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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 June 30, 2018

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 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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	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) of the Exchange Act. ☐

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 July 31, 2018, there were 70,038,411 shares of the registrant's Common Stock issued and outstanding.

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

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See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND PROJECTIONS

Various statements in this report of Alimera Sciences, Inc. (we, our, Alimera, the Company or the registrant) 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 our 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 "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "contemplates," "predict," "project," "target," "likely," "potential," "continue," "ongoing," "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 that could cause actual results to differ include:

- uncertainty regarding our ability to achieve profitability and positive cash flow through the commercialization of ILUVIEN® in the U.S., the European Economic Area (EEA) and other regions of the world where we sell ILUVIEN;
- dependence on third-party manufacturers to manufacture ILUVIEN or any future products or product candidates in sufficient quantities and quality;
- uncertainty regarding the pricing and reimbursement guidelines for ILUVIEN or any future products or product candidates, including ILUVIEN in new markets;
- our ability to successfully obtain the indication for non-infectious posterior uveitis in the EU;
- our ability to successfully commercialize ILUVIEN following regulatory approval in additional markets;
- delay in or failure to obtain regulatory approval of ILUVIEN or any future products or product candidates in additional countries;
- the possibility that we may again fail to comply with the continuing listing standards of the Nasdaq Global Market because the closing bid price of the our common stock on the Nasdaq Global Market is below $1.00 for 30 consecutive business days;
- our ability to operate our business in compliance with the covenants and restrictions in our credit facility;
- current and future laws and regulations; and
- our possible need to raise additional financing.

All written and oral 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 any forward-looking statements, whether as a result of new information, future events or otherwise. Please see, however, 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 (SEC).

We encourage you to read the discussion and analysis of our financial condition and our 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, 2017, which contains a more detailed discussion of some 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 we will in fact achieve the actual results or developments we anticipate or, even if we do substantially realize them, that they will have the expected consequences to, or effects on, us. Therefore, we can give no assurances that we will achieve the outcomes stated in those forward-looking statements and estimates.

PART I. FINANCIAL INFORMATION

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

ALIMERA SCIENCES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
	(In thousands, except share and per share data)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,687	$ 24,067
Restricted cash	33	34
Accounts receivable, net	13,419	11,435
Prepaid expenses and other current assets	2,299	2,278
Inventory (Note 6)	2,139	1,508
Total current assets	34,577	39,322
NON-CURRENT ASSETS:		
Property and equipment, net	1,542	1,410
Intangible asset, net (Note 7)	17,701	18,664
Deferred tax asset	1,015	528
TOTAL ASSETS	$ 54,835	$ 59,924
CURRENT LIABILITIES:		
Accounts payable	$ 6,542	$ 5,905
Accrued expenses (Note 8)	2,227	3,582
Capital lease obligations	211	184
Total current liabilities	8,980	9,671
NON-CURRENT LIABILITIES:		
Note payable (Note 10)	37,461	34,365
Capital lease obligations — less current portion	338	203
Other non-current liabilities	2,518	766
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value — 10,000,000 shares authorized at June 30, 2018 and December 31, 2017:		
Series A Convertible Preferred Stock, 1,300,000 authorized and 600,000 issued and outstanding at June 30, 2018 and December 31, 2017; liquidation preference of $24,000 at June 30, 2018 and December 31, 2017	19,227	19,227
Series B Convertible Preferred Stock, 8,417 authorized and 8,416 issued and outstanding at June 30, 2018 and December 31, 2017; liquidation preference of $50,750 at June 30, 2018 and December 31, 2017	49,568	49,568
Common stock, $.01 par value — 150,000,000 shares authorized, 70,038,411 shares issued and outstanding at June 30, 2018 and 69,146,381 shares issued and outstanding at December 31, 2017	700	691
Additional paid-in capital	344,022	341,622
Common stock warrants	3,707	3,707
Accumulated deficit	(410,758)	(399,075)
Accumulated other comprehensive loss	(928)	(821)
TOTAL STOCKHOLDERS' EQUITY	5,538	14,919
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 54,835	$ 59,924

See Notes to Condensed Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except share and per share data)			
NET REVENUE	$ 10,917	$ 10,368	$ 20,719	$ 16,986
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,113)	(769)	(2,389)	(1,356)
GROSS PROFIT	9,804	9,599	18,330	15,630
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	2,777	2,238	5,599	4,348
GENERAL AND ADMINISTRATIVE EXPENSES	3,229	3,012	7,084	6,276
SALES AND MARKETING EXPENSES	5,926	5,060	11,895	10,562
DEPRECIATION AND AMORTIZATION	650	667	1,299	1,333
OPERATING EXPENSES	12,582	10,977	25,877	22,519
NET LOSS FROM OPERATIONS	(2,778)	(1,378)	(7,547)	(6,889)
INTEREST EXPENSE AND OTHER	(1,178)	(1,384)	(2,329)	(2,721)
UNREALIZED FOREIGN CURRENCY GAIN, NET	32	28	34	—
CHANGE IN FAIR VALUE OF DERIVATIVE WARRANT LIABILITY	—	21	—	188
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	—	(1,766)	—
NET LOSS BEFORE TAXES	(3,924)	(2,713)	(11,608)	(9,422)
PROVISION FOR TAXES	(76)	(44)	(76)	(70)
NET LOSS	$ (4,000)	$ (2,757)	$ (11,684)	$ (9,492)
NET LOSS PER SHARE — Basic and diluted	$ (0.06)	$ (0.04)	$ (0.17)	$ (0.15)
WEIGHTED AVERAGE SHARES OUTSTANDING — Basic and diluted	70,022,100	65,485,106	69,952,940	65,175,724

See Notes to Condensed Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
NET LOSS	$ (4,000)	$ (2,757)	$ (11,684)	$ (9,492)
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustments	(213)	226	(107)	275
TOTAL OTHER COMPREHENSIVE INCOME	(213)	226	(107)	275
COMPREHENSIVE LOSS	$ (4,213)	$ (2,531)	$ (11,791)	$ (9,217)

See Notes to Condensed Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (11,684)	$ (9,492)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,299	1,333
Inventory reserve	9	34
Unrealized foreign currency transaction gain	(34)	—
Loss on early extinguishment of debt	1,766	—
Amortization of debt discount	421	693
Stock-based compensation expense	2,358	2,400
Change in fair value of derivative warrant liability	—	(188)
Changes in assets and liabilities:		
Accounts receivable	(2,054)	337
Prepaid expenses and other current assets	(48)	(390)
Inventory	(651)	(719)
Accounts payable	167	572
Accrued expenses and other current liabilities	84	(216)
Other long-term liabilities	(35)	(1,357)
Net cash used in operating activities	(8,402)	(6,993)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(123)	(167)
Net cash used in investing activities	(123)	(167)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2	—
Proceeds from sale of common stock	49	3,042
Payment of common stock offering costs	—	(108)
Issuance of debt	40,000	—
Payment of principal on notes payable	(35,000)	—
Payment of extinguishment of debt costs	(2,544)	—
Payment of deferred financing costs	(1,142)	—
Payment of capital lease obligations	(187)	(73)
Net cash provided by financing activities	1,178	2,861
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(34)	204
NET DECREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(7,381)	(4,095)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	24,101	31,010
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH — End of period	$ 16,720	$ 26,915
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 1,579	$ 2,013
Cash paid for income taxes	$ 229	$ 55
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment acquired under capital leases	$ 432	$ —
Note payable end of term payment accrued but unpaid	$ 1,800	$ 1,400

There were no dividend payments made during the six months ended June 30, 2018 and 2017.

See Notes to Condensed Consolidated Financial Statements.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED 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 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®, 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 Europe, the Company committed to conduct a five-year, post-authorization, open label registry study in 800 patients treated with ILUVIEN. Due to its post market safety surveillance not showing any unexpected safety signals the Company requested and received approval to modify its protocol to cap enrollment in the study. Enrollment was completed with 562 patients enrolled in this study. The Company anticipates this study to complete by the end of 2019.

The Company commercially markets ILUVIEN directly in the U.S., Germany, the United Kingdom, Portugal, Austria and Ireland.

In addition, the Company has entered into various agreements under which distributors will provide regulatory, reimbursement or sales and marketing support for commercialization or future commercialization of ILUVIEN in several countries in the Middle East, as well as France, Italy, Spain, Australia, New Zealand and Canada. As of June 30, 2018, the Company has recognized sales of ILUVIEN to the Company's distributors in the Middle East, France, Italy and Spain.

