agreement are not met. If the amounts recoverable by us associated with the Future Offsets are less than \$5.0 million at that time, we will pay pSivida the difference in cash.

We valued the transaction utilizing a present value analysis at approximately \$2.9 million. Because there was no approved indication for ILUVIEN for uveitis at the time, we expensed the \$2.9 million as a non-cash charge as in-process Research and Development Expense in the third quarter of 2017. We also recognized \$2.9 million for Recoverable Collaboration Costs for the value of the right of offset as a reduction of operating expenses. As a result, there was no impact on our operating loss or net loss for the three and nine months ended September 30, 2017.

Table of Contents

Our Credit Facility

Hercules Loan Agreement

2014 Loan Agreement

In April 2014, Alimera Sciences Limited (Limited), our subsidiary, entered into a loan and security agreement (2014 Loan Agreement) with Hercules Capital, Inc. (Hercules) providing for a term loan of up to \$35.0 million (2014 Term Loan), which Limited and Hercules amended in November 2015 (the First Loan Amendment), March 2016 (the Second Loan Amendment), May 2016 (the Third Loan Amendment), October 2016 (the Fourth Loan Amendment) and May 2017 (the Fifth Loan Amendment and, collectively with the 2014 Loan Agreement, the First Loan Amendment, the Second Loan Amendment, the Third Loan Amendment and the Fourth Loan Amendment, the Term Loan Agreement). Under the 2014 Loan Agreement, Hercules made an advance in the initial principal amount of \$10.0 million to Limited at closing to provide Limited with additional working capital for general corporate purposes and to repay a 2013 term loan with Silicon Valley Bank. Hercules made an additional advance of \$25.0 million to Limited in September 2014, following the approval of ILUVIEN by the FDA to fund the pSivida Milestone Payment. The 2014 Loan Agreement provided for interest only payments through November 2015. Interest on the 2014 Term Loan accrued at a floating per annum rate equal to the greater of (i) 10.90%, or (ii) the sum of (A) 7.65%, plus (B) the prime rate. Following the interest only period, the 2014 Term Loan was due and payable to Hercules in equal monthly payments of principal and interest through May 1, 2018.

First Loan Amendment

In November 2015, Limited and Hercules amended the 2014 Loan Agreement to extend the interest only payments through May 2017. In connection with the First Loan Amendment, Limited paid to Hercules an amendment fee of \$262,500 and agreed to make an additional payment of \$1,050,000, equal to 3% of the 2014 Term Loan at the time of the final payment on May 1, 2018 (End of Term Payment).

We and Limited, on a consolidated basis with our other subsidiaries (the Consolidated Group), agreed to customary affirmative and negative covenants and events of default in connection with these arrangements. The occurrence of an event of default could result in the acceleration of Limited's obligations under the Term Loan Agreement and an increase to the applicable interest rate and would permit Hercules to exercise remedies with respect to the collateral under the Term Loan Agreement. In connection with the First Loan Amendment, Limited agreed to covenants regarding certain revenue thresholds and a liquidity threshold.

Second Loan Amendment

In January 2016, the revenue threshold covenant was not met by the Consolidated Group and as a result, in March 2016, Limited and Hercules entered into the Second Loan Amendment, which further amended certain terms of the 2014 Loan Agreement. In conjunction with the Second Loan Amendment, Hercules waived this covenant violation. The Second Loan Amendment adjusted the revenue covenant to a rolling three-month calculation, first measured for the three months ended May 31, 2016. In addition, the Second Loan Amendment increased the liquidity covenant. Upon execution of the Second Loan Amendment, Limited paid Hercules an amendment fee of \$350,000 and agreed to increase the End of Term Payment to \$1,400,000 from \$1,050,000, which was payable on the date that the 2014 Term Loan was to be paid in full.

We concluded that the Second Loan Amendment resulted in a substantial modification of the terms of debt when considered with the First Loan Amendment in accordance with the guidance in Accounting Standard Codification (ASC) 470-50, Debt. As a result, we accounted for the Second Loan Amendment as an extinguishment and recognized a loss on early extinguishment of debt of approximately \$2.6 million within the consolidated statement of operations for the year ended December 31, 2016. The loss on early extinguishment consisted primarily of the unamortized debt discount associated with the warrant and debt issuance costs incurred prior to the Second Loan Amendment, the incremental fair value of the warrant as a result of modifying the terms of the warrant and the debt issuance costs of \$360,000 paid to Hercules for the Second Loan Amendment.

Third Loan Amendment and July 2016 Waiver

In May 2016, Limited and Hercules entered into the Third Loan Amendment to expand the definition of liquidity to allow for the inclusion of cash of up to \$2.0 million in bank accounts outside of the U.S. and the United Kingdom.

In July 2016, Limited obtained a waiver of the requirements of the liquidity covenant (the Waiver) because the Consolidated Group was not in compliance with the liquidity covenant as of June 30, 2016. The Waiver cured the default of the liquidity covenant then existing under the Term Loan Agreement and decreased the liquidity requirement. In addition, the Waiver modified the three-month revenue covenant so that it was not measured at July 31, 2016 and reduced the three-month

31

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Table of Contents

revenue target to be measured at August 31, 2016. Following execution of the Waiver, Limited incurred a weekly ticking fee equal to 0.05% multiplied by the outstanding principal amount through the closing of our public offering in August 2016, totaling \$65,000. Further, Limited paid Hercules a fee of \$350,000 associated with the Waiver.

