ALIMERA SCIENCES INC
Form 10-Q
August 10, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2015
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 (State or other jurisdiction of incorporation or organization)	20-0028718 (I.R.S. Employer Identification No.)
6120 Windward Parkway, Suite 290 Alpharetta, GA (Address of principal executive offices)	30005 (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 x 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 x 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 o	Accelerated filer x
Non-accelerated filer o (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 ¨ No x
As of August 7, 2015 there were 44,411,259 shares of the registrant's Common Stock issued and outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. Interim Condensed Consolidated Financial Statements (unaudited)
ALIMERA SCIENCES, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2015	December 31, 2014
	(In thousands, except share and per share data)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 48,136	$ 76,697
Accounts receivable, net	7,732	850
Prepaid expenses and other current assets	3,104	3,234
Inventory, net (Note 5)	1,638	1,734
Deferred financing costs	532	754
Total current assets	61,142	83,269
PROPERTY AND EQUIPMENT, net	2,659	1,653
INTANGIBLE ASSET, net (Note 6)	23,528	24,490
TOTAL ASSETS	$ 87,329	$ 109,412
CURRENT LIABILITIES:		
Accounts payable	$ 3,284	$ 5,021
Accrued expenses (Note 7)	2,850	954
Accrued milestone payments	—	2,000
Outsourced services payable	961	1,466
Note payable (Note 9)	7,672	1,023
Capital lease obligations	204	11
Total current liabilities	14,971	10,475
NON-CURRENT LIABILITIES:		
Derivative warrant liability	11,376	16,098
Note payable, net of discount — less current portion (Note 9)	26,688	33,065
Other non-current liabilities	963	255
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value — 10,000,000 shares authorized at June 30, 2015 and December 31, 2014:		
Series A Convertible Preferred Stock, 1,300,000 authorized and 600,000 issued and outstanding at June 30, 2015 and December 31, 2014; liquidation preference of $24,000 at June 30, 2015 and December 31, 2014	19,227	19,227
Series B Convertible Preferred Stock, 8,417 authorized and 8,416.251 issued and outstanding at June 30, 2015 and December 31, 2014; liquidation preference of $50,750 at June 30, 2015 and December 31, 2014	49,568	49,568
Common stock, $.01 par value — 100,000,000 shares authorized, 44,403,759 shares issued and outstanding at June 30, 2015 and 44,320,342 shares issued and outstanding at December 31, 2014	444	443
Additional paid-in capital	295,339	292,851
Common stock warrants	1,497	1,497
Accumulated deficit	(331,644)	(313,255)
Accumulated other comprehensive loss	(1,100)	(812)
TOTAL STOCKHOLDERS' EQUITY	33,331	49,519
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 87,329	$ 109,412

See Notes to Consolidated Financial Statements.

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ALIMERA SCIENCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except share and per share data)			
NET REVENUE	$5,776	$2,190	$9,714	$4,274
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(376)	(376)	(659)	(940)
GROSS PROFIT	5,400	1,814	9,055	3,334
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	3,815	1,942	7,144	4,696
GENERAL AND ADMINISTRATIVE EXPENSES	3,821	2,791	7,440	5,685
SALES AND MARKETING EXPENSES	6,925	3,003	14,054	6,286
DEPRECIATION AND AMORTIZATION	639	36	1,211	69
OPERATING EXPENSES	15,200	7,772	29,849	16,736
NET LOSS FROM OPERATIONS	(9,800)	(5,958)	(20,794)	(13,402)
INTEREST EXPENSE, NET AND OTHER	(1,151)	(325)	(2,273)	(454)
UNREALIZED FOREIGN CURRENCY GAIN (LOSS), NET	143	(146)	29	(202)
CHANGE IN FAIR VALUE OF DERIVATIVE WARRANT LIABILITY	2,216	8,054	4,722	(5,076)
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	(440)	—	(440)
NET (LOSS) INCOME BEFORE TAXES	(8,592)	1,185	(18,316)	(19,574)
PROVISION FOR TAXES	(4)	(69)	(73)	(69)
NET (LOSS) INCOME APPLICABLE TO COMMON STOCKHOLDERS	$(8,596)	$1,116	$(18,389)	$(19,643)
NET (LOSS) INCOME PER SHARE APPLICABLE TO COMMON STOCKHOLDERS — Basic	$(0.19)	$0.03	$(0.41)	$(0.52)
WEIGHTED AVERAGE SHARES OUTSTANDING — Basic	44,396,656	40,275,638	44,372,283	38,076,968
NET LOSS PER SHARE APPLICABLE TO COMMON STOCKHOLDERS — Diluted	$(0.19)	$(0.16)	$(0.41)	$(0.52)
WEIGHTED AVERAGE SHARES OUTSTANDING — Diluted	44,396,656	42,548,254	44,372,283	38,076,968

See Notes to Consolidated Financial Statements.