In July 2017, the Company amended its license with EyePoint Pharmaceuticals US, Inc. (EyePoint) formerly known as pSivida US, Inc. 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 9). 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. In December 2017, the Company filed 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. The regulatory authorities requested additional follow-up data from the clinical trials to support the application. The Company plans to submit the follow-up data in the fourth quarter of 2018, when it is expected to be available. The Company expects that it will obtain approval of its application for NIPU in the first half of 2019.

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, 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 accompanying interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017 and related notes included in the Company's Annual Report on Form 10-K, which was filed with the SEC on March 2, 2018. The financial results for any interim period are not necessarily indicative of the expected financial results for the full year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's 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, 2017.

Research and Development Expenses

Research and development expenses were $310,000 and $3,000 for the three months ended June 30, 2018 and 2017, respectively. Research and development expenses were $414,000 and $354,000 for the six months ended June 30, 2018 and 2017, respectively.

Recent Accounting Pronouncements

From time to time, the Financial Accounting Standards Board (FASB) or other standard setting bodies issue new accounting pronouncements that we adopt 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the guidance for the recognition of revenue from contracts with customers to transfer goods and services. The FASB has subsequently issued an additional, clarifying ASU to address issues arising from implementation of the new revenue recognition standard. The new revenue recognition standard became effective for interim and annual periods beginning on January 1, 2018. The new standard is required to be adopted using either a full-retrospective or a modified-retrospective approach. The Company adopted the new revenue guidance on January 1, 2018 using the modified-retrospective approach. The Company elected the practical expedient to apply the new revenue standard only to contracts that were not completed as of January 1, 2018.

The most significant impact of the new revenue standard relates to the accounting for the Company's variable consideration and consideration payable to customers, specifically dealing with costs paid to its distributors. The new revenue standard requires the Company to classify consideration payable to customers as cost of goods sold, excluding depreciation and amortization, which consideration was previously classified as a discount to net revenue. Adoption did not have a material impact on the Company's financial statements on an ongoing basis. See Note 4 for expanded disclosures.

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 adopted this standard effective January 1, 2018, and the adoption of this guidance did not have a material impact on the Company's 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 adopted this standard effective January 1, 2018, and the adoption of this guidance did not have a material impact on the Company's financial statements. The Company's condensed consolidated statement of cash flows for the six months ended June 30, 2017 has been reclassified for this ASU.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope Modification Accounting*. The new standard clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. This standard became effective on January 1, 2018, and the Company adopted it on that date. 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 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 primary effect of adoption will be the requirement to record right-of-use assets and corresponding lease obligations for current operating leases. In addition, the standard will require that we update our systems, processes and controls we use to track, record and account for our lease portfolio. The Company is currently in the process of evaluating the impact of the adoption on the Company's financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, to allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Upon adoption of the ASU, entities will be required to describe the accounting policy for releasing income tax effects from accumulated other comprehensive income. The standard is required to be adopted for periods beginning after December 15, 2018, with early adoption available. The Company is currently in the process of evaluating the impact of the adoption on the Company's financial statements.

4. REVENUE RECOGNITION

Net Revenue

The Company sells its products to major pharmaceutical distributors, pharmacies and doctors (collectively, its Customers). In addition to distribution agreements with Customers, the Company enters into arrangements with healthcare providers and payors that provide for government-mandated and/or privately-negotiated rebates, chargebacks, and discounts with respect to the purchase of the Company's products. All of our current contracts have a single performance obligation, as the promise to transfer the individual goods is not separately identifiable from other promises in the contracts and is, therefore, not distinct.

Currently, all of our revenue is derived from product sales. The Company recognizes revenues from product sales at a point in time when the Customer obtains control, typically upon delivery. The Company accrues for fulfillment costs when the related revenue is recognized. Taxes collected from Customers relating to product sales and remitted to governmental authorities are excluded from revenues.

Estimates of Variable Consideration

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for reserves related to statutory rebates to State Medicaid and other government agencies; commercial rebates and fees to Managed Care Organizations (MCOs), Group Purchasing Organizations (GPOs), distributors, and specialty pharmacies; product returns; sales discounts (including trade discounts); distributor costs; wholesaler chargebacks; and allowances for patient assistance programs relating to the Company's sales of its products.

These reserves are based on estimates of the amounts earned or to be claimed on the related sales. Management's estimates take into consideration historical experience, current contractual and statutory requirements, specific known market events and trends, industry data, and Customer buying and payment patterns. Overall, these reserves reflect the Company's best estimates of the amount of consideration to which it is entitled based on the terms of the contract. The amount of variable consideration included in the net sales price is limited to the amount that is probable not to result in a significant reversal in the amount of the cumulative revenue recognized in a future period. If actual results vary, the Company may adjust these estimates, which could have an effect on earnings in the period of adjustment.

Consideration Payable to Customers

Distribution service fees are payments issued to distributors for compliance with various contractually-defined inventory management practices or services provided to support patient access to a product. These fees are generally based on a set fee per unit of gross purchases but can also be based on additional services these entities provide. Most of these costs are reflected under the new guidance as a cost of sale; however, to the extent the benefit from services can be separately identified and the fair value determined, costs are classified as Selling, general and administrative expenses. Distribution service fees reserves are based on the terms of each individual contract and are classified within accrued expenses.

Product Returns

The Company's policies provide for product returns in the following circumstances: (a) expiration of shelf life on certain products; (b) product damaged while in the Customer's possession; and (c) following product recalls. Generally, returns for expired product are accepted three months before and up to one year after the expiration date of the related product, and the related product is destroyed after it is returned. The Company may either refund the sales price paid by the Customer by issuance of a credit, or exchange the returned product with replacement inventory. The Company typically does not provide cash refunds. The Company estimates the proportion of recorded revenue that will result in a return by considering relevant factors, including historical returns experience, the estimated level of inventory in the distribution channel, the shelf life of products and product recalls, if any.

The estimation process for product returns involves, in each case, a number of interrelating assumptions, which vary for each Customer. The Company estimates the amount of its product sales that may be returned by its Customers and records this estimate as a reduction of revenue from Product sales in the period the related revenue is recognized, and because this returned product cannot be resold, there is no corresponding asset for product returns. To date, product returns have been minimal.

Other Revenue

The Company enters into agreements in which it licenses certain rights to its products to partner companies that act as distributors. The terms of these arrangements typically include payment to the Company of one or more of the following: non-

refundable, up-front license fees; development, regulatory and commercial milestone payments; payments for manufacturing supply services the Company provides; and a revenue share on net sales of licensed products. Each of these payments is recognized as other revenues.

As part of the accounting for these arrangements, the Company must develop estimates that require judgment to determine the stand-alone selling price for each performance obligation identified in the contract. Performance obligations are promises in a contract to transfer a distinct good or service to the Customer, and the Company recognizes revenue when, or as, performance obligations are satisfied. The Company uses key assumptions to determine the stand-alone selling price; these assumptions may include forecasted revenues, development timelines, reimbursement rates for personnel costs, discount rates and probabilities of technical, regulatory and commercial success.

Certain of these agreements include consideration in the form of milestone payments. At the inception of each arrangement that includes milestone payments, the Company evaluates the recognition of milestone payments. Typically, milestone payments are associated with events that are not entirely within the control of the Company or the licensee, such as regulatory approvals; are included in the transaction price; and are subject to a constraint until it is probable that there will not be a significant revenue reversal, typically upon achievement of the milestone. At the end of each reporting period, the Company re-evaluates the probability of achievement of such milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price.

Customer Payment Obligations

The Company receives payments from its Customers based on billing schedules established in each contract, which vary across the Company's locations, but generally range between 30 to 120 days. Occasionally, the timing of receipt of payment for the Company's international Customers can be extended. Amounts are recorded as accounts receivable when the Company's right to consideration is unconditional. The Company does not assess whether a contract has a significant financing component if the expectation is that Customer will pay for the product or services in one year or less of receiving those products or services.