Fourth Loan Amendment

In October 2016, Limited entered into the Fourth Loan Amendment with Hercules, which further amended certain terms of the Term Loan Agreement. Pursuant to the terms of the Fourth Loan Amendment, Hercules agreed to provide up to an additional \$10.0 million to Limited with (i) the first \$5.0 million available at Limited's option through June 30, 2017 subject to (A) the Consolidated Group's achievement of \$12.0 million in trailing three month net product revenue and (B) no event of default having occurred since October 20, 2016 (the Effective Date) and (ii) the second \$5.0 million available at Limited's option through December 31, 2017 subject to (A) the Consolidated Group's achievement of \$15.0 million in trailing three month net product revenue, (B) no event of default having occurred since the Effective Date and (C) the prior \$5.0 million having been advanced to Limited (the Additional Advances and, together with the 2014 Term Loan, the Term Loan). We did not achieve the trailing three month net product revenue threshold prior to June 30, 2017 and as a result the additional \$10.0 million is not available to Limited. The Fourth Loan Amendment provides for interest only payments through November 30, 2018 (the Interest-Only Period). Pursuant to the Fourth Loan Amendment, interest on the Term Loan accrues at a floating per annum rate equal to the greater of (i) 11.0% and (ii) the sum of (A) 11.0% plus (B) the prime rate as reported in The Wall Street Journal, or if not reported, the prime rate most recently reported in The Wall Street Journal, minus 3.5%. In addition to the interest described above, the principal balance of the Term Loan will bear "payment-in kind" interest at the rate of 1.0% (PIK Interest), which PIK Interest will be added to the outstanding principal balance of the Term Loan so as to increase the outstanding principal balance of the Term Loan on each payment date for the Term Loan and which amount will be payable when the aggregate outstanding principal amount of the Term Loan is payable. The Term Loan will be due and payable to Hercules in 24 equal monthly payments of principal and interest following the Interest-Only Period beginning on December 1, 2018 and matures in full on November 1, 2020. The interest rate on the Term Loan Agreement was 11.75% as of September 30, 2017.

Limited paid Hercules a facility charge of \$337,500 and reimbursed Hercules for legal and diligence fees incurred in connection with the Fourth Loan Amendment. If Limited prepays the Term Loan, it will pay Hercules a prepayment penalty (i) if such amounts are prepaid in any of the first 12 months following the Effective Date, equal to 3.0% of the principal amount of the Term Loan being repaid, (ii) if such amounts are prepaid after 12 months but prior to 24 months following the Effective Date, equal to 2.0% of the principal amount of the Term Loan being repaid, and (iii) if such amounts are prepaid at any time thereafter, equal to 1.0% of the principal amount of the Term Loan being repaid. The Consolidated Group also agreed to customary affirmative and negative covenants, including, without limitation, covenants relating to minimum liquidity, minimum trailing six-month net revenue and adjusted EBITDA, and events of default in connection with these arrangements. The occurrence of an event of default could result in the acceleration of Limited's obligations under the Term Loan Agreement, as amended by the Fourth Loan Amendment and an increase to the applicable interest rate, and would permit Hercules to exercise remedies with respect to the collateral under the Term Loan Agreement, as amended by the Fourth Loan Amendment. In the event that we maintain \$35.0 million in liquidity, including cash and eligible accounts receivable, at the end of the month and have not been and are not in breach of the amended debt facility, the six-month trailing revenue covenant is effectively waived for such month.

Fifth Loan Amendment

In May 2017, Limited entered into the Fifth Loan Amendment with Hercules, which further amended and clarified certain terms of the Term Loan Agreement. The amendment was not material.

October 2017 Waiver

For September 2017, the Consolidated Group did not meet the six-month revenue covenant required under the Term Loan Agreement. As a result, the Consolidated Group was required to demonstrate it had \$35.0 million in liquidity (as defined in the Term Loan Agreement) as of the last business day in September 2017. On the last business day in September 2017, the Consolidated Group was not able to demonstrate it had \$35.0 million in liquidity. However, the Consolidated Group was able to demonstrate that had \$35.0 million in liquidity on the business day immediately before the last business day in September 2017, the first business day in October 2017 and the last business day in

October 2017. As a result, Hercules waived the Consolidated Group's non-compliance with the \$35.0 million liquidity requirement for September 2017.

Table of Contents

General Discussion of the Term Loan Agreement

Pursuant to the Term Loan Agreement, Limited's obligations to Hercules are secured by a first-priority security interest in substantially all of Limited's assets, excluding intellectual property. Hercules does, however, maintain a negative pledge on Limited's intellectual property requiring Hercules' consent prior to the sale of such intellectual property. We and certain of our other subsidiaries are guarantors of the obligations of Limited to Hercules under the Term Loan Agreement pursuant to separate guaranty agreements between Hercules and each of Limited and such subsidiaries (Guaranties). Pursuant to the Guaranties, we and our subsidiaries granted Hercules a first-priority security interest in substantially all of their respective assets excluding intellectual property. The Term Loan Agreement also places limitations on our ability to declare or pay any dividend or distribution on any shares of capital stock.

2014 Warrant

In connection with Limited entering into the 2014 Loan Agreement, we issued a warrant to Hercules to purchase up to 285,016 shares of our common stock at an exercise price of \$6.14 per share (the 2014 Warrant). Sixty percent of the 2014 Warrant was exercisable at the closing in April 2014 and the remaining forty percent became exercisable upon the funding of the additional \$25.0 million to Limited in September 2014.

We agreed to amend the 2014 Warrant in connection with the First Loan Amendment to increase the number of shares issuable upon exercise to 660,377 and decrease the exercise price to \$2.65 per share. Upon entering into the Second Loan Amendment, we agreed to further amend the 2014 Warrant to increase the number of shares issuable upon exercise to 862,069 and decrease the exercise price to \$2.03 per share. In connection with the July 2016 Waiver, we agreed to further amend the 2014 Warrant to increase the number of shares issuable upon exercise to 1,258,993 and decrease the exercise price to \$1.39 per share.

2016 Warrant

In connection with Limited entering into the Fourth Loan Amendment, we agreed to issue a new warrant to Hercules (the 2016 Warrant) to purchase up to 458,716 shares of our common stock at an exercise price of \$1.09 per share which was equal to \$500,000 divided by the lowest volume-weighted average sale price for a share of our common stock reported over any ten consecutive trading days during the period commencing on and including September 23, 2016 and ending on the earlier to occur of (i) December 30, 2016 (inclusive of such date), and (ii) the second trading day immediately preceding the date of closing of a merger event (as defined in the 2016 Warrant).

Fair Value of Debt

The weighted average interest rates of our notes payable approximate the rate at which we could obtain alternative financing and the fair value of the warrants that were issued in connection with our notes payable are immaterial. Therefore, the carrying amount of the notes approximated their fair value at September 30, 2017 and December 31, 2016.