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ALIMERA SCIENCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
NET (LOSS) INCOME	$(8,596)	$1,116	$(18,389)	$(19,643)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	70	139	(288)	143
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	70	139	(288)	143
COMPREHENSIVE (LOSS) INCOME	$(8,526)	$1,255	$(18,677)	$(19,500)

See Notes to Consolidated Financial Statements.

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ALIMERA SCIENCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Six Months Ended June 30,	
	2015	2014
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(18,389)	$(19,643)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,211	69
Unrealized foreign currency transaction (gain) loss	(29)	202
Loss from early extinguishment of debt	—	440
Amortization of deferred financing costs and debt discount	349	94
Stock-based compensation expense	2,309	1,849
Change in fair value of derivative warrant liability	(4,722)	5,076
Changes in assets and liabilities:		
Accounts receivable	(6,831)	(526)
Prepaid expenses and other current assets	9	894
Inventory	(16)	400
Accounts payable	(1,206)	122
Accrued expenses and other current liabilities	(450)	827
Other long-term liabilities	111	(2)
Net cash used in operating activities	(27,654)	(10,198)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(337)	(210)
Net cash used in investing activities	(337)	(210)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	138	334
Proceeds from sale of common stock	42	37,543
Payment of issuance cost of common stock	—	(2,389)
Payment of Series B Convertible Preferred Stock offering costs	(327)	—
Payment of principal on notes payable	—	(4,861)
Payment of debt extinguishment costs	—	(246)
Proceeds from issuance of notes payable	—	10,000
Payment of debt costs	—	(645)
Payment of capital lease obligations	(150)	(5)
Net cash (used in) provided by financing activities	(297)	39,731
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(273)	35
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(28,561)	29,358
CASH AND CASH EQUIVALENTS — Beginning of period	76,697	12,628
CASH AND CASH EQUIVALENTS — End of period	$48,136	$41,986
SUPPLEMENTAL DISCLOSURES:		

Cash paid for interest	$1,934	$224
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment acquired under capital leases	$941	$—

There were no income tax or dividend payments made during the six months ended June 30, 2015 and 2014.

See Notes to Consolidated Financial Statements.

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ALIMERA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Alimera Sciences, Inc., and its subsidiaries (the Company), is a pharmaceutical 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.

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 underserved market opportunity. The Company's only commercial product is ILUVIEN®, 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 has committed to conduct a five-year, post-authorization, open label registry study of ILUVIEN in 800 patients.

The Company launched ILUVIEN in the United Kingdom and Germany in the second quarter of 2013 and in Portugal and the U.S. in the first quarter of 2015.

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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 unaudited interim condensed consolidated financial statements reflect all adjustments, which include normal recurring adjustments, necessary to present fairly the Company's interim financial information.

The accompanying unaudited interim condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2014 and related notes included in the Company's Annual Report on Form 10-K, which was filed with the SEC on March 13, 2015. The financial results for any interim period are not necessarily indicative of the expected financial results for the full year.

Reclassifications

Within the Operating expenses section of the unaudited Consolidated Statements of Operations for the three and six months ended June 30, 2014, the Company reclassified depreciation expense of $36,000 and $69,000, respectively, from general and administrative expenses to depreciation and amortization to conform to the current year presentation. In addition, for the three and six months ended June 30, 2014, the Company reclassified certain medical affairs support expenses of $133,000 and $261,000, respectively, from sales and marketing expenses to research, development and medical affairs expenses to conform to the current year presentation.

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, 2014. In addition, with the U.S. launch of ILUVIEN in the six months ended June 30, 2015, the Company adopted the revenue recognition and segment reporting policies set forth below.