The income statement reclassifications that occurred under the new guidance for the three months ended June 30, 2018 are summarized as follows:

	Three Months Ended June 30, 2018		
	Under previous revenue recognition guidance	Reclassification	As reported
	(in thousands)		
NET REVENUE	$ 10,717	$ 200	$ 10,917
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(913)	(200)	(1,113)
GROSS PROFIT	$ 9,804	$ —	$ 9,804

The income statement reclassifications that occurred under the new guidance for the six months ended June 30, 2018 are summarized as follows:

	Six Months Ended June 30, 2018		
	Under previous revenue recognition guidance	Reclassification	As reported
	(in thousands)		
NET REVENUE	$ 20,347	$ 372	$ 20,719
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(2,017)	(372)	(2,389)
GROSS PROFIT	$ 18,330	$ —	$ 18,330

5. 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 and negative cash flow from operations and has accumulated a deficit of $410,758,000 from inception through June 30, 2018. As of June 30, 2018, the Company had approximately $16,687,000 in cash and cash equivalents. The Company's ability to achieve profitability and positive cash flow depends upon its ability to increase revenue and contain its expenses.

Further, the Company must maintain compliance with the debt covenants of its $40,000,000 Loan and Security Agreement (2018 Loan Agreement) with Solar Capital Ltd. (Solar Capital) as Collateral Agent (Agent), and the parties signing the 2018 Loan Agreement from time to time as Lenders, including Solar Capital in its capacity as a Lender (each a Lender and collectively, the Lenders) (see Note 10). In management's opinion, the uncertainty regarding future revenues raises substantial doubt about the Company's ability to continue as a going concern without access to additional debt or equity financing, over the course of the next twelve months.

To meet the Company's future working capital needs, the Company may need to raise additional debt or equity financing. While the Company has historically been able to raise additional capital through issuance of equity and/or debt financing, and while the Company has implemented a plan to control its expenses to satisfy its obligations due within one year from the date of issuance of these financial statements, the Company cannot guarantee that it will be able to maintain debt compliance, raise additional equity or increase revenue. 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.

6. INVENTORY

Inventory consisted of the following:

	June 30, 2018	December 31, 2017
	(In thousands)	
Component parts (1)	$ 391	$ 404
Work-in-process (2)	878	587
Finished goods, net	870	517
Total Inventory	$ 2,139	$ 1,508

(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.

7. INTANGIBLE ASSET

As a result of the approval of ILUVIEN by the U.S. Food and Drug Administration (FDA) in September 2014, the Company was required to pay EyePoint a milestone payment of $25,000,000 (the EyePoint Milestone Payment) in October 2014 (see Note 9).

The gross carrying amount of the intangible asset was $25,000,000, which is being amortized over approximately 13 years from the payment date. The amortization expense related to the intangible asset was approximately $484,000 for both the three months ended June 30, 2018 and 2017, respectively. The amortization expense related to the intangible asset was approximately $962,000 for both the six months ended June 30, 2018 and 2017, respectively. The net book value of the intangible asset was $17,701,000 and $18,664,000 as of June 30, 2018 and December 31, 2017, respectively.

The estimated future amortization expense as of June 30, 2018 for the remaining periods in the next five years and thereafter is as follows:

Years Ending December 31	(In thousands)
2018	$ 978
2019	1,940
2020	1,946
2021	1,940
2022	1,940
Thereafter	8,957
Total	$ 17,701

8. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	June 30, 2018	December 31, 2017
	(In thousands)	
Accrued clinical investigator expenses	$ 667	$ 696
Accrued compensation expenses	535	511
Accrued rebate, chargeback and other revenue reserves	521	305
Accrued End of Term Payment (see Note 10)	—	1,400
Other accrued expenses	504	670
Total accrued expenses	$ 2,227	$ 3,582

9. LICENSE AGREEMENTS

EyePoint Agreement

The Company entered into an agreement with EyePoint (formerly known as pSivida US, Inc.) for the use of fluocinolone acetonide (FAc) in EyePoint's proprietary insert technology in February 2005. This agreement was subsequently amended a number of times (as amended, the EyePoint Agreement). The EyePoint 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 with EyePoint 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. In connection with this arrangement, the Company was entitled to recover out of EyePoint's share of the net profits of ILUVIEN, 20% of ILUVIEN's commercialization costs (as defined in the EyePoint Agreement) that were incurred prior to product profitability. (The Company's future rights to recover these amounts from EyePoint are referred to as the Future Offset.) In connection with the New Collaboration Agreement discussed below, the Future Offset was further amended.

New Collaboration Agreement - Second Amended and Restated Collaboration Agreement

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

Prior to entering into the New Collaboration Agreement, the Company held the worldwide license from EyePoint for the use of EyePoint's proprietary insert technology 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 began paying a 2% royalty on net revenues and other related consideration to EyePoint on July 1, 2017. This royalty amount will increase to 6% upon the earlier of December 12, 2018 or the receipt of the first marketing approval for ILUVIEN for the treatment of NIPU. The Company will pay an additional 2% royalty on global net revenues and other related consideration in excess of $75,000,000 in any year. During the three and six months ended June 30, 2018, the Company recognized approximately $218,000 and $411,000 of royalty expense, respectively, which is included in cost of goods sold, excluding depreciation and amortization. As of June 30, 2018, approximately $218,000 of this royalty expense was included in the Company's accounts payable. During the three and six months ended June 30, 2017, the Company recognized approximately $50,000 and $247,000 of profit share expense, respectively.

In connection with the New Collaboration Agreement, the Company and EyePoint first agreed to cap the Future Offset amount at $25,000,000 as of June 30, 2017 and the Company then agreed to forgive $10,000,000 of the total $25,000,000 of the Future Offset at the July 10, 2017 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 is entitled to recover up to $15,000,000 as a reduction of future royalties otherwise owed to EyePoint 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 approximately 5.2% for net revenues and other related consideration up to $75,000,000 annually and to approximately 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. The Company expects that it will obtain approval of its application for NIPU in the first half of 2019. 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 EyePoint the difference in cash.

The Company valued the transaction by utilizing a present value analysis at approximately $2,851,000.

Possible Reversion of the Company's License Rights to EyePoint

The Company's license rights to EyePoint's proprietary delivery device could revert to EyePoint if the Company were to:

(i) fail twice to cure its breach of an obligation to make certain payments to EyePoint following receipt of written notice thereof;

(ii) fail to cure other breaches of material terms of the EyePoint 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 EyePoint in writing of its decision to abandon its license with respect to a certain product using EyePoint's proprietary delivery device.

10. LOAN AGREEMENTS

Hercules Loan Agreement

In April 2014, Alimera Sciences Limited (Limited), a subsidiary of the Company, entered into a loan and security agreement (Hercules Loan Agreement) with Hercules Capital, Inc. (Hercules) providing for a term loan of up to $35,000,000. The Company amended the 2014 Loan Agreement several times. On October 20, 2016 the Company and Hercules entered into a fourth amendment to the Hercules Loan Agreement (the Fourth Loan Amendment), which provided the operative loan agreement terms during 2017. On January 5, 2018 the Company paid off its loan with Hercules.

The Fourth Loan Amendment provided for interest-only payments through November 30, 2018 (the Interest-Only Period). Pursuant to the Fourth Loan Amendment, interest on the Hercules Loan Agreement accrued at a floating per annum rate equal the greater of (i) 11.0% or (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 in the preceding sentence, the principal balance of the Hercules Loan Agreement bore "payment-in kind" interest at the rate of 1.0% (PIK Interest), which PIK Interest was added to the outstanding principal balance of the Hercules Loan Agreement. The interest rate on the Hercules Loan Agreement was 12.0% as of December 31, 2017.

Under the Hercules Loan Agreement as amended by the Fourth Loan Amendment, any principal prepayment of the Hercules loan triggered a prepayment penalty based on when the prepayment occurred. Because the Company prepaid the Hercules Loan Agreement on January 5, 2018, the Company paid 2.0% of the principal amount repaid, or $709,000, which is included in loss on early extinguishment of debt for the six months ended June 30, 2018. Prior to entering into the Fourth Loan Agreement, the Company was already obligated to pay an end of term payment of $1,400,000, which was paid when the Company paid off the loan with Hercules on January 5, 2018.

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). The Company amended the 2014 Warrant a number of times to increase the number of shares issuable upon exercise to 1,258,993 and decrease the exercise price to $1.39 per share. The right to exercise this warrant expires on November 2, 2020.

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. The right to exercise this warrant expires on October 20, 2021.