Table of Contents

## Financial Operations Overview

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2016		2016	
	(In thousands)			
NET REVENUE	\$9,784	\$8,298	\$26,770	\$23,656
GROSS PROFIT	8,745	7,812	24,375	22,236
OPERATING EXPENSES	12,570	15,055	35,089	44,718
NET LOSS FROM OPERATIONS	(3,825 )	(7,243 )	(10,714 )	(22,482 )
NET LOSS	(5,285 )	(9,245 )	(14,777 )	(27,248 )

## Revenue

We began generating revenue from ILUVIEN in the second quarter of 2013. In addition to generating revenue from product sales, we intend to seek to generate revenue from other sources such as upfront fees, milestone payments in connection with collaborative or strategic relationships and royalties resulting from the licensing of ILUVIEN or any future product candidates and other intellectual property. We expect any revenue we generate will fluctuate from quarter to quarter as a result of the nature, timing and amount of any milestone payments we may receive from potential collaborative and strategic relationships, as well as revenue we may receive upon the sale of our products to the extent any are successfully commercialized.

Net revenue increased by approximately \$1.5 million, or 18%, to approximately \$9.8 million for the three months ended September 30, 2017 and by approximately \$3.1 million, or 13%, to approximately \$26.8 million for the nine months ended September 30, 2017. The increase was primarily attributable to increased sales volume in the U.S. and international segments.

## Gross Profit

Gross profit is impacted by costs of goods sold which includes costs of manufactured goods sold, royalty expenses, and net profit amounts owed to pSivida, as defined in the pSivida Agreement. Additionally, revenue from our international distributors will fluctuate depending on the timing of the shipment to the distributor and the distributors' sales of ILUVIEN to their customers.

Gross profit increased by approximately \$900,000, or 12%, to \$8.7 million for three months ended September 30, 2017, compared to \$7.8 million for the three months ended September 30, 2016. Gross margin was 89% and 94% for the three months ended September 30, 2017 and 2016, respectively. The change in gross margin was primarily impacted by royalty expense payable to pSivida.

Gross profit increased by approximately \$2.2 million, or 10%, to \$24.4 million for nine months ended September 30, 2017, compared to \$22.2 million for the nine months ended September 30, 2016. Gross margin was 92% and 94% for the nine months ended September 30, 2017 and 2016, respectively.

## Operating Expenses

Operating expenses decreased by approximately \$2.5 million, or 17%, to approximately \$12.6 million for the three months ended September 30, 2017, primarily as a result of decreases in sales and marketing expenses of approximately \$1.5 million, in research, development and medical affairs expenses of approximately \$700,000 and in general and administrative expenses of approximately \$300,000.

Operating expenses decreased by approximately \$9.6 million, or 21%, to approximately \$35.1 million for the nine months ended September 30, 2017, primarily as a result of decreases in sales and marketing expenses of approximately \$5.5 million, in research, development and medical affairs expenses of approximately \$2.6 million and in general and administrative expenses of approximately \$1.5 million.

## Research, Development and Medical Affairs Expenses

Substantially all of our research, development and medical affairs expenses incurred to date related to our continuing operations have been related to the development of ILUVIEN. We anticipate that we will incur additional research, development and medical affairs expenses in the future as we expand the availability of ILUVIEN in additional geographies, evaluate and possibly pursue the regulatory approval of ILUVIEN in additional jurisdictions, the

development of ILUVIEN for

34

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Table of Contents

additional indications, or develop additional products or product candidates. We recognize research, development and medical affairs expenses as they are incurred. Our research, development and medical affairs expenses consist primarily of:

- salaries and related expenses for personnel, including medical science liaisons;
- costs related to the provision of medical affairs support, including symposia development for physician education;
- costs related to compliance with FDA, EEA or other regulatory requirements;
- costs related to seeking the regulatory approval of ILUVIEN for NIPU in Europe, the Middle East and Africa;
- fees paid to consultants and contract research organizations (CRO) in conjunction with independently monitoring clinical trials and acquiring and evaluating data in conjunction with clinical trials, including all related fees such as investigator grants, patient screening, lab work and data compilation and statistical analysis;
- costs incurred with third parties related to the establishment of a commercially viable manufacturing process for products or product candidates;
- costs related to production of clinical materials;
- costs related to post marketing authorization studies;
- consulting fees paid to third-parties involved in research, development and medical affairs activities; and
- costs related to stock options or other stock-based compensation granted to personnel in research, development and medical affairs functions.

We expense both internal and external development costs as they are incurred.

Currently, our research, development and medical affairs expenses are primarily focused on activities that support ILUVIEN. Until we reach profitability, if at all, we do not expect to change the focus of these activities. However, once we reach profitability we expect that a large percentage of our research, development and medical affairs expenses in the future will be incurred in support of our current and future technical, preclinical and clinical development programs. These expenditures are subject to numerous uncertainties in terms of both their timing and total cost to completion. Assuming we reach profitability, we expect to continue to develop stable formulations of ILUVIEN or any future products or product candidates, test such formulations in preclinical studies for toxicology, safety and efficacy and to conduct clinical trials for each future product candidate. We anticipate funding these clinical trials ourselves, but we may engage collaboration partners at certain stages of clinical development. As we obtain results from these clinical trials, we may elect to discontinue or delay them for certain products or product candidates or programs in order to focus our resources on more promising products or product candidates or programs. Completion of these clinical trials by us or our future collaborators may take several years or more, the length of time generally varying with the type, complexity, novelty and intended use of a product candidate.

Our only commercial product is ILUVIEN, which has received marketing authorization in the U.S., Austria, Belgium, the Czech Republic, Denmark, Finland, Germany, France, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden and the United Kingdom. In the U.S., ILUVIEN is indicated for the treatment of DME in patients who have been previously treated with a course of corticosteroids and did not have a clinically significant rise in IOP. In the EEA countries in which ILUVIEN has received marketing authorization, it is indicated for the treatment of vision impairment associated with chronic DME considered insufficiently responsive to available therapies. Our distributor partners are assisting us with obtaining approvals in the Middle East and in other jurisdictions for DME.

