ALIMERA SCIENCES INC
Form 10-Q
November 07, 2011

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number: 001-34703

Alimera Sciences, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-0028718**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
6120 Windward Parkway, Suite 290 Alpharetta, GA	**30005**
(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 þ No o
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 þ No o
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 o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of November 3, 2011, there were 31,427,355 shares of the registrant s common stock issued and outstanding.

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

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1 *Financial Statements*

ALIMERA SCIENCES, INC.
BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010
	(In thousands except share and per share data)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 38,107	$ 28,514
Investments in marketable securities	502	26,330
Prepaid expenses and other current assets	1,236	1,078
Deferred financing costs	231	272
Total current assets	40,076	56,194
PROPERTY AND EQUIPMENT at cost less accumulated depreciation	218	220
TOTAL ASSETS	$ 40,294	$ 56,414
CURRENT LIABILITIES:		
Accounts payable	$ 1,950	$ 1,677
Accrued expenses (Note 5)	1,459	2,731
Outsourced services payable	393	841
Notes payable (Note 7)	2,386	1,157
Capital lease obligations	11	11
Total current liabilities	6,199	6,417
LONG-TERM LIABILITIES:		
Notes payable, net of discount less current portion (Note 7)	3,501	4,767
Other long-term liabilities	9	18
STOCKHOLDERS EQUITY:		
Preferred stock, $.01 par value 10,000,000 shares authorized and no shares issued and outstanding at September 30, 2011 and at December 31, 2010		
Common stock, $.01 par value 100,000,000 shares authorized and 31,407,383 shares issued and outstanding at September 30, 2011 and 100,000,000 shares authorized and 31,255,953 shares issued and outstanding at December 31, 2010	314	313
Additional paid-in capital	235,155	233,338
Common stock warrants	415	415
Accumulated deficit	(205,299)	(188,854)

TOTAL STOCKHOLDERS EQUITY	30,585	45,212
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 40,294	$ 56,414

See Notes to Financial Statements.

Table of Contents

ALIMERA SCIENCES, INC.
STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)			
	(In thousands except share and per share data)			
RESEARCH AND DEVELOPMENT EXPENSES	$ 2,224	$ 3,276	$ 5,732	$ 10,481
GENERAL AND ADMINISTRATIVE EXPENSES	1,421	1,260	4,827	3,338
MARKETING EXPENSES	2,612	1,583	5,038	2,209
OPERATING EXPENSES	6,257	6,119	15,597	16,028
INTEREST INCOME	1	37	15	53
INTEREST EXPENSE	(284)		(863)	(618)
GAIN ON EARLY EXTINGUISHMENT OF DEBT (NOTE 6)				1,343
DECREASE IN FAIR VALUE OF PREFERRED STOCK CONVERSION FEATURE				3,644
LOSS FROM CONTINUING OPERATIONS	(6,540)	(6,082)	(16,445)	(11,606)
INCOME FROM DISCONTINUED OPERATIONS (NOTE 3)				4,000
NET LOSS	(6,540)	(6,082)	(16,445)	(7,606)
REDEEMABLE PREFERRED STOCK ACCRETION				(466)
REDEEMABLE PREFERRED STOCK DIVIDENDS				(2,638)
NET LOSS APPLICABLE TO COMMON SHAREHOLDERS	$ (6,540)	$ (6,082)	$ (16,445)	$ (10,710)
NET LOSS PER SHARE APPLICABLE TO COMMON SHAREHOLDERS Basic and diluted	$ (0.21)	$ (0.20)	$ (0.52)	$ (0.56)
	31,396,517	31,145,856	31,342,752	19,120,860

WEIGHTED-AVERAGE SHARES OUTSTANDING Basic and diluted	

See Notes to Financial Statements.