Revenue Recognition

In the U.S., the Company sells ILUVIEN to a limited number of specialty distributors who in turn sell the product downstream to pharmacies and physician practices. Revenue from U.S. product sales is recorded upon sale to the specialty distributors net of applicable provisions for rebates and chargebacks under governmental programs, distribution-related fees and other sales-related deductions. Calculating these provisions involves estimates and judgments. The Company reviews its estimates of rebates, chargebacks, and other applicable provisions each period and records any necessary adjustments in the current period's net product sales.

Government Rebates and Chargebacks: The Company estimates reductions to product sales for Medicaid and Veterans' Administration (VA) programs, and for certain other qualifying federal and state government programs. Based upon the Company's contracts with government agencies, statutorily-defined discounts applicable to government-funded programs, historical experience, and estimated payer mix, the Company estimates and records an allowance for rebates and chargebacks. The Company's liability for Medicaid rebates consists of estimates for claims that a state will make for a current quarter, claims for prior quarters that have been estimated for which an invoice has not been received, and invoices received for claims from prior quarters that have not been paid. The Company's reserves related to discounted pricing to VA, Public Health Services, and other institutions (collectively qualified healthcare providers) represent the Company's estimated obligations resulting from contractual commitments to sell products to qualified healthcare providers at prices lower than the list prices the Company charges to its customers (i.e., specialty distributors). The Company's customers charge the Company for the difference between what they pay for the products and the ultimate selling price to the qualified healthcare providers. The Company's reserve for this discounted pricing is based on expected sales to qualified healthcare providers and the chargebacks that customers have already claimed.

Distribution-Related Fees: The Company has written contracts with its customers that include terms for distribution-related fees. The Company estimates and records distribution and related fees due to its customers based

on gross sales.

Product Returns: Consistent with industry practice, the Company offers its customers a limited right to return product purchased directly from the Company, which is principally based upon the product's expiration date. The Company will accept returns for three months prior to and up to six months after the product expiration date. Depending on the circumstances, the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Company may provide replacement products or cash credit for returns. Product returned is generally not resalable given the nature of the Company's products and method of administration. The Company develops estimates for product returns based upon historical experience, inventory levels, shelf life of the product, and other relevant factors. The Company monitors product supply levels in the distribution channel, as well as sales by its customers to healthcare providers using product-specific data provided by its customers. If necessary, the Company's estimates of product returns may be adjusted in the future based on actual returns experience, known or expected changes in the marketplace, or other factors.

Reporting Segments

The Company determines operating segments in accordance with its internal operating structure. 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 net loss from operations. The Company does not report balance sheet information by segment since it is not reviewed by the Company's chief operating decision maker. The Company has two reportable segments, the U.S. and International.

Previously, the business was managed on an aggregate basis. As a result of the retrospective presentation and disclosure requirements under U.S. GAAP for changes in segment reporting, the Company is required to reflect the change in presentation and disclosure for all periods presented. As such, the Company has presented in Note 16, Segment Information, the financial results for the three and six months ended June 30, 2014 in the same manner as for the three and six months ended June 30, 2015.

During the three and six months ended June 30, 2015, two individual customers within the U.S. segment accounted for 65% and 77% of our consolidated revenues.

The accounting policies of these segments are the same as those described in Note 2, Summary of Significant Accounting Policies included in the Notes to Financial Statements included in the Company's Annual Report on Form 10-K.

Research and Development Expenses

Research and development expenses were $1.6 million and $1.1 million for the three months ended June 30, 2015 and 2014, respectively and $2.9 million and $2.4 million for the six months ended June 30, 2015 and 2014, respectively.

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.

In May 2014, the FASB issued Accounting Standards Update (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 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 still evaluating the potential impact of adopting this guidance on its financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern. ASU 2014-15 provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15,

2016. Early adoption is permitted. The Company is still evaluating the potential impact of adopting this guidance on its financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 is intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

guidance for debt issuance costs are not affected by the amendments in this ASU. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted and the standard is to be retrospectively applied to all periods presented upon adoption. The Company is still evaluating the potential impact of adopting this guidance on its financial statements.

4. FACTORS AFFECTING OPERATIONS

To date, the Company has incurred negative cash flow from operations, and has accumulated a deficit of $331,644,000 from inception through June 30, 2015. As of June 30, 2015, the Company had approximately $48,136,000 in cash and cash equivalents.