We plan to file an application for a new indication for marketing approval of ILUVIEN for NIPU in the 17 EEA countries where ILUVIEN is currently approved for the treatment of DME.

In order to grant marketing approval, a health authority such as the FDA or foreign regulatory agencies must conclude that clinical and preclinical data establish the safety and efficacy of ILUVIEN or any future products or product candidates with an appropriate benefit to risk profile relevant to a particular indication and that the product can be manufactured under current Good Manufacturing Practice in a reproducible manner to deliver the product's intended performance in terms of its stability, quality, purity and potency. Until our submissions are reviewed by health authorities, there is no way to predict the outcome of their review. Even if the clinical studies meet their predetermined primary endpoints and a registration dossier is accepted for filing, a health authority could still

determine that an appropriate benefit to risk relationship does not exist for the indication that we are seeking. We cannot forecast with any degree of certainty whether ILUVIEN or any future products or product candidates will be subject to future collaborations or how such arrangements would affect our development plan or capital requirements. As a result of the uncertainties discussed above, we are unable to determine the duration and completion costs of

35

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Table of Contents

our development projects or when and to what extent we will receive cash inflows from the commercialization and sale of an approved product candidate.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation for employees in executive and administrative functions, including finance, accounting, information technology and human resources. Other significant costs include facilities costs and professional fees for accounting and legal services, including legal services associated with obtaining and maintaining patents. We expect to continue to incur significant costs to comply with the corporate governance, internal control and similar requirements applicable to public companies.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of professional fees and compensation for employees for the commercial promotion of, the development of market awareness for, the pursuit of reimbursement for and the execution of launch plans for ILUVIEN. Other costs include professional fees associated with developing plans for ILUVIEN and maintaining public relations.

We launched ILUVIEN in Germany and the United Kingdom in the second quarter of 2013, in the U.S. and Portugal in the first quarter of 2015. We began selling ILUVIEN in Austria in the first quarter of 2017, and we expect to begin sales of ILUVIEN in Ireland in the fourth quarter of 2017.

We have an International marketing and sales team, including local management and sales teams in France, Germany, Portugal and the United Kingdom, totaling 27 persons as of September 30, 2017. We also have a U.S. marketing and field force, including sales personnel, reimbursement specialists and payor relations directors, totaling 49 persons as of September 30, 2017.

In the fourth quarter of 2016, after unsuccessfully negotiating with the French government to obtain an appropriate price, we decided to close operations in France. We expect the closing of operations to be completed in the fourth quarter of 2017. In August 2017, we signed a distribution agreement with a third party who will serve as our exclusive distributor in France.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our unaudited interim condensed consolidated financial statements and notes (Interim Financial Statements) which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these Interim Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate these estimates and judgments, including those described below. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results and experiences may differ materially from these estimates. We discuss our critical accounting policies in the Management's Discussion and Analysis section of our Annual Report on Form 10-K. There have been no significant changes in our critical accounting policies.

Table of Contents

## Results of Operations - Segment Review

The following selected unaudited financial and operating data are derived from our Interim Financial Statements and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements. The results and discussions that follow are reflective of how our executive management monitors the performance of our reporting segments. Our chief operating decision maker is our Chief Executive Officer (CEO). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed and organized based upon geographic and regulatory environment. Each segment is separately managed and is evaluated primarily upon segment loss from operations. The tables below exclude non-cash items including stock-based compensation expense and depreciation and amortization.

## U.S. Segment

	Three Months Ended		Nine Months Ended	
	September 30, 2017	2016	2017	2016
	(In thousands)			
NET REVENUE	\$7,143	\$6,184	\$19,643	\$17,511
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(720 )	(374 )	(1,671 )	(964 )
GROSS PROFIT	6,423	5,810	17,972	16,547
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,360	1,984	4,016	5,560
GENERAL AND ADMINISTRATIVE EXPENSES	1,879	2,207	5,410	6,254
SALES AND MARKETING EXPENSES	4,141	5,410	11,707	15,904
OPERATING EXPENSES	7,380	9,601	21,133	27,718
SEGMENT LOSS FROM OPERATIONS	\$(957 )	\$(3,791)	\$(3,161 )	\$(11,171)

Three months ended September 30, 2017 compared to the three months ended September 30, 2016

Net Revenue. Net revenue increased by approximately \$900,000, or 15%, to approximately \$7.1 million for the three months ended September 30, 2017 compared to approximately \$6.2 million for the three months ended September 30, 2016. The increase was primarily attributable to an increase in end user unit demand.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization increased by approximately \$350,000, or 95%, to approximately \$720,000 for the three months ended September 30, 2017 compared to approximately \$370,000 for the three months ended September 30, 2016, as a result of increased sales for the three months ended September 30, 2017 and royalty expense payable to pSivida of approximately \$140,000.

Research, development and medical affairs expenses. Research, development and medical affairs expenses decreased by approximately \$600,000, or 30%, to approximately \$1.4 million for the three months ended September 30, 2017 compared to approximately \$2.0 million for the three months ended September 30, 2016. The decrease was primarily attributable to decreases of approximately \$220,000 in scientific communication costs, \$200,000 in personnel costs and \$110,000 of costs related to maintaining the U.S. registration of ILUVIEN.

General and administrative expenses. General and administrative expenses decreased by approximately \$300,000, or 14%, to approximately \$1.9 million for the three months ended September 30, 2017 compared to approximately \$2.2 million for the three months ended September 30, 2016. The decrease was primarily attributable to a decrease of approximately \$360,000 for certain professional fees associated with pursuing alternative debt options incurred during 2016, offset by increases in other various expenses.

Sales and Marketing expenses. Sales and marketing expenses decreased by approximately \$1.3 million, or 24%, to approximately \$4.1 million for the three months ended September 30, 2017 compared to approximately \$5.4 million for the three months ended September 30, 2016. The decrease was primarily attributable to decreases of approximately \$620,000 in marketing costs, \$390,000 for personnel costs and \$140,000 in market access costs. These reductions were a result of the cost savings program we implemented in late 2016.