Solar Capital Loan Agreement

On January 5, 2018, the Company entered into a $40,000,000 Loan and Security Agreement (2018 Loan Agreement) with Solar Capital, as Collateral Agent (Agent), and the parties signing the 2018 Loan Agreement from time to time as Lenders, including Solar Capital in its capacity as a Lender (each a "Lender" and collectively, the "Lenders"). Under the 2018 Loan Agreement, the Company borrowed the entire $40,000,000 as a term loan that matures on July 1, 2022.

The Company used the proceeds of the term loan to extinguish the Hercules Loan Agreement and expenses. The Company used the remaining loan proceeds to provide additional working capital for general corporate purposes.

Interest on the 2018 Loan Agreement is payable at one-month LIBOR plus 7.65% per annum. The 2018 Loan Agreement provides for interest-only payments for the first 30 months ending on July 1, 2020, followed by 24 months of payments of principal and interest. If the Company meets certain revenue thresholds and no event of default has occurred, the Company can extend the interest-only period an additional 6 months ending on January 1, 2021, followed by 18 months of payments of principal and interest. As of June 30, 2018, the interest rate on the 2018 Loan Agreement was approximately 9.7%.

As part of the fees and expenses incurred in conjunction with the 2018 Loan Agreement discussed above, the Company paid Solar Capital a $400,000 fee at closing. The Company is obligated to pay a $1,800,000 fee upon repayment of the term loan in full ($2,000,000 if the interest-only period has been extended to 36 months). The Company may elect to prepay the outstanding principal balance of the 2018 Loan Agreement in increments of $10,000,000 or more. The Company must pay a prepayment premium upon any prepayment of the 2018 Loan Agreement before its maturity date, whether by mandatory or voluntary prepayment, acceleration or otherwise, equal to:

a. 2.00% of the principal amount prepaid for a prepayment made on or after January 5, 2018 through and including January 5, 2019;

b. 1.00% of the principal amount prepaid for a prepayment made after January 5, 2019 through and including January 5, 2020; and

c. 0.50% of the principal amount prepaid for a prepayment made after January 5, 2020 and greater than 30 days before the maturity date.

The Company is also obligated to pay additional fees under the Exit Fee Agreement (Exit Fee Agreement) dated as of January 5, 2018 by and among the Company, Solar Capital as Agent, and the Lenders. The Exit Fee Agreement survives the termination of the 2018 Loan Agreement and has a term of 10 years. The Company is obligated to pay up to, but no more than, $2,000,000 in fees under the Exit Fee Agreement.

Specifically, the Company is obligated to pay an exit fee of $2,000,000 upon a "change in control" (as defined in the Exit Fee Agreement). To the extent that Alimera has not already paid the $2,000,000 fee, the Company is also obligated to pay a fee of $1,000,000 on achieving each of the following milestones:

a. first, if the Company achieves revenues of $80,000,000 or more from the sale of its ILUVIEN product in the ordinary course of business to third party customers, measured on a trailing 12-month basis during the term of the agreement, tested at the end of each month; and

b. second, if the Company achieves revenues of $100,000,000 or more from the sale of its ILUVIEN product in the ordinary course of business to third party customers, measured in the same manner.

The Company agreed, for itself and its subsidiaries, to customary affirmative and negative covenants and events of default in connection with the 2018 Loan Agreement. The occurrence of an event of default could result in the acceleration of the Company's obligations under the 2018 Loan Agreement and an increase to the applicable interest rate, and would permit Solar Capital to exercise remedies with respect to the collateral under the 2018 Loan Agreement. While certain covenants are in effect from the date of the agreement, the financial covenants that require a testing of the Company's GAAP revenues are effective as of June 30, 2018. On this date, and in subsequent quarterly periods, the revenues will be tested utilizing a trailing six-month formula to determine if the Company is in compliance. As of June 30, 2018 the Company was in compliance with the covenants of the 2018 Loan Agreement.

The Company's obligations to Agent and the Lenders are secured by a first priority security interest in substantially all of the assets, excluding intellectual property, of the Company and its wholly owned subsidiary, Alimera Sciences (DE), LLC (Alimera DE), which is a guarantor of the loan, provided that only 65% of the voting interests in AS C.V., a Dutch subsidiary owned by the Company and Alimera DE, are pledged to the Lenders, and no assets or equity interests in the direct or indirect subsidiaries of AS C.V. are subject to the Lenders' security interests. The Lender does, however, maintain a negative pledge on the property of the Company and all of its subsidiaries, including the Company's intellectual property, requiring the Lender's consent for any liens (other than typical permitted liens) on, or the sale of, such property.

Extinguishment of Debt

In accordance with the guidance in ASC 470-50, *Debt*, the Company accounted for the extinguishment of the Hercules Loan Amendment as an extinguishment and recognized a loss on early extinguishment of debt of approximately $1,766,000 within the condensed consolidated statements of operations for the six months ended June 30, 2018. The loss on early extinguishment consisted primarily of the early termination fee paid to Hercules and unamortized debt discounts including the remaining portion of warrant values and debt issuance costs.

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, 2018 and December 31, 2017.

11. 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 and Six Months Ended June 30,	
	2018	**2017**
Series A convertible preferred stock	9,022,556	9,022,556
Series B convertible preferred stock	8,416,251	8,416,251
Series A convertible preferred stock warrants	—	4,511,279
Common stock warrants	1,795,663	1,795,663
Stock options	12,514,650	11,496,801
Restricted stock units	1,023,630	861,430
Total	32,772,750	36,103,980

12. 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 Delaware's Secretary of State 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 New Drug Application (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 could have been 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 were considered derivative instruments because the agreements provided 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 was 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. During the three and six months ended June 30, 2017, the Company recorded gains of $21,000 and $188,000, 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 June 30, 2018, 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 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.

13. COMMON STOCK

In 2017, the Company sold 4,203,015 shares of the Company's common stock at a weighted average price of $1.43 per share through the Company's at-the-market offering that was in place with Cowen and Company, LLC (Cowen), for total gross proceeds of approximately $6,000,000, reduced by approximately $183,000 of related commissions, issuance costs and placement agent fees. The Company used the net proceeds from this offering for general corporate purposes and working capital. The Company's sales agreement with Cowen to sell additional shares expired on August 13, 2017.

In October 2017, the Company entered into a common stock sales agreement (Sales Agreement) with H.C. Wainwright & Co., LLC (HCW) to offer shares of the Company's common stock from time to time through HCW, as our sales agent, for the offer and sale of the shares up to an aggregate offering price of $25,000,000. In June 2018, the Company notified HCW that it was terminating the Sales Agreement in accordance with the termination provisions of the Sales Agreement, effective on June 1, 2018. The Company had no obligation to sell shares under this sales agreement with HCW and the Company never sold shares under this agreement. The Company incurred no early termination penalties in connection with the termination of the Sales Agreement.

14. STOCK INCENTIVE PLANS

Stock Option Plans

During the three months ended June 30, 2018 and 2017, the Company recorded compensation expense related to stock options of approximately $888,000 and $1,007,000, respectively. During the six months ended June 30, 2018 and 2017, the Company recorded compensation expense related to stock options of approximately $1,754,000 and $1,979,000, respectively. As of June 30, 2018, the total unrecognized compensation cost related to non-vested stock options granted was $4,558,000 and is expected to be recognized over a weighted average period of 2.13 years. The following table presents a summary of stock option activity for the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30,			
	2018		2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	12,343,820	$ 2.75	11,696,269	$ 3.00
Grants	320,625	0.88	336,300	1.39
Forfeitures	(149,795)	2.70	(535,768)	3.04
Exercises	—	—	—	—
Options outstanding at period end	12,514,650	2.70	11,496,801	2.96
Options exercisable at period end	8,578,358	3.19	7,599,761	3.25
Weighted average per share fair value of options granted during the period	$ 0.56		$ 1.07	

The following table presents a summary of stock option activity for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30,			
	2018		2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	11,595,510	$ 2.90	10,804,412	$ 3.22
Grants	1,553,625	1.10	1,648,800	1.23
Forfeitures	(632,922)	2.43	(956,411)	2.93
Exercises	(1,563)	1.06	—	—
Options outstanding at period end	12,514,650	2.70	11,496,801	2.96
Options exercisable at period end	8,578,358	3.19	7,599,761	3.25
Weighted average per share fair value of options granted during the period	$ 0.73		$ 0.95	

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options that were expected to vest as of June 30, 2018:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	12,514,650	$ 2.70	6.61 years	$ —
Exercisable	8,578,358	3.19	5.61 years	—
Outstanding, vested and expected to vest	12,039,749	2.75	6.52 years	—

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options that were expected to vest as of December 31, 2017:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	11,595,510	$ 2.90	6.60 years	$ 35
Exercisable	8,085,064	3.25	5.68 years	—
Outstanding, vested and expected to vest	11,161,477	2.94	6.51 years	34

As of June 30, 2018, the Company was authorized to grant options to purchase up to an additional 1,093,385 shares under the 2010 Equity Incentive Plan, taking into account the annual increase in the number of shares available for issuance under the Company's 2010 Equity Incentive Plan and the options and restricted stock units (RSUs) granted and forfeited during the six months ended June 30, 2018.