Table of Contents

ALIMERA SCIENCES, INC.
STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (16,445)	$ (7,606)
Income from discontinued operations (Note 3)		(4,000)
Change in fair value of preferred stock conversion feature		(3,644)
Gain from early extinguishment of debt		(1,343)
Depreciation	106	145
Stock compensation and other	1,478	567
Amortization of deferred financing costs	318	
Non-cash investment gain		(4)
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(158)	(320)
Accounts payable	273	231
Accrued expenses and other current liabilities	(1,720)	(53)
Other long-term liabilities		2
Net cash used in operating activities	(16,148)	(16,025)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments		(39,962)
Proceeds from maturities of investments	25,828	
Purchases of property and equipment	(104)	(121)
Net cash provided by (used in) investing activities of continuing operations	25,724	(40,083)
Net cash provided by investing activities of discontinued operations (Note 3)		4,000
Net cash provided by (used in) investing activities	25,724	(36,083)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercises of stock options	210	28
Proceeds from exercise of Series C-1 preferred warrants		9,997
Proceeds from exercise of common stock warrants	19	489
Proceeds from sale of common stock	111	68,395
Payment of common stock offering costs		(1,942)
Repayment of pSivida note payable (Note 6)		(15,000)
Repayment of notes payable (Note 7)	(265)	

Payment of debt modification costs	(50)	
Payments on capital lease obligations	(8)	(6)
Net cash provided by financing activities	17	61,961
NET INCREASE IN CASH	9,593	9,853
CASH Beginning of period	28,514	4,858
CASH End of period	$ 38,107	$ 14,711

Table of Contents

STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	
	(In thousands)	
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 508	$ 525
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired under capital leases	$	$ 36
Reclassification of fair value of preferred stock conversion feature to additional paid-in capital	$	$ 36,528
IPO issuance costs charged to equity	$	$ 4,228

There were no income tax or dividend payments made for the nine months ended September 30, 2011 and 2010.

See Notes to Financial Statements.

Table of Contents

ALIMERA SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations

Alimera Sciences, Inc. (Company) is a biopharmaceutical company that specializes in the research, development, and commercialization of prescription ophthalmic pharmaceuticals. The Company was formed on June 4, 2003 under the laws of the State of Delaware.

On April 21, 2010, the Company s Registration Statement on Form S-1 (as amended) was declared effective by the Securities and Exchange Commission (SEC) for the Company s initial public offering (IPO), pursuant to which the Company sold 6,550,000 shares of its common stock at a public offering price of $11.00 per share. The Company received net proceeds of approximately $68,395,000 from this transaction, after deducting underwriting discounts and commissions.

During the year ended December 31, 2006, management and the board of directors of the Company approved a plan to discontinue the operations of its non-prescription business (see Note 3). As a result of the completion of the disposal of its non-prescription business in July 2007, the Company no longer has active products and will not have active products until and unless the Company receives U.S. Food and Drug Administration (FDA) approval and launches its initial prescription product (see Note 4).

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 most advanced product candidate is ILUVIEN, which is being developed for the treatment of diabetic macular edema (DME). DME is a disease of the retina which affects individuals with diabetes and can lead to severe vision loss and blindness. The Company has completed two Phase 3 pivotal clinical trials (collectively referred to as the FAME Study) for ILUVIEN involving 956 patients in sites across the U.S., Canada, Europe and India to assess the efficacy and safety of ILUVIEN in the treatment of DME.

In June 2010, the Company submitted a New Drug Application (NDA) for ILUVIEN to the FDA that included data through month 24 of the FAME Study. In December 2010, the FDA issued a Complete Response Letter (CRL) in response to the Company s NDA. In the CRL, the FDA communicated its decision that the NDA could not be approved in its then present form. The FDA asked for analyses of the safety and efficacy data through month 36 of the FAME Study, including exploratory analyses in addition to those previously submitted in the NDA, to further assess the relative benefits and risks of ILUVIEN. The FDA also sought additional information regarding controls and specifications concerning the manufacturing, packaging and sterilization of ILUVIEN. In a February 2011 meeting with the FDA, the FDA requested additional data related to the use of the commercial version of the ILUVIEN inserter for which approval was sought in the NDA. In May 2011, the Company submitted to the FDA a complete response to the CRL. The FDA classified the response as a Class 2 resubmission with a Prescription Drug User Fee Act (PDUFA) date of November 12, 2011. The PDUFA date is the date by which the Company can reasonably expect to have received the FDA s response. In July 2011, the FDA notified the Company that it will not call an advisory committee during its review of the Company s complete response to the CRL. In September 2011, the Company enrolled its first patient in a physician utilization study aimed at providing the additional data requested by the FDA with respect to the commercial version of the ILUVIEN inserter. The Company has enrolled 54 patient eyes in this study evaluating the safety and utility of the commercial version of the inserter and is targeting to enroll 100 patient eyes before commercial launch.