Table of Contents

Nine months ended September 30, 2017 compared to the nine months ended September 30, 2016

Net Revenue. Net revenue increased by approximately \$2.1 million, or 12%, to approximately \$19.6 million for the nine months ended September 30, 2017 compared to approximately \$17.5 million for the nine months ended September 30, 2016. The increase was primarily attributable to an increase in end user unit demand.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization increased by approximately \$360,000, or 77%, to approximately \$1.7 million for the nine months ended September 30, 2017 compared to approximately \$960,000 for the nine months ended September 30, 2016, as a result of an increase in net profit amounts owed to pSivida, as defined in the pSivida Agreement from the first quarter of 2017, royalty expense payable to pSivida from the third quarter of 2017 and from increased sales for the nine months ended September 30, 2017.

Research, development and medical affairs expenses. Research, development and medical affairs expenses decreased by approximately \$1.6 million, or 29%, to approximately \$4.0 million for the nine months ended September 30, 2017 compared to approximately \$5.6 million for the nine months ended September 30, 2016. The decrease was primarily attributable to decreases of approximately \$650,000 in personnel costs, \$390,000 in scientific communication costs and \$320,000 of costs related to maintaining the U.S. registration of ILUVIEN.

General and administrative expenses. General and administrative expenses decreased by approximately \$900,000, or 14%, to approximately \$5.4 million for the nine months ended September 30, 2017 compared to approximately \$6.3 million for the nine months ended September 30, 2016. The decrease was primarily attributable to decreases of approximately \$360,000 for certain professional fees associated with pursuing alternative debt options incurred during 2016, \$290,000 in bonus expense as we granted restricted stock unit awards to our non-field personnel in lieu of a cash bonus program in 2017 and \$200,000 in costs associated with the 2016 dispute between us and pSivida that was later settled in 2017.

Sales and Marketing expenses. Sales and marketing expenses decreased by approximately \$4.2 million, or 26%, to approximately \$11.7 million for the nine months ended September 30, 2017 compared to approximately \$15.9 million for the nine months ended September 30, 2016. The decrease was primarily attributable to decreases of \$1.8 million for personnel costs, \$1.5 million in marketing costs, \$370,000 in market access costs and \$320,000 in travel and entertainment costs. These reductions were a result of the cost savings program we implemented in late 2016.

Table of Contents

## International Segment

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2016		2016	
	(In thousands)			
NET REVENUE	\$2,641	\$2,114	\$7,127	\$6,145
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(319 )	(112 )	(724 )	(456 )
GROSS PROFIT	2,322	2,002	6,403	5,689
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	984	1,083	2,243	3,217
GENERAL AND ADMINISTRATIVE EXPENSES	673	778	2,068	2,656
SALES AND MARKETING EXPENSES	1,551	1,762	3,930	5,292
OPERATING EXPENSES	3,208	3,623	8,241	11,165
SEGMENT LOSS FROM OPERATIONS	\$(886 )	\$(1,621)	\$(1,838)	\$(5,476)

Three months ended September 30, 2017 compared to the three months ended September 30, 2016

Net Revenue. Net revenue increased by approximately \$300,000, or 14%, to approximately \$2.6 million for the three months ended September 30, 2017 compared to approximately \$2.1 million for the three months ended September 30, 2016. The increase was primarily attributable to increased sales of ILUVIEN in Germany as well as the initial shipments of ILUVIEN to our distribution partner in Italy.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization increased by approximately \$210,000, or 191%, to approximately \$320,000 for the three months ended September 30, 2017 compared to approximately \$110,000 for the three months ended September 30, 2016. The increase was attributable to an increase in the number of units sold in our international segment, including to our international distributors and royalty expense payable to pSivida.

Research, development and medical affairs expenses. Research, development and medical affairs expenses decreased by approximately \$120,000, or 11%, to approximately \$980,000 for the three months ended September 30, 2017 compared to approximately \$1.1 million for the three months ended September 30, 2016. The decrease was primarily attributable to a decrease in our international scientific study costs including the five-year, post-authorization, open label registry study in Europe.

General and administrative expenses. General and administrative expenses decreased by approximately \$110,000, or 14%, to approximately \$670,000 for the three months ended September 30, 2017 compared to approximately \$780,000 for the three months ended September 30, 2016. The decrease was primarily attributable to a decrease in personnel and travel and entertainment costs.

Sales and Marketing expenses. Sales and marketing expenses decreased by approximately \$300,000, or 17%, to approximately \$1.5 million for the three months ended September 30, 2017 compared to approximately \$1.8 million for the three months ended September 30, 2016. The decrease was primarily attributable to decreases of \$120,000 in marketing costs as a result of the cost savings program we implemented in late 2016 and \$110,000 in market access costs.

Nine months ended September 30, 2017 compared to the nine months ended September 30, 2016

Net Revenue. Net revenue increased by approximately \$1.0 million, or 16%, to approximately \$7.1 million for the nine months ended September 30, 2017 compared to approximately \$6.1 million for the nine months ended September 30, 2016. The increase was primarily attributable to increased sales volume in the countries in which we operate directly in Europe and sales to our international distributors.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization increased by approximately \$260,000, or 57%, to approximately \$720,000 for the nine months ended September 30, 2017 compared to approximately \$460,000 for the nine months ended September 30, 2016. The increase was primarily attributable to increases in sales volume, in supplier and manufacturing costs and royalty

expense payable to pSivida from the third quarter of 2017.

39

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Table of Contents

Research, development and medical affairs expenses. Research, development and medical affairs expenses decreased by approximately \$1.0 million, or 31%, to approximately \$2.2 million for the nine months ended September 30, 2017 compared to approximately \$3.2 million for the nine months ended September 30, 2016. The decrease was primarily attributable to decreases of \$850,000 in our international scientific study costs including the five-year, post-authorization, open label registry study in Europe, \$110,000 in pharmacovigilance costs and \$110,000 of costs related to maintaining our international registrations of ILUVIEN, offset by increases in other various expenses.

General and administrative expenses. General and administrative expenses decreased by approximately \$600,000, or 22%, to approximately \$2.1 million for the nine months ended September 30, 2017 compared to approximately \$2.7 million for the nine months ended September 30, 2016. The decrease was primarily attributable to decreases of \$460,000 in personnel and travel and entertainment costs, and \$100,000 in professional fees including legal and tax preparation fees.