Employee Stock Purchase Plan

During the three months ended June 30, 2018 and 2017, the Company recorded compensation expense related to its employee stock purchase plan of approximately $8,000 and $7,000, respectively. During the six months ended June 30, 2018 and 2017, the Company recorded compensation expense related to its employee stock purchase plan of approximately $18,000 and $20,000, respectively.

Restricted Stock Units

During the six months ended June 30, 2018, the Company granted 1,080,830 RSUs to its employees in lieu of a cash bonus program for 2018. As of June 30, 2018, 1,023,630 RSUs were outstanding. During the three and six months ended June 30, 2018, the Company recorded compensation expense of $256,000 and $587,000, respectively, related to outstanding and vested RSUs.

During the six months ended June 30, 2017, the Company granted 949,330 RSUs to its employees in lieu of a cash bonus program for 2017, of which 839,285 RSUs vested and converted to common shares in January 2018. During the three and six months ended June 30, 2017, the Company recorded compensation expense related to these RSUs of $219,000 and $401,000, respectively.

15. 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 three and six months ended June 30, 2018 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 remain subject to examination at the U.S. federal level between 2010 and 2016, and subject to examinations at various state levels between 2005 and 2016. 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 the Company's financial position and results of operations.

At December 31, 2017, the Company had federal NOL carry-forwards of approximately $121,413,000 and state NOL carry-forwards of approximately $161,753,000 available to reduce future taxable income. The Company's federal NOL carry-forwards remain fully reserved as of June 30, 2018. If not utilized, the federal NOL carry-forwards will expire at various dates between 2029 and 2037 and the state NOL carry-forwards will expire at various dates between 2020 and 2037.

Sections 382 and 383 of the Internal Revenue Code (IRC) limit the annual use of NOL carry-forwards and tax credit carry-forwards, respectively, following an ownership change. NOL carry-forwards may be subject to annual limitations under IRC Section 382 (Section 382) (or comparable provisions of state law) in the event that certain changes in ownership 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 determined that a Section 382 change in ownership occurred in late 2015. As a result of this change in ownership, the Company estimated that approximately $18.6 million of the Company's federal NOLs and approximately $382,000 of federal tax credits generated prior to the change in ownership will not be utilized in the future. The Company is currently in the process of refining and finalizing these calculations, and upon finalization, will determine if a write-off is necessary. The 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.

As of December 31, 2017, the Company had cumulative book losses in foreign subsidiaries of $113,278,000. 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.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Act") which made widespread changes to the Internal Revenue Code. The Act, among other things, reduced the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a transition tax on earnings of certain foreign subsidiaries that were previously not subject to U.S. tax and creates new income taxes on certain foreign sourced earnings. The Company has made reasonable estimates related to (1) the remeasurement of U.S. deferred tax balances for the reduction in the tax rate, (2) the liability for the transition tax and (3) the taxes accrued relating to the change in permanent reinvestment assertion for unremitted earnings of certain foreign subsidiaries. For the quarter ended June 30, 2018, the Company has not made any adjustments to the estimated amounts recorded as of December 31, 2017.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

16. SEGMENT INFORMATION

During the three months ended June 30, 2018 and 2017, two customers within the U.S. segment that are large pharmaceutical distributors accounted for 73% and 78%, respectively, of the Company's consolidated revenues. During the six months ended June 30, 2018 and 2017, these same two customers accounted for 72% and 74%, respectively, of the Company's consolidated revenues. These same two customers within the U.S. segment accounted for approximately 82% and 81% of the Company's consolidated accounts receivable at June 30, 2018 and at December 31, 2017, 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 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 June 30, 2018 and 2017:

	Three Months Ended June 30, 2018				Three Months Ended June 30, 2017			
	U.S.	International	Other	Consolidated	U.S.	International	Other	Consolidated
	(In thousands)							
NET REVENUE	$ 7,999	$ 2,918	$ —	$ 10,917	$ 8,056	$ 2,312	$ —	$ 10,368
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(856)	(257)	—	(1,113)	(503)	(266)	—	(769)
GROSS PROFIT	7,143	2,661	—	9,804	7,553	2,046	—	9,599
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,602	954	221	2,777	1,498	518	222	2,238
GENERAL AND ADMINISTRATIVE EXPENSES	1,866	723	640	3,229	1,828	476	708	3,012
SALES AND MARKETING EXPENSES	4,142	1,493	291	5,926	3,521	1,236	303	5,060
DEPRECIATION AND AMORTIZATION	—	—	650	650	—	—	667	667
OPERATING EXPENSES	7,610	3,170	1,802	12,582	6,847	2,230	1,900	10,977
SEGMENT (LOSS) GAIN FROM OPERATIONS	(467)	(509)	(1,802)	(2,778)	706	(184)	(1,900)	(1,378)
OTHER INCOME AND EXPENSES, NET	—	—	(1,146)	(1,146)	—	—	(1,335)	(1,335)
NET LOSS BEFORE TAXES				$ (3,924)				$ (2,713)

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents a summary of the Company's reporting segments for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30, 2018				Six Months Ended June 30, 2017			
	U.S.	International	Other	Consolidated	U.S.	International	Other	Consolidated
	(In thousands)							
NET REVENUE	$ 14,976	$ 5,743	$ —	$ 20,719	$ 12,501	$ 4,485	$ —	$ 16,986
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,741)	(648)	—	(2,389)	(951)	(405)	—	(1,356)
GROSS PROFIT	13,235	5,095	—	18,330	11,550	4,080	—	15,630
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	3,242	1,904	453	5,599	2,656	1,259	433	4,348
GENERAL AND ADMINISTRATIVE EXPENSES	4,159	1,630	1,295	7,084	3,531	1,395	1,350	6,276
SALES AND MARKETING EXPENSES	8,514	2,771	610	11,895	7,567	2,378	617	10,562
DEPRECIATION AND AMORTIZATION	—	—	1,299	1,299	—	—	1,333	1,333
OPERATING EXPENSES	15,915	6,305	3,657	25,877	13,754	5,032	3,733	22,519
SEGMENT LOSS FROM OPERATIONS	(2,680)	(1,210)	(3,657)	(7,547)	(2,204)	(952)	(3,733)	(6,889)
OTHER INCOME AND EXPENSES, NET	—	—	(4,061)	(4,061)	—	—	(2,533)	(2,533)
NET LOSS BEFORE TAXES				$ (11,608)				$ (9,422)

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

Overview

The following discussion and analysis should be read in conjunction with our unaudited interim condensed consolidated financial statements and the related notes that appear elsewhere in this quarterly report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" in our most recent annual report on Form 10-K. For further information regarding forward-looking statements, please refer to the "Special Note Regarding Forward-Looking Statements and Projections" immediately after the index to this quarterly report on Form 10-Q.

Alimera Sciences, Inc., and its subsidiaries (we or Alimera), is a pharmaceutical company that specializes in the commercialization and development of prescription ophthalmic pharmaceuticals. We presently focus 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 has received marketing authorization in the 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.

In December 2017, we filed an application for a new indication for ILUVIEN for the treatment of non-infectious posterior uveitis (NIPU) in the 17 EEA countries where ILUVIEN is currently approved for the treatment of DME. 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 regulatory authorities requested additional follow-up data from the clinical trials to support the application. We plan to submit the follow-up data by the end of 2018, when it is expected to be available. We expect that we will obtain approval of our application for NIPU in the first half of 2019.

We commercially market ILUVIEN in the U.S., Germany, the United Kingdom, Portugal, Austria and Ireland. We began selling ILUVIEN in Austria in the first quarter of 2017 and in Ireland in the fourth quarter of 2017.

In addition, we have entered into various agreements under which distributors are providing or will provide regulatory, reimbursement or sales and marketing support for future commercialization of ILUVIEN in several countries in the Middle East, as well as Italy, Spain, France, Canada, Australia and New Zealand. As of June 30, 2018, we have recognized sales of ILUVIEN to the Company's distributors in the Middle East, France, Italy and Spain.