The Company believes that it has sufficient funds available to fund its operations for the continued commercialization of ILUVIEN in the U.S., Germany, Portugal, and the United Kingdom. The Company does not expect to generate positive cash flow from operations until 2016, if at all. The Company may seek to raise additional financing to fund its working capital needs for the commercialization of ILUVIEN or the development and commercialization of future products and product candidates. If the Company is unable to raise additional financing, then it may adjust its commercial plans so that it can continue to operate with its existing cash resources.

The accompanying interim condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company’s negative cash flow from operations and accumulated deficit raise substantial doubt about its ability to continue as a going concern. The interim condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. INVENTORY

Inventory consisted of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
Component parts (1)	$134	$76
Work-in-process (2)	—	219
Finished goods	1,560	1,972
Total inventory	1,694	2,267
Inventory reserve	(56)	(533)
Inventory — net	$1,638	$1,734

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

(2) Work-in-process consists of completed units of ILUVIEN that are undergoing, but have not completed, quality assurance testing as required by regulatory authorities.

6. INTANGIBLE ASSETS

As a result of the United States Food and Drug Administration's (the FDA) approval of the NDA for ILUVIEN in September 2014, the Company was required to pay pSivida US, Inc. (pSivida) a milestone payment of $25,000,000 (the pSivida Milestone Payment) in October 2014 (see Note 8). The Company had no intangible assets prior to September 2014.

The gross carrying amount of the intangible asset was $25,000,000, which is being amortized over approximately 13 years from the acquisition date. The amortization expense related to the intangible asset was $483,000 and $962,000 for the three and six months ended June 30, 2015, respectively. The net book value of the intangible asset was $23,528,000 and $24,490,000 as of June 30, 2015 and December 31, 2014, respectively.

The estimated future amortization expense as of June 30, 2015 for the remaining periods in the next five years and thereafter is as follows (in thousands):

Years Ending December 31	
2015	$978
2016	1,940
2017	1,940
2018	1,940
2019	1,940
Thereafter	14,790
Total	$23,528

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

7. ACCRUED EXPENSES
Accrued expenses consisted of the following:

	June 30, 2015	December 31, 2014
	(In thousands)	
Accrued compensation expenses	1,365	226
Accrued clinical investigator expenses	$466	$309
Accrued rebate, chargeback and other revenue reserves	251	—
Other accrued expenses	768	419
Total accrued expenses	$2,850	$954

8. LICENSE AGREEMENTS
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 in 2008. The agreement with pSivida provides the Company with a worldwide exclusive license to utilize certain underlying technology used in the development and commercialization of ILUVIEN.
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 must 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 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 June 30, 2015 and December 31, 2014, the Company was owed approximately $18,368,000 and $12,956,000, respectively, in commercialization costs. Due to the uncertainty of future net profits, the Company has fully reserved these amounts in the accompanying interim condensed consolidated financial statements. As a result of the FDA's approval of the NDA for ILUVIEN in September 2014, the Company made the pSivida Milestone Payment of $25,000,000 in October 2014.

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

9. LOAN AGREEMENTS

2013 Loan Agreement

In May 2013, Alimera Sciences Limited (Limited), a subsidiary of the Company, entered into a loan and security agreement (2013 Loan Agreement) with Silicon Valley Bank (SVB) to provide Limited with additional working capital for general corporate purposes. Under the 2013 Loan Agreement, SVB made a term loan (2013 Term Loan) in the principal amount of $5,000,000 to Limited and agreed to provide up to an additional $15,000,000 to Limited under a working capital line of credit (2013 Line of Credit). In April 2014, the 2013 Term Loan was repaid and the 2013 Line of Credit was terminated in connection with the 2014 Loan Agreement described below. Upon repayment of the 2013 Term Loan in April 2014, Limited paid SVB an outstanding loan balance prepayment penalty of $133,000, and an early termination fee of $113,000 in connection with the termination of the 2013 Line of Credit. In addition, in accordance with ASC 470-50-40-17, the Company expensed the facility fee and incremental value of the warrants associated with the 2013 Term Loan as part of the loss on early extinguishment.

2014 Loan Agreement

In April 2014, Limited entered into a loan and security agreement (2014 Loan Agreement) with Hercules Technology Growth Capital, Inc. (Hercules) providing for a term loan of up to $35,000,000 (2014 Term Loan). 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 the 2013 Term Loan. 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 Term Loan provides for interest only payments through November 2015. Interest on the 2014 Term Loan accrues 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 term loan will be due and payable to Hercules in equal monthly payments of principal and interest through May 1, 2018. In connection with the initial advance, Limited paid to Hercules a facility charge of $262,500 and incurred legal and other fees of approximately $383,000. Limited incurred $375,000 in additional fees in connection with the second advance. If Limited repays the 2014 Term Loan prior to maturity, it will pay Hercules a prepayment penalty of 1.25% of the total principal amount repaid.