In July 2010, using the Decentralized Procedure, the Company submitted a Marketing Authorization Application for ILUVIEN to the Medicines and Healthcare products Regulatory Agency (MHRA) in the United Kingdom, which serves as the Reference Member State, and to regulatory authorities in Austria, France, Germany, Italy, Portugal and Spain. In November 2010, the Company received the Preliminary Assessment Report from the MHRA followed by additional comments from the other health authorities in December 2010. In July 2011, the Company submitted its draft responses to the clinical, non-clinical, and quality questions to the MHRA. The submission included the additional safety and efficacy data through the final readout at the end of the FAME Study. In September 2011, the MHRA provided comments to the Company s clinical responses and indicated that there were no further comments to the Company s non-clinical and quality responses. The Company is preparing, and plans to submit in November 2011,

its final response to the Preliminary Assessment Report from the MHRA and to the additional comments from the other health authorities.

2. Basis of Presentation

The Company has prepared the accompanying unaudited interim financial statements and notes thereto in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and the instructions to Form 10-Q and Article 10-01 of Regulation S-X of the 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 management, the accompanying unaudited interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary to present fairly the Company s interim financial information.

The accompanying unaudited interim financial statements and related notes should be read in conjunction with the Company s audited financial statements for the year ended December 31, 2010 and related notes included in the Company s Annual Report on Form 10-K, which was filed with the SEC on March 25, 2011. The financial results for any interim period are not necessarily indicative of the expected financial results for the full year.

On April 21, 2010, the Company effected a 1 for 3.4 reverse split of the Company s common and preferred stock. All share and per share amounts in the accompanying financial statements and notes have been retroactively adjusted for all periods presented to give effect to the reverse stock split.

Table of Contents

ALIMERA SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

3. Discontinued Operations

In October 2006, management and the board of directors of the Company approved a plan to discontinue the operations of its non-prescription ophthalmic pharmaceutical business (OTC Business). The plan included the sale of the assets of the Company s OTC Business and also the termination of its sales and marketing personnel. The Company previously determined that the discontinued OTC Business comprised operations and cash flows that could be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. Accordingly, the results of operations for the discontinued OTC Business have been presented as discontinued operations. During the nine months ended September 30, 2010, the Company received a $4,000,000 option payment from the acquirer of the assets of the OTC Business to provide it with an additional two years to develop one of the acquired products. In July 2011, the acquirer of the assets of the OTC Business notified the Company that it will discontinue the development of the acquired products and not seek FDA approval. There were no revenues or expenses from discontinued operations during the nine month period ended September 30, 2011. The following table presents basic and diluted earnings per share from discontinued operations for the nine months ended September 30, 2010:

Net income from discontinued operations (in thousands)	$ 4,000
Net income from discontinued operations per share Basic and diluted	$ 0.21
Weighted-average shares outstanding Basic and diluted	19,120,860

4. Factors Affecting Operations

To date the Company has incurred recurring losses, negative cash flow from operations, and has accumulated a deficit of $205,299,000 from the Company s inception through September 30, 2011. The Company does not expect to generate revenues from its product, ILUVIEN, until early 2012, if at all, and therefore does not expect to have cash flow from operations until 2012, if at all. As of September 30, 2011, the Company had approximately $38,609,000 in cash, cash equivalents, and investments in marketable securities. In October 2010, the Company obtained a $32,500,000 senior secured credit facility (Credit Facility) to help fund its working capital requirements (see note 7). The Credit Facility consisted of a $20,000,000 working capital revolver and a $12,500,000 term loan. The lenders advanced $6,250,000 under the term loan and the remaining $6,250,000 was available to be advanced following FDA approval of ILUVIEN, but no later than July 31, 2011. In May 2011, the Company and its lenders amended the terms of the Credit Facility to, among other things, extend the FDA approval deadline for the second advance under the term loan to December 31, 2011, and to increase the amount available under the second advance of the term loan from $6,250,000 to $11,000,000. Management believes it has sufficient funds available to fund its operations through the projected launch of ILUVIEN and the expected generation of revenue in early 2012. The commercialization of ILUVIEN is dependent upon approval by the FDA, however, and management cannot be sure that ILUVIEN will be approved by the FDA or that, if approved, future sales of ILUVIEN will generate enough revenue to fund the Company s operations beyond its launch. Due to the uncertainty around FDA approval, management also cannot be certain that the Company will not need additional funds for the launch of ILUVIEN. If ILUVIEN is not approved, or if approved, does not generate sufficient revenue, the Company may adjust its commercial plans so that it can continue to operate with its existing cash resources or seek to raise additional financing.

5. Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2011	December 31, 2010
	(In thousands)	
Accrued clinical investigator expenses	$ 518	$ 1,911
Accrued compensation expenses	873	730

Other accrued expenses	68	90
Total accrued expenses	$ 1,459	$ 2,731

Table of Contents

ALIMERA SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

6. pSivida Agreement

In March 2008, in connection with the Company s collaboration agreement with pSivida U.S., Inc. (pSivida), the licensor of the ILUVIEN technology, the Company and pSivida amended and restated the agreement to provide the Company with 80% of the net profits and pSivida with 20% of the net profits derived by the Company from the sale of ILUVIEN. In connection with the amended and restated agreement, the Company also agreed to:

pay $12.0 million to pSivida upon the execution of the March 2008 agreement;

issue a $15.0 million promissory note to pSivida;

forgive all outstanding development payments, penalties and interest as of the effective date of the March 2008 agreement, which totaled $6.8 million;

continue responsibility for regulatory, clinical, preclinical, manufacturing, marketing and sales for the remaining development and commercialization of the products;

assume all financial responsibility for the development of the products and assume 80% of the commercialization costs of the products (instead of 50% as provided under the February 2005 agreement); and

make an additional milestone payment of $25.0 million after the first product under the March 2008 agreement has been approved by the FDA.

The $15,000,000 promissory note accrued interest at 8% payable quarterly and was payable in full to pSivida upon the earlier of a liquidity event as defined in the note (including an initial public offering of the Company s common stock greater than $75,000,000), the occurrence of an event of default under the Company s agreement with pSivida or September 30, 2012. If the note was not paid in full by March 31, 2010, the interest rate was to increase to 20% effective as of April 1, 2010, and the Company would be required to begin making principal payments of $500,000 per month. On April 27, 2010, the Company paid pSivida $15,225,000 in principal and interest to satisfy the note payable. As a result, the Company recognized a gain of $1,343,000 on the extinguishment of this debt in the accompanying financial statements for the nine month period ended September 30, 2010.

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 its agreement with pSivida 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. The Company was not in breach of its agreement with pSivida as of September 30, 2011.

Upon commercialization of ILUVIEN, the Company must share 20% of net profits of ILUVIEN, as defined by the agreement, with pSivida. In connection with this arrangement the Company is entitled to recover 20% of commercialization costs of ILUVIEN, as defined in the agreement, incurred prior to product profitability out of pSivida s share of net profits. As of September 30, 2011 and December 31, 2010 the Company was owed $3,556,000 and $2,224,000, respectively, in commercialization costs. Due to the uncertainty of FDA approval of the NDA for ILUVIEN, the Company has fully reserved these amounts in the accompanying financial statements.

Table of Contents

ALIMERA SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

7. Term Loan and Working Capital Revolver

Term Loan

On October 14, 2010 (Effective Date), the Company entered into a Loan and Security Agreement (Term Loan Agreement) with Silicon Valley Bank and MidCap Financial LLP (Lenders). Pursuant to the original terms of the Term Loan Agreement, the Company was entitled to borrow up to $12.5 million, of which $6.25 million (Term Loan A) was advanced to the Company on the Effective Date. The Company was entitled to draw down the remaining $6.25 million under the Term Loan (Term Loan B and together with Term Loan A, the Term Loan) if the FDA approved the Company s NDA for ILUVIEN prior to or on July 31, 2011. On May 16, 2011, the Company and the Lenders amended the Term Loan Agreement (Term Loan Modification) to, among other things, extend until December 31, 2011 the date by which the FDA must approve the NDA in order for the Company to draw down Term Loan B and increase the amount of Term Loan B by $4.75 million to $11.0 million. In addition, the maturity date of the Term Loan was extended from October 31, 2013 to April 30, 2014 (Term Loan Maturity Date).