We amended and restated our license agreement with EyePoint Pharmaceuticals US, Inc. (EyePoint), formerly known as pSivida US, Inc., effective July 1, 2017 (the New Collaboration Agreement). Under the New Collaboration Agreement, the technology underlying ILUVIEN now includes the treatment of uveitis, including non-infectious posterior uveitis (NIPU) in Europe, the Middle East and Africa.

Before we entered into the New Collaboration Agreement, we were required to share with EyePoint 20% of our net profits on a country-by-country basis. We were permitted to offset up to 20% of this amount with accumulated commercialization costs incurred in previous quarters. The New Collaboration Agreement converts this profit share obligation to a royalty payable on global net revenues of ILUVIEN. We began paying a 2% royalty on net revenues and other related consideration to EyePoint effective July 1, 2017. This royalty amount will increase to 6% upon the earlier of December 12, 2018 or the receipt of the first marketing approval for ILUVIEN for the treatment of 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 and six months ended June 30, 2018, we recognized approximately $218,000 and $411,000 of royalty expense, respectively, which is included in cost of goods sold, excluding depreciation and amortization. As of June 30, 2018, approximately $218,000 of this royalty expense was included in our accounts payable. During the three and six months ended June 30, 2017, we recognized approximately $50,000 and $247,000 of profit share expense, respectively.

Following the signing of the New Collaboration Agreement, we retained a right to offset $15.0 million of future royalty payments. This offset will be reduced by up to $5.0 million 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 (see Note 9 of our notes to condensed consolidated financial statements).

We have incurred significant losses since our inception in June 2003. As of June 30, 2018, we had accumulated a deficit of $410.8 million. We expect to incur substantial losses through the continued commercialization of ILUVIEN as we:

- continue the commercialization of ILUVIEN in the U.S. and EEA, where we sell direct, and in other countries in the EEA and the Middle East, where we sell through our distributors;
- continue to seek regulatory approval of ILUVIEN for other indications and 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 June 30, 2018, we had approximately $16.7 million in cash and cash equivalents.

On January 5, 2018, we entered into a $40.0 million Loan and Security Agreement (2018 Loan Agreement) with Solar Capital Ltd. (Solar Capital). Under the 2018 Loan Agreement, we borrowed the entire $40.0 million as a term loan that matures on July 1, 2022.

We used the proceeds of the 2018 Loan Agreement loan to refinance and pay off the previous loan agreement with Hercules Capital, Inc. (Hercules Loan Agreement) and to pay closing expenses associated with the 2018 Loan Agreement. We used the remaining loan proceeds to provide additional working capital for general corporate purposes. (See Note 10 of our notes to condensed consolidated financial statements).

Our revenues for the three and six months ended June 30, 2018 and 2017 were generated from product sales primarily in the U.S., Germany, Portugal and the United Kingdom. In the U.S., two large pharmaceutical distributors accounted for 73% and 78% of our consolidated revenues for the three months ended June 30, 2018 and 2017, respectively, and 72% and 74% of our consolidated revenues for the six months ended June 30, 2018 and 2017, respectively. These distributors purchase ILUVIEN from us, maintain inventories of ILUVIEN and sell downstream to physician offices, pharmacies and hospitals. Internationally, in countries where we sell direct, our customers are hospitals, clinics and pharmacies. We sometimes refer to physician offices, pharmacies, hospitals and clinics as end users. In international countries where we sell to distributors, these distributors maintain inventory levels of ILUVIEN and sell to their customers.

Results of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except share and per share data)			
NET REVENUE	$ 10,917	$ 10,368	$ 20,719	$ 16,986
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,113)	(769)	(2,389)	(1,356)
GROSS PROFIT	9,804	9,599	18,330	15,630
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	2,777	2,238	5,599	4,348
GENERAL AND ADMINISTRATIVE EXPENSES	3,229	3,012	7,084	6,276
SALES AND MARKETING EXPENSES	5,926	5,060	11,895	10,562
DEPRECIATION AND AMORTIZATION	650	667	1,299	1,333
OPERATING EXPENSES	12,582	10,977	25,877	22,519
NET LOSS FROM OPERATIONS	(2,778)	(1,378)	(7,547)	(6,889)
INTEREST EXPENSE AND OTHER	(1,178)	(1,384)	(2,329)	(2,721)
UNREALIZED FOREIGN CURRENCY GAIN, NET	32	28	34	—
CHANGE IN FAIR VALUE OF DERIVATIVE WARRANT LIABILITY	—	21	—	188
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	—	(1,766)	—
NET LOSS BEFORE TAXES	(3,924)	(2,713)	(11,608)	(9,422)
PROVISION FOR TAXES	(76)	(44)	(76)	(70)
NET LOSS	$ (4,000)	$ (2,757)	$ (11,684)	$ (9,492)
NET LOSS PER SHARE — Basic and diluted	$ (0.06)	$ (0.04)	$ (0.17)	$ (0.15)
WEIGHTED AVERAGE SHARES OUTSTANDING — Basic and diluted	70,022,100	65,485,106	69,952,940	65,175,724

Net Revenue

We generate revenue from product sales and revenue, and 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. Additionally, revenue from our U.S. and international distributors fluctuates depending on the timing of the shipment of ILUVIEN to the distributor and the distributors' sales of ILUVIEN to their customers.

Net revenue increased by approximately $500,000, or 5%, to approximately $10.9 million for the three months ended June 30, 2018, compared to approximately $10.4 million for the three months ended June 30, 2017. The increase was primarily attributable to an increase of $390,000 in the countries in Europe where we sell direct, $210,000 in other countries where we sell to distributors and an increase of $200,000 in the U.S. due to the required recognition of certain distributor costs that are no longer offset against net revenue pursuant to Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606). These increases were offset by a decrease of approximately $260,000 in U.S. net revenue from our distributors. End user demand, which represents units purchased by physicians and pharmacies from the Company's distributors, increased by 12% during the three months ended June 30, 2018.

Net revenue increased by approximately $3.7 million, or 22%, to approximately $20.7 million for the six months ended June 30, 2018, compared to approximately $17.0 million for the six months ended June 30, 2017. The increase was primarily attributable to revenue increases of $2.2 million in the U.S. due to our increased end user demand, our expanded U.S. sales presence and the promotion of our Phase 4 USER post-market clinical study data. Additionally, we had increases in our International segment of $650,000 in countries where we sell to distributors, $600,000 in the countries in Europe where we sell direct and $300,000 in the U.S. due to the required recognition of certain distributor costs that are no longer offset against net

revenue pursuant to ASC 606. End user demand, which represents units purchased by physicians and pharmacies from the Company's distributors, increased by 16% during the six months ended June 30, 2018.

Cost of Goods Sold, Excluding Depreciation and Amortization, and Gross Profit

Gross profit is affected by costs of goods sold, which includes (a) costs of manufactured goods sold and (b) payments to EyePoint in the form of (1) royalty payments under the New Collaboration Agreement (after July 1, 2017), and (2) payments based on a percentage of net profits under our previous agreement with EyePoint (before July 1, 2017).

Cost of goods sold, excluding depreciation and amortization, increased by approximately $330,000, or 43%, to approximately $1.1 million for the three months ended June 30, 2018, compared to approximately $770,000 for the three months ended June 30, 2017. The increase was primarily attributable to (a) the required recognition of certain distributor costs pursuant to ASC 606, of $200,000 to cost of goods sold, excluding depreciation and amortization (these distributor costs were included in net revenue in the 2017 period), and (b) an increase of $160,000 of royalty expense payable to EyePoint.

Cost of goods sold, excluding depreciation and amortization, increased by approximately $1.0 million, or 71%, to approximately $2.4 million for the six months ended June 30, 2018, compared to approximately $1.4 million for the six months ended June 30, 2017. The increase was primarily as a result of (a) our increased sales volume, (b) the required recognition of certain distributor costs pursuant to ASC 606 of $372,000 to cost of goods sold, excluding depreciation and amortization (these distributor costs were included in net revenue in the 2017 period), and (c) an increase of $100,000 of royalty expense payable to EyePoint.

Gross profit increased by approximately $200,000, or 2%, to approximately $9.8 million for the three months ended June 30, 2018, compared to approximately $9.6 million for the three months ended June 30, 2017. Gross margin was 90% and 93% for the three months ended June 30, 2018 and 2017, respectively.