Sales and Marketing expenses. Sales and marketing expenses decreased by approximately \$1.4 million, or 26%, to approximately \$3.9 million for the nine months ended September 30, 2017 compared to approximately \$5.3 million for the nine months ended September 30, 2016. The decrease was primarily attributable to decreases of \$520,000 in marketing costs as a result of the cost savings program we implemented in late 2016, \$410,000 in market access costs in the United Kingdom and Germany and \$290,000 in personnel costs.

**Other Segment**

Our chief operating decision maker manages and evaluates our U.S. and International segments based on net loss from operations adjusted for certain non-cash items, such as stock-based compensation expense and depreciation and amortization. Therefore, these non-cash expenses included in Research, Development and Medical Affairs Expenses, General and Administrative Expenses, and Sales and Marketing Expenses are classified within the Other segment within our Interim Financial Statements.

Within the respective financial statement line items included in the Other segment, stock-based compensation expense, collectively, increased by approximately \$200,000, or 18%, to \$1.3 million for three months ended September 30, 2017, compared to \$1.1 million for the three months ended September 30, 2016. Stock-based compensation expense, collectively, decreased by approximately \$100,000, or 3%, to \$3.7 million for nine months ended September 30, 2017, compared to \$3.8 million for the nine months ended September 30, 2016.

Depreciation and amortization decreased by approximately \$20,000, or 3%, to \$680,000 for three months ended September 30, 2017, compared to \$700,000 for the three months ended September 30, 2016. Depreciation and amortization decreased by approximately \$100,000, or 5%, to \$2.0 million for nine months ended September 30, 2017, compared to \$2.1 million for the nine months ended September 30, 2016.

In July 2017, we acquired the license rights to uveitis from pSivida for Europe, the Middle East and Africa and restructured our collaboration agreement. The restructuring included a conversion of our obligation to share profits from the commercialization of ILUVIEN to a royalty on net revenue. As consideration for the uveitis rights and the profit share conversion, we agreed to reduce its right to utilize pSivida's share of previous losses associated with the commercialization of ILUVIEN which would have been used to partially offset future profit sharing payments under the prior collaboration agreement. This right of offset was previously fully reserved on our financial statements due to the uncertainty of future realizability. We valued the transaction utilizing a present value analysis at approximately \$2.9 million. Because there was no approved indication for ILUVIEN for uveitis at the time, we expensed the \$2.9 million as a non-cash charge as in-process Research and Development Expense in the third quarter of 2017. We also recognized a Recovery of Prior Collaboration Losses of \$2.9 million for the value of the right of offset as a reduction of operating expenses. As a result, there was no impact on our operating loss or net loss for the three and nine months ended September 30, 2017.

Table of Contents

## Consolidated other income and expense

The following selected unaudited financial and operating data are derived from our consolidated financial statements and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Interim Financial Statements.

	Three Months Ended September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
					(In thousands)			
NET LOSS FROM OPERATIONS	\$(3,825)	\$(7,243)	\$(10,714)	\$(22,482)				
INTEREST EXPENSE, NET AND OTHER	(1,431 )	(1,330 )	(4,152 )	(3,842 )				
UNREALIZED FOREIGN CURRENCY LOSS, NET	(6 )	(51 )	(6 )	(31 )				
CHANGE IN FAIR VALUE OF DERIVATIVE WARRANT LIABILITY	—	(588 )	188	1,755				
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	—	—	(2,564 )				
NET LOSS BEFORE TAXES	(5,262 )	(9,212 )	(14,684 )	(27,164 )				
PROVISION FOR TAXES	(23 )	(33 )	(93 )	(84 )				
NET LOSS	\$(5,285)	\$(9,245)	\$(14,777)	\$(27,248)				

## Interest expense, net and other.

Interest expense, net and other was approximately \$1.4 million for the three months ended September 30, 2017 and approximately \$1.3 million for the three months ended September 30, 2016. Interest incurred in both periods was related to the 2014 Term Loan and related amendments with Hercules.

Interest expense, net and other was approximately \$4.2 million for the nine months ended September 30, 2017 and approximately \$3.8 million for the nine months ended September 30, 2016. Interest incurred in both periods was related to the 2014 Term Loan and related amendments with Hercules.

## Unrealized foreign currency loss, net.

We recorded a non-cash unrealized foreign currency losses of approximately \$6,000 and \$50,000 for the three months ended September 30, 2017 and 2016, respectively. The unrealized foreign currency losses were primarily attributable to the changing values of the Euro and the British pound sterling during the three months ended September 30, 2017 and 2016, respectively.

We recorded a non-cash unrealized foreign currency losses of approximately \$6,000 and \$30,000 for the nine months ended September 30, 2017 and 2016, respectively. The unrealized foreign currency losses were primarily attributable to the changing values of the Euro and the British pound sterling during the nine months ended September 30, 2017 and 2016, respectively.

## Change in fair value of derivative warrant liability.

There was no gain or loss for a change in fair value of derivative warrant liability for the three months ended September 30, 2016. An increase in the fair value of our derivative warrant liability resulted in a non-cash loss of approximately \$590,000 for the three months ended September 30, 2016. For the nine months ended September 30, 2017 and 2016, we recorded gains of approximately \$190,000 and \$1.8 million, respectively, for the decrease in the fair value of our derivative warrant liability. The change in fair value was primarily attributable to the decreasing time remaining to exercise the warrants.

## Loss on early extinguishment of debt.

We recorded a loss on early extinguishment of debt of approximately \$2.6 million for the nine months ended September 30, 2016, as a result of the Second Loan Amendment to our 2014 Term Loan with Hercules.

Table of Contents

Liquidity and Capital Resources

To date, we have incurred negative cash flow from operations and have accumulated a deficit of \$391.9 million from our inception through September 30, 2017.

As of September 30, 2017, we had approximately \$25.6 million in cash and cash equivalents.

We launched ILUVIEN in Germany and the United Kingdom in the second quarter of 2013, in the U.S. and Portugal in the first quarter of 2015. We began selling ILUVIEN in Austria in the first quarter of 2017 and we expect to begin sales of ILUVIEN in Ireland in the fourth quarter of 2017.