Limited and the Company, on a consolidated basis with its other subsidiaries, also 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 2014 Loan Agreement and an increase to the applicable interest rate, and would permit Hercules to exercise remedies with respect to the collateral under the 2014 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 2014 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. As of June 30, 2015, the Company, on a consolidated basis with its subsidiaries, was in compliance with the covenants of the 2014 Term Loan.

In connection with Limited entering into the 2014 Loan Agreement, the Company entered into a warrant agreement with Hercules to purchase up to 285,016 shares of the Company's common stock at an exercise price of $6.14 per share. Sixty percent of the warrants were 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.

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; therefore, the carrying amount of the notes approximated their fair value at June 30, 2015 and December 31, 2014.

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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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Series A convertible preferred stock	9,022,556	12,781,954	9,022,556	12,781,954
Series B convertible preferred stock	8,416,251	—	8,416,251	—
Series A convertible preferred stock warrants	4,511,279	—	4,511,279	4,511,279
Common stock warrants	362,970	248,964	362,970	248,964
Stock options	9,292,947	7,599,768	9,292,947	7,599,768
Total	31,606,003	20,630,686	31,606,003	25,141,965

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Numerator for basic EPS - net income (loss) applicable to common stockholders	$(8,596,000)	$1,116,000	$(18,389,000)	$(19,643,000)
Effect of dilutive securities:				
Change in fair value of derivative warrant liability	—	(8,054,000)	—	—
Numerator for diluted EPS - net loss applicable to common stockholders after assumed conversions	$(8,596,000)	$(6,938,000)	$(18,389,000)	$(19,643,000)
Denominator:				
Denominator for basic EPS - weighted average shares outstanding	44,396,656	40,275,638	44,372,283	38,076,968
Effect of dilutive securities:				
Preferred stock warrants (Note 11)	—	2,272,616	—	—
Denominator for diluted EPS - adjusted weighted average shares and assumed conversions outstanding	44,396,656	42,548,254	44,372,283	38,076,968
Basic EPS	(0.19)	0.03	(0.41)	(0.52)
Diluted EPS	(0.19)	(0.16)	(0.41)	(0.52)

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 is subject to adjustment based on certain customary price based anti-dilution adjustments. 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. At June 30, 2015 and December 31, 2014, the fair market value of the warrants was estimated to be $11,376,000 and $16,098,000, respectively. During the three months ended June 30, 2015 and 2014, the Company recorded gains of $2,216,000 and $8,054,000, respectively, as a result of the change in fair value of the warrants. During the six months ended June 30, 2015 and 2014, the Company recorded gain of $4,722,000 and a loss of $5,076,000, respectively, as a result of the change in fair value of the warrants.

In April 2014, 2,255,639 shares of common stock were issued pursuant to the conversion of 150,000 shares of Series A Convertible Preferred Stock held by an investor. In September 2014, 3,759,398 shares of common stock were issued pursuant to the conversion of 250,000 shares of Series A Convertible Preferred Stock held by another investor. As of June 30, 2015, there were 600,000 shares of Series A Convertible Preferred Stock issued and outstanding.

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 Preferred Stock is not

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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 Preferred Shares 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 January 2014, the Company entered into a securities purchase agreement with certain investors pursuant to which the Company sold an aggregate of 6,250,000 shares of its common stock at a purchase price of $6.00 per share. Gross proceeds from the offering were $37,500,000 prior to the payment of approximately $2,389,000 of related issuance costs. Proceeds from the private placement were used for general corporate and working capital purposes.

In April 2014, 2,255,639 shares of common stock were issued pursuant to the conversion of 150,000 shares of Series A Convertible Preferred Stock held by an investor. In September 2014, 3,759,398 shares of common stock were issued pursuant to the conversion of 250,000 shares of Series A Convertible Preferred Stock held by another investor.

During the three and six months ended June 30, 2015 and 2014, 10,993 and 23,487 shares of the Company’s common stock were acquired through its employee stock purchase plan resulting in proceeds of $42,000 and $43,000, respectively.