Gross profit increased by approximately $2.7 million, or 17%, to approximately $18.3 million for the six months ended June 30, 2018, compared to approximately $15.6 million for the six months ended June 30, 2017. Gross margin was 88% and 92% for the three months ended June 30, 2018 and 2017, respectively.

The decrease in gross margin was primarily attributable to an increase in manufacturing costs and the required recognition of certain distributor costs pursuant to ASC 606 of approximately $200,000 and $372,000 for the three and six months ended June 30, 2018, respectively, to cost of goods sold, excluding depreciation and amortization (these distributor costs were included in net revenue in the 2017 period). See Notes 3 and 4 of our notes to condensed consolidated financial statements.

Research, Development and Medical Affairs Expenses

Currently, our research, development and medical affairs expenses are primarily focused on activities that support ILUVIEN and includes salaries and related expenses for research and development and medical affairs personnel, including medical sales liaisons, costs related to the provision of medical affairs support, including symposia development for physician education, and costs related to compliance with FDA, EEA or other regulatory requirements. 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 to incur a large percentage of our research, development and medical affairs expenses 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 their total cost to completion. We expense both internal and external development costs as they are incurred.

Research, development and medical affairs expenses increased by approximately $600,000, or 27%, to approximately $2.8 million for the three months ended June 30, 2018, compared to approximately $2.2 million for the three months ended June 30, 2017. The increase was primarily attributable to increases of (a) $350,000 in our clinical study costs, as we benefited from one-time cost savings associated with two clinical studies that offset expenses incurred during the three months ended June 30, 2017 and (b) $180,000 in personnel costs.

Research, development and medical affairs expenses increased by approximately $1.3 million, or 30%, to approximately $5.6 million for the six months ended June 30, 2018, compared to approximately $4.3 million for the six months ended June 30, 2017. The increase was primarily attributable to a refund from the FDA of approximately $440,000 in the first quarter of 2017, which was not repeated in the first quarter of 2018. Additionally, the increase was attributable to increases of approximately $280,000 in personnel costs, $180,000 in scientific communication costs, and $120,000 of costs related to maintaining the U.S. and international registrations of ILUVIEN, including costs to file an application for a new indication for ILUVIEN for the treatment of NIPU in the EU.

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 and with SEC compliance. We expect to continue to incur significant costs to comply with the corporate governance, internal control and similar requirements applicable to public companies.

General and administrative expenses increased by approximately $200,000, or 6%, to approximately $3.2 million for the three months ended June 30, 2018, compared to approximately $3.0 million for the three months ended June 30, 2017.

General and administrative expenses increased by approximately $800,000, or 13%, to approximately $7.1 million for the six months ended June 30, 2018, compared to approximately $6.3 million for the six months ended June 30, 2017. The increase was primarily attributable to increases of $360,000 in audit and legal fees, $210,000 in personnel costs, and $110,000 of state franchise taxes.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of third-party marketing fees and compensation for employees for the commercial promotion, the assessment of the commercial opportunity of, the development of market awareness for, the pursuit of market reimbursement for and the execution of launch plans for ILUVIEN. Other costs include professional fees associated with developing plans for ILUVIEN or any future products or product candidates and maintaining public relations.

Sales and marketing expenses increased by approximately $800,000, or 16%, to approximately $5.9 million for the three months ended June 30, 2018, compared to approximately $5.1 million for the three months ended June 30, 2017. The increase was primarily attributable to increases of $480,000 in personnel and travel and entertainment costs primarily related to our expanded sales force in the U.S, $130,000 of marketing costs and $130,000 of market access costs.

Sales and marketing expenses increased by approximately $1.3 million, or 12%, to approximately $11.9 million for the six months ended June 30, 2018, compared to approximately $10.6 million for the six months ended June 30, 2017. The increase was primarily attributable to increases of $1.0 million in personnel and travel and entertainment costs primarily related to our expanded sales force in the U.S. and $160,000 of marketing costs.

Operating Expenses

As a result of the increases in various expenses described above, total operating expenses increased by approximately $1.6 million, or 15%, to approximately $12.6 million for the three months ended June 30, 2018, compared to approximately $11.0 million for the three months ended June 30, 2017. The increase was primarily attributable to increases of approximately $800,000 in sales and marketing expenses, $600,000 in research, development and medical affairs expenses and $200,000 in general and administrative expenses.

Total operating expenses increased by approximately $3.4 million, or 15%, to approximately $25.9 million for the six months ended June 30, 2018, compared to approximately $22.5 million for the six months ended June 30, 2017. The increase was primarily attributable to increases of approximately $1.3 million in sales and marketing expenses, $1.3 million in research, development and medical affairs expenses and $800,000 in general and administrative expenses.

Interest Expense and Other

For the three and six months ended June 30, 2018 interest expense consisted primarily of interest and amortization of deferred financing costs and debt discounts associated with our outstanding debt under the 2018 Term Loan Agreement with Solar Capital. As discussed in Note 10 of our notes to condensed consolidated financial statements, we entered into a new loan facility with Solar Capital on January 5, 2018 and refinanced the Hercules Loan Agreement with the proceeds. For the three and six months ended June 30, 2017, interest expense consisted primarily of interest and amortization of deferred financing costs and debt discounts associated with our outstanding debt under the Hercules Loan Agreement.

Interest expense and other decreased by approximately $200,000, or 14%, to approximately $1.2 million for the three months ended June 30, 2018, compared to approximately $1.4 million for the three months ended June 30, 2017. Interest expense and other decreased by approximately $400,000, or 15%, to approximately $2.3 million for the six months ended June 30, 2018, compared to approximately $2.7 million for the six months ended June 30, 2017. These decreases were primarily attributable to the lower effective interest rate on our 2018 Term Loan Agreement compared to the effective interest rate on the Hercules Loan Agreement.

Change in Fair Value of Derivative Warrant Liability

Warrants to purchase our Series A Convertible Preferred Stock or common stock that do not meet the requirements for classification as equity, in accordance with ASC 815, *Derivatives and Hedging*, are classified as liabilities. We record these derivative financial instruments as liabilities in our balance sheet measured at their fair value. We record the changes in fair value of such instruments as non-cash gains or losses in the condensed consolidated statements of operations.

During the three and six months ended June 30, 2017, we recognized gains of approximately $21,000 and $188,000, respectively, related to the decreased fair value of our derivative warrant liability. The change in fair value was primarily due to the decreasing time remaining to exercise the warrants. The rights to exercise these warrants expired on October 1, 2017.

Loss on early extinguishment of debt

We recorded a loss on early extinguishment of debt of approximately $1.8 million for the six months ended June 30, 2018, as a result of refinancing the Hercules Loan Agreement by entering into the 2018 Term Loan Agreement with Solar Capital on January 5, 2018.

Basic and Diluted Net Loss Applicable to Common Stockholders per Share of Common Stock

We calculated net loss per share in accordance with ASC 260, *Earnings Per Share*. We had a net loss for both periods presented; accordingly, the inclusion of common stock options and warrants would be anti-dilutive. Dilutive common stock equivalents would include the dilutive effect of convertible securities, common stock options, restricted stock units, warrants for convertible securities and warrants for common stock equivalents. 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, totaled approximately 32,772,750 for the three and six months ended June 30, 2018 and 36,103,980 for the three and six months ended June 30, 2017. Potentially dilutive common stock equivalents were excluded from the diluted earnings per share denominator for all periods of net loss because of their anti-dilutive effect. Therefore, for the three and six months ended June 30, 2018 and 2017, the weighted average shares used to calculate both basic and diluted loss per share are the same.

Results of Operations - Segment Review

The following selected unaudited financial and operating data are derived from our condensed consolidated financial statements. The results and discussions that follow reflect how executive management monitors the performance of our reporting segments.

We have three segments: U.S., International and Other. Each segment is separately managed and is evaluated primarily upon segment loss from operations. Non-cash items including stock-based compensation expense, depreciation and amortization are categorized as Other. We allocate certain operating expenses between our reporting segments based on activity-based costing methods. These activity-based costing methods require us to make estimates that affect the amount of each expense category that is attributed to each segment. Changes in these estimates will directly affect the amount of expense allocated to each segment and therefore the operating profit of each reporting segment. There were no significant changes in our expense allocation methodology during 2018 or 2017.