In October 2016, Limited entered into the Fourth Loan Amendment. Under the Fourth Loan Amendment, Hercules agreed to provide up to an additional \$10.0 million to Limited with (i) the first \$5.0 million available at Limited's option through June 30, 2017 subject to (A) the achievement of \$12.0 million in trailing three month net product revenue and (B) no event of default having occurred since the Effective Date and (ii) the second \$5.0 million available at Limited's option through December 31, 2017 subject to (A) the achievement of \$15.0 million in trailing three month net product revenue, (B) no event of default having occurred since the Effective Date and (C) the prior \$5.0 million having been advanced to Limited. We did not achieve the trailing three month net product revenue threshold prior to June 30, 2017 and as a result the additional \$10.0 million is not available to Limited.

The Term Loan Agreement requires that we maintain at least \$25.0 million in liquid assets, with a minimum of \$12.5 million in cash. Additionally, in any month in which we have \$35.0 million in liquidity, including cash and eligible accounts receivable, the revenue and adjusted EBITDA covenants requirement will be waived. For September 2017, the Consolidated Group did not meet the six-month revenue covenant required under the Term Loan Agreement. As a result, the Consolidated Group was required to demonstrate it had \$35.0 million in liquidity as of the last business day in September 2017. On the last business day in September 2017, the Consolidated Group was not able to demonstrate it had \$35.0 million in liquidity. However, the Consolidated Group was able to demonstrate that had \$35.0 million in liquidity on the business day immediately before the last business day in September 2017, the first business day in October 2017 and the last business day in October 2017. As a result, Hercules waived the Consolidated Group's non-compliance with the \$35.0 million liquidity requirement for September 2017.

As a result of the limited revenue generated by ILUVIEN to date, our negative cash flow from operations and accumulated deficit raise substantial doubt about our ability to continue as a going concern. Our Interim Financial Statements do not include any adjustments that might result from the outcome of this uncertainty. We believe that we have sufficient funds to allow us to become cash flow positive in the countries in which we sell ILUVIEN. However, during the nine months ended September 30, 2017, we raised approximately \$6.0 million of additional equity via the Company's at-the-market offering facility in order to raise additional funds for operations and ensure compliance with its debt covenants. Our sales agreement with Cowen and Company, LLC to sell additional shares expired on August 13, 2017.

We cannot be sure that alternative or additional financing will be available if and when needed or that, if available, the additional financing will be obtained on terms favorable to us or our stockholders. If we raise additional funds by issuing equity securities, substantial dilution to existing stockholders would likely result and the terms of any new equity securities may have a preference over our common stock. If we attempt to raise additional funds through strategic collaboration agreements and debt financing, we may not be successful in obtaining collaboration agreements, or in receiving milestone or royalty payments under those agreements, or the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to commercialize ILUVIEN or any future products or product candidates or operate our business.

For the nine months ended September 30, 2017, cash used by our operations of \$11.2 million was primarily due to our net loss of \$14.8 million offset by non-cash items, including \$3.7 million of stock-based compensation expense, \$2.0 million for depreciation and amortization and \$1.1 million for non-cash interest expense associated with our debt discount. Increasing cash used in operations was a decrease in other long term liabilities of \$1.5 million and increases in inventory of \$1.3 million, prepaid expenses and other current assets of \$550,000 and a decrease in accounts payable, accrued expenses and other current liabilities of \$240,000. These increases were offset by a decrease in accounts receivable of \$600,000.

For the nine months ended September 30, 2016, cash used by our operations of \$22.7 million was primarily due to our net loss of \$27.2 million, increased by a non-cash gain of \$1.8 million for the change in our derivative warrant liability and offset by non-cash items including a \$2.6 million loss on early debt extinguishment for the amendment to our Term Loan Agreement, \$3.8 million of stock-based compensation expense, \$2.1 million for depreciation and amortization and \$800,000 for non-cash interest expense associated with our debt discount. Cash used in operations was also decreased by a decrease in inventory of approximately \$600,000 and an increase in accounts payable, accrued expenses and other current liabilities and

Table of Contents

other non-current liabilities of approximately \$510,000. Cash used by operations were offset by increases in accounts receivable of approximately \$3.6 million and in prepaid and other current assets of approximately \$510,000.

For the nine months ended September 30, 2017, net cash used in our investing activities was approximately \$230,000, which was due to the purchase of property and equipment, primarily for the purchase of manufacturing equipment and software.

For the nine months ended September 30, 2016, net cash used in our investing activities was approximately \$120,000, which was due to the purchase of property and equipment, primarily the purchase of accounts payable software and leasehold improvements.

For the nine months ended September 30, 2017, net cash provided by our financing activities was approximately \$5.7 million. During the second and third quarters of 2017, we sold a total of 4,203,015 shares of our common stock at a weighted average purchase price of \$1.45 per share resulting in gross proceeds of approximately \$6.0 million, prior to the payment of approximately \$180,000 of sales agent discounts and commissions and related issuance costs.

For the nine months ended September 30, 2016, net cash provided by our financing activities was approximately \$25.6 million. In August 2016, we closed an underwritten public offering pursuant to which we sold and issued 18,900,000 shares of our common stock at a price to the public of \$1.40 per share, resulting in gross proceeds of approximately \$26.5 million. Offsetting this increase were payments of approximately \$1.2 million in payments of the issuance costs of common stock, \$720,000 associated with the amendments of our Term Loan Agreement and \$180,000 in payments on capital leases.

**Contractual Obligations and Commitments**

There have been no other material changes to our contractual obligations and commitments outside the ordinary course of business from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on March 3, 2017.

**Off-Balance Sheet Arrangements**

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships. We enter into guarantees in the ordinary course of business related to the guarantee of our own performance and the performance of our subsidiaries.

**Adoption of New Accounting Standards**

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. The adoption of this guidance did not have a material impact on our financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This update requires entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. This ASU is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those years. The adoption of this guidance did not have a material impact on our financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718). This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The adoption of this guidance did not have a material impact on our financial statements.