The Company was required to pay interest on Term Loan A at a rate of 11.5% on a monthly basis through July 31, 2011, and then beginning August 2011, the Company is required to repay the principal in 33 equal monthly installments plus interest at a rate of 11.5%. The Company is required to pay interest at a rate of 12.5% on the amount borrowed, if any, under Term Loan B through April 30, 2012, and thereafter will be required to repay the principal in equal monthly installments through the Term Loan Maturity Date, plus interest at a rate of 12.5%.

If the Company repays Term Loan A prior to maturity, the Company must pay to the Lenders a prepayment fee equal to 5.0% of the total amount of principal then outstanding if the prepayment had occurred within one year after the funding date of Term Loan A (Term Loan A Funding Date), 3.0% of such amount if the prepayment occurs between one year and two years after the Term Loan A Funding Date and 1.0% of such amount if the prepayment occurs thereafter (subject to a 50% reduction in the event that the prepayment occurs in connection with an acquisition of the Company). If Term Loan B is advanced to the Company, then the amount of the prepayment fee on both Term Loan A and Term Loan B will be reset to 5.0% and the time-based reduction of the prepayment fee will be measured from the funding date of Term Loan B (subject to the same 50% reduction in the event of an acquisition of the Company), rather than from the Term Loan A Funding Date.

To secure the repayment of any amounts borrowed under the Term Loan Agreement, the Company granted to the Lenders a first priority security interest in all of its assets, including its intellectual property, however, the lien on the Company s intellectual property will be released if the Company meets certain financial conditions. The occurrence of an event of default could result in the acceleration of the Company s obligations under the Term Loan Agreement and an increase to the applicable interest rate, and would permit the Lenders to exercise remedies with respect to the collateral under the Term Loan Agreement. The Company also agreed not to pledge or otherwise encumber its intellectual property assets. Additionally, the Company must seek the Lenders approval prior to the payment of any cash dividends.

Table of Contents

ALIMERA SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

On the Effective Date, the Company issued to the Lenders warrants to purchase an aggregate of up to 39,773 shares of the Company s common stock. Each of the warrants is exercisable immediately, has a per-share exercise price of $11.00 and has a term of 10 years. The Company estimated the fair value of warrants granted using the Black-Scholes option pricing model. The aggregate fair value of the warrants was estimated to be $389,000. The Company allocated a portion of the proceeds from the Term Loan Agreement to the warrants in accordance with Accounting Standards Codification (ASC) 470-20-25-2, *Debt Instruments with Detachable Warrants*. As a result, the Company recorded a discount of $366,000 which is being amortized to interest expense using the effective interest method. The Lenders also hold warrants to purchase an aggregate of up to 69,999 shares of the Company s common stock, which are exercisable only if Term Loan B is advanced to the Company. Each of these warrants has a per share exercise price of $11.00 and a term of 10 years. In addition, the Lenders will have certain registration rights with respect to the shares of common stock issuable upon exercise of all of their warrants. The Company paid to the Lenders an upfront fee of $62,500 on the Effective Date and an additional fee of $50,000 in connection with the Term Loan Modification. In accordance with ASC 470-50-40-17, *Debt Modifications and Extinguishments*, the Company is amortizing the unamortized discount on Term Loan A and the $50,000 modification fee over the remaining term of Term Loan A, as modified.

The Company is required to maintain its primary operating and other deposit accounts and securities accounts with Silicon Valley Bank, which accounts must represent at least 50% of the dollar value of the Company s accounts at all financial institutions.

Working Capital Revolver

Also on the Effective Date, the Company and Silicon Valley Bank entered into a Loan and Security Agreement, pursuant to which the Company obtained a secured revolving line of credit (Working Capital Revolver) from Silicon Valley Bank with borrowing availability up to $20,000,000 (Revolving Loan Agreement). On May 16, 2011, the Company and Silicon Valley Bank amended the Revolving Loan Agreement to extend the maturity date of the Working Capital Revolver from October 31, 2013 to April 30, 2014.

The Working Capital Revolver is a working capital-based revolving line of credit in an aggregate amount of up to the lesser of (i) $20,000,000, or (ii) 85% of eligible domestic accounts receivable. As of September 30, 2011, no amounts under the Working Capital Revolver were outstanding or available to the Company.