Table of Contents

Accounting Standards Issued but Not Yet Effective

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 provides a single, comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2017 for public entities, with early adoption permitted in the annual reporting period beginning after December 15, 2016. We are currently analyzing the effect of the standard to evaluate the impact of the new standard on our revenue recognition for customer contracts. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. We currently recognize revenue upon shipment of products. The assessment at this stage is that we do not expect the adoption of the new revenue recognition standard to have a material impact on our financial statements. We have completed a preliminary review of our contracts with our customers and identified the variable consideration provisions of the new guidance as potentially having the most impact on our method of recognizing revenue. We will adopt the standard in the first quarter of 2018 using the modified retrospective method by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard requires all leases with durations greater than twelve months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018, although early adoption is permitted. We are currently in the process of evaluating the impact of the adoption on our financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (Topic 230). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. We have evaluated the adoption on our financial statements and other than certain reclassifications within our cash flow statements, we do not expect the impact of the adoption to have a material effect on our financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash. ASU 2016-18 requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. We do not expect the impact of the adoption to have a material effect on our financial statements.

Table of Contents

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Liquidity

See the “Liquidity and Capital Resources” section of this Quarterly Report on Form 10-Q for additional discussion of liquidity and related risks.

Interest Rate Risk

Our earnings and cash flows are subject to fluctuations due to changes in interest rates, principally in connection with our loan agreement with Hercules. We do not believe we are materially exposed to changes in interest rates. We do not currently use interest rate derivative instruments to manage exposure to interest rate changes. We estimate that a 100 basis point, or 1%, unfavorable change in interest rates would have resulted in approximately a \$89,000 and \$265,000 increase in interest expense for the three and nine months ended September 30, 2017, respectively.

Credit Quality Risk

We are subject to credit risk in connection with accounts receivable from our product sales of ILUVIEN. We have contractual payment terms with each of our customers and we monitor our customers’ financial performance and credit worthiness so that we can properly assess and respond to any changes in their credit profile. During the three and nine months ended September 30, 2017 and 2016, we did not recognize any charges for write-offs of accounts receivable. As of September 30, 2017 and December 31, 2016, three U.S.-based distributors accounted for 83% and 90%, respectively, of our accounts receivable balances.

Foreign Exchange Risk

As discussed further above, we market ILUVIEN outside the U.S. Therefore, significant changes in foreign exchange rates of the countries outside the U.S. where our product is sold can impact our operating results and financial condition. As sales outside the U.S. continue to grow and as we expand our international operations, we will continue to assess potential steps, including foreign currency hedging and other strategies, to mitigate our foreign exchange risk.



Table of Contents

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

On December 22, 2016, Cantor Fitzgerald & Co. (Cantor Fitzgerald) filed a complaint in the Supreme Court of the State of New York, County of New York against us. This complaint mirrored a complaint that Cantor Fitzgerald filed against us in November 2016 in the United States District Court for the Southern District of New York and then voluntarily dismissed.

In the operative complaint, Cantor Fitzgerald alleges breach of a letter agreement pursuant to which we had engaged Cantor Fitzgerald to assist us in obtaining bank or loan financing. Cantor Fitzgerald alleges that our agreement in October 2016 with Hercules Capital, Inc. (Hercules) to restructure and amend our existing \$35.0 million debt facility with Hercules and to secure an additional \$10.0 million in debt financing requires the payment to Cantor Fitzgerald of an advisory fee of 2% of \$45 million, or \$900,000, plus expenses of \$24,890. Cantor Fitzgerald seeks compensatory and punitive damages, pre- and post-judgment interest, plus attorneys' fees and costs.

On January 12, 2017, we filed a counterclaim against Cantor Fitzgerald for breach of contract. We allege in the counterclaim, among other things, that Cantor Fitzgerald failed to meet its obligations to provide services to us as required under the letter agreement. We seek compensatory and other damages, arising from, among other things, our additional out-of-pocket costs incurred as a result of Cantor Fitzgerald's breach.

Both parties have answered each other's complaint and counterclaims and denied liability. This lawsuit is currently in discovery. No trial date has been set and we do not expect a trial date to be set until the second quarter of 2018 at the earliest. We are not able to predict the outcome.

ITEM 1A. Risk Factors

In our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on March 3, 2017, we identify under Item 1A of Part I important factors which could affect our business, financial condition, results of operations and future operations and could cause our actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this Quarterly Report on Form 10-Q. There have been no material changes in our risk factors subsequent to the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. However, the risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties that we currently deem to be immaterial or not currently known to us, as well as other risks reported from time to time in our reports to the SEC, also could cause our actual results to differ materially from our anticipated results or other expectations.

Table of Contents

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

48

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Table of Contents

ITEM 6. Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Registrant, as amended on various dates (filed as Exhibit 3.2 to Amendment No. 4 to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-162782), as filed on April 6, 2010 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant, as amended (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, as filed on November 5, 2015 and incorporated herein by reference).
3.3	Certificate of Designation of Series A Convertible Preferred Stock (filed as Exhibit 3.5 to the Registrant's Current Report on Form 8-K, as filed on October 2, 2012 and incorporated herein by reference).
3.4	Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (filed as Exhibit 3.6 to the Registrant's Current Report on Form 8-K, as filed on December 15, 2014 and incorporated herein by reference).
3.5	Certificate of Amendment to the Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3.5 to the Registrant's Annual Report on Form 10-K, as filed on March 3, 2017 and incorporated herein by reference).
10.50	Second Amended and Restated Collaboration Agreement by and between pSivida US Inc. and Alimera Sciences, Inc. dated July 10, 2017 (filed as Exhibit 10.23 to pSivida Corp.'s Annual Report on Form 10-K for the year ended June 30, 2017 (SEC File No. 000-51122) and incorporated herein by reference).
<u>31.1</u>	Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	Certification of the Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Link Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.
+	Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the

Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended and otherwise is not subject to liability under these sections.

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALIMERA SCIENCES, INC.

November 3, 2017 By: /s/ C. Daniel Myers  
C. Daniel Myers  
Chief Executive Officer  
(Principal Executive Officer)

November 3, 2017 By: /s/ Richard S. Eiswirth, Jr.  
Richard S. Eiswirth, Jr.  
President and Chief Financial Officer  
(Principal Financial and Accounting Officer)