Amounts advanced under the Working Capital Revolver will bear interest at an annual rate equal to Silicon Valley Bank s prime rate plus 2.50% (with a rate floor of 6.50%). Interest on the Working Capital Revolver will be due monthly, with the balance due at the maturity date. On the Effective Date, the Company paid to Silicon Valley Bank an upfront fee of $100,000. In addition, if the Company terminates the Working Capital Revolver prior to maturity, it would have paid to Silicon Valley Bank a fee of $400,000 if the termination occured within one year after the Effective Date and a fee of $200,000 if the termination occurs more than one year after the Effective Date (each a Termination Fee), provided in each case that such Termination Fee will be reduced by 50% in the event of an acquisition of the Company.

To secure the repayment of any amounts borrowed under the Revolving Loan Agreement, the Company granted to Silicon Valley Bank a first priority security interest in all of its assets, including its intellectual property, however, the lien on the Company s intellectual property will be released if the Company meets certain financial conditions. The occurrence of an event of default could result in the acceleration of the Company s obligations under the Revolving Loan Agreement and an increase to the applicable interest rate, and would permit Silicon Valley Bank to exercise remedies with respect to the collateral under the Revolving Loan Agreement. The Company also agreed not to pledge or otherwise encumber its intellectual property assets. Additionally, the Company must seek Silicon Valley Bank s approval prior to the payment of any cash dividends.

Table of Contents

ALIMERA SCIENCES, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

8. Earnings (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, convertible preferred stock and accrued but unpaid convertible preferred stock dividends. In periods where a net loss from continuing operations is recorded, no effect is given to potentially dilutive securities, since the effect would be anti-dilutive. Total securities that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been anti-dilutive were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Series A preferred stock and convertible accrued dividends				3,002,205
Series B preferred stock				3,063,383
Series C preferred stock				2,488,762
Series C-1 preferred stock				1,187,651
Series C-1 Preferred stock warrants				56,723
Common stock warrants	28,086	77,114	29,366	112,644
Stock options	1,502,469	1,633,441	1,573,106	1,669,748
	1,530,555	1,710,555	1,602,472	11,581,116

9. Preferred Stock

Prior to the Company s IPO, the Company had four series of preferred stock. On April 27, 2010 and in connection with the IPO, all outstanding shares of the Company s preferred stock were converted into 22,863,696 shares of common stock and all preferred stock dividends were eliminated. Significant terms of all series of the preferred stock were as follows:

Dividends were cumulative and accrued on a daily basis at the rate of 8% per annum beginning on the date of issuance and based on the original issue price, as adjusted for any stock dividend, stock split, combination, or other event involving the preferred stock. Dividends accrued, whether or not declared, annually and were due and payable when and if declared by the Board of Directors, upon a liquidating event upon redemption of the preferred stock or on the date that the preferred stock was otherwise acquired by the Company.

Upon any liquidation, dissolution, or winding up of the Company, the preferred stockholders were entitled to a liquidation preference payment equal to (i) the sum of the liquidation value plus all accumulated, accrued, and unpaid dividends and (ii) the pro rata share of any remaining amounts such holder would have been entitled to receive had such holder s shares been converted into common stock immediately prior to the liquidation, dissolution, or winding up.

At any time subsequent to March 17, 2013, the holders of a majority of the preferred stock could have required the Company to redeem all or any portion of the preferred stock. If the preferred stock was redeemed, the redemption would have occurred in equal installments over a three-year period. The price paid

by the Company to redeem the shares would have been the greater of (i) the original issue price, plus all accumulated, accrued, and unpaid dividends, and (ii) the fair market value of the preferred stock being redeemed at the time of the redemption.

Because the preferred stock provided the holders the right to require the Company to redeem such shares for cash after March 17, 2013 at the greater of (i) the original issue price plus any accrued but unpaid dividends and (ii) the fair market value of the preferred stock being redeemed, the embedded conversion feature required separate accounting. Consequently, the conversion feature had to be bifurcated from the preferred stock and accounted for separately at each issuance date. The carrying value of the embedded derivative was adjusted to fair value at the end of each reporting period and the change in fair value was recognized in the statement of operations.