U.S. Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
NET REVENUE	$ 7,999	$ 8,056	$ 14,976	$ 12,501
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(856)	(503)	(1,741)	(951)
GROSS PROFIT	7,143	7,553	13,235	11,550
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,602	1,498	3,242	2,656
GENERAL AND ADMINISTRATIVE EXPENSES	1,866	1,828	4,159	3,531
SALES AND MARKETING EXPENSES	4,142	3,521	8,514	7,567
DEPRECIATION AND AMORTIZATION	—	—	—	—
OPERATING EXPENSES	7,610	6,847	15,915	13,754
SEGMENT (LOSS) GAIN FROM OPERATIONS	$ (467)	$ 706	$ (2,680)	$ (2,204)

U.S. Segment - Three months ended June 30, 2018 compared to the three months ended June 30, 2017

Net revenue. Net revenue decreased by approximately $100,000, or 1%, to approximately $8.0 million for the three months ended June 30, 2018, compared to approximately $8.1 million for the three months ended June 30, 2017. This decrease in net revenue resulted from a decrease of approximately $260,000 of net revenue from our distributors offset by an increase of $200,000 due to the required recognition of certain distributor costs that are no longer offset against net revenue pursuant to ASC 606. The decrease in net revenue resulted from lower distributor orders received in the three months ended June 30, 2018, compared to the three months ended June 30, 2017, despite growth in U.S. end user demand. End user demand, which represents units purchased by physicians and pharmacies from our distributors, was higher in the three months ended June 30, 2018, increasing 12% to 955 units compared to 850 units in the three months ended June 30, 2017.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization, increased by approximately $360,000, or 72%, to approximately $860,000 for the three months ended June 30, 2018, compared to approximately $500,000 for the three months ended June 30, 2017. This increase primarily resulted from increased manufacturing costs and the required recognition of certain distributor costs pursuant to ASC 606 of $200,000 to cost of goods sold, excluding depreciation and amortization, that were included in net revenue in the prior period.

Research, development and medical affairs expenses. Research, development and medical affairs expenses increased by approximately $100,000, or 7%, to approximately $1.6 million for the three months ended June 30, 2018, compared to approximately $1.5 million for the three months ended June 30, 2017.

General and administrative expenses. General and administrative expenses increased by approximately $100,000, or 5%, to approximately $1.9 million for the three months ended June 30, 2018, compared to approximately $1.8 million for the three months ended June 30, 2017.

Sales and marketing expenses. Sales and marketing expenses increased by approximately $600,000, or 17%, to approximately $4.1 million for the three months ended June 30, 2018, compared to approximately $3.5 million for the three months ended June 30, 2017. The increase was primarily attributable to an increase in personnel and travel and entertainment costs related to our expanded sales force in the U.S.

U.S. Segment - Six months ended June 30, 2018 compared to the six months ended June 30, 2017

Net revenue. Net revenue increased by approximately $2.5 million, or 20%, to approximately $15.0 million for the six months ended June 30, 2018, compared to approximately $12.5 million for the six months ended June 30, 2017. The increase was primarily attributable increases of $2.2 million due to our increased end user demand, our expanded U.S. sales presence and the promotion of our Phase 4 USER post-market clinical study data and $300,000 due to the required recognition of certain distributor costs that are no longer offset against net revenue pursuant to ASC 606.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization, increased by approximately $700,000, or 70%, to approximately $1.7 million for the six months ended June 30, 2018, compared to approximately $1.0 for the six months ended June 30, 2017. This increase was primarily due to our increased sales volume, increased manufacturing costs and the required recognition of certain distributor costs pursuant to ASC 606 of $372,000 to cost of goods sold, excluding depreciation and amortization, that were included in net revenue in the prior period.

Research, development and medical affairs expenses. Research, development and medical affairs expenses increased by approximately $500,000, or 19%, to approximately $3.2 million for the six months ended June 30, 2018, compared to approximately $2.7 million for the six months ended June 30, 2017. The increase was primarily attributable to a refund from the FDA of approximately $440,000 in the first quarter of 2017 which was not repeated in the first quarter of 2018. Additionally, the increase was attributable to increases of approximately $140,000 in scientific communication costs, offset by a decrease of $110,000 in costs associated with our U.S. clinical studies of ILUVIEN.

General and administrative expenses. General and administrative expenses increased by approximately $700,000, or 20%, to approximately $4.2 million for the six months ended June 30, 2018, compared to approximately $3.5 million for the six months ended June 30, 2017. The increase was primarily attributable to increases of $320,000 in audit and legal fees, $110,000 of U.S. state franchise taxes and $100,000 in personnel costs.

Sales and marketing expenses. Sales and marketing expenses increased by approximately $900,000, or 12%, to approximately $8.5 million for the six months ended June 30, 2018, compared to approximately $7.6 million for the six months ended June 30, 2017. The increase was primarily attributable to an increase in personnel and travel and entertainment costs related to our expanded sales force in the U.S.

International Segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
NET REVENUE	$ 2,918	$ 2,312	$ 5,743	$ 4,485
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(257)	(266)	(648)	(405)
GROSS PROFIT	2,661	2,046	5,095	4,080
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	954	518	1,904	1,259
GENERAL AND ADMINISTRATIVE EXPENSES	723	476	1,630	1,395
SALES AND MARKETING EXPENSES	1,493	1,236	2,771	2,378
DEPRECIATION AND AMORTIZATION	—	—	—	—
OPERATING EXPENSES	3,170	2,230	6,305	5,032
SEGMENT LOSS FROM OPERATIONS	$ (509)	$ (184)	$ (1,210)	$ (952)

International Segment - Three months ended June 30, 2018 compared to the three months ended June 30, 2017

Net revenue. Net revenue increased by approximately $600,000, or 26%, to approximately $2.9 million for the three months ended June 30, 2018, compared to approximately $2.3 million for the three months ended June 30, 2017. The increase was primarily attributable to sales increases of $390,000 in the countries in Europe where we sell direct and $210,000 in other countries where we sell to distributors.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization, decreased by approximately $10,000, or 4%, to approximately $260,000 for the three months ended June 30, 2018 compared to approximately $270,000 for the three months ended June 30, 2017.

Research, development and medical affairs expenses. Research, development and medical affairs expenses increased by approximately $430,000, or 83%, to approximately $950,000 for the three months ended June 30, 2018, compared to approximately $520,000 for the three months ended June 30, 2017. The increase was primarily attributable to increases of $280,000 in our clinical study costs, as we benefited from one-time cost savings associated with our clinical studies that offset expenses incurred during the three months ended June 30, 2017, and $120,000 in personnel costs.

General and administrative expenses. General and administrative expenses increased by approximately $240,000, or 50%, to approximately $720,000 for the three months ended June 30, 2018, compared to approximately $480,000 for the three months ended June 30, 2017. The increase was primarily attributable to increased personnel costs.

Sales and marketing expenses. Sales and marketing expenses increased by approximately $300,000, or 17%, to approximately $1.5 million for the three months ended June 30, 2018, compared to approximately $1.2 million for the three months ended June 30, 2017. The increase was primarily attributable to an increase in marketing and market access costs.

International Segment - Six months ended June 30, 2018 compared to the six months ended June 30, 2017

Net revenue. Net revenue increased by approximately $1.2 million, or 27%, to approximately $5.7 million for the six months ended June 30, 2018, compared to approximately $4.5 million for the six months ended June 30, 2017. The increase was primarily attributable to sales increases of $650,000 in countries where we sell to distributors and $600,000 in the countries in Europe where we sell direct.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization, increased by approximately $240,000, or 59%, to approximately $650,000 for the six months ended June 30, 2018 compared to approximately $410,000 for the six months ended June 30, 2017. This increase was primarily due to our increased sales volume and sales to our international distributors.

Research, development and medical affairs expenses. Research, development and medical affairs expenses increased by approximately $600,000, or 46%, to approximately $1.9 million for the six months ended June 30, 2018, compared to approximately $1.3 for the six months ended June 30, 2017. The increase was primarily attributable to (a) an increase of

$200,000 in personnel costs, (b) an increase of $190,000 in our clinical study costs, as we benefited from one-time cost savings associated with our clinical studies that offset expenses incurred during the three months ended June 30, 2017 and (c) an increase of $100,000 in costs related to maintaining the international registrations of ILUVIEN, including costs to file an application for a new indication for ILUVIEN for the treatment of NIPU in the EU.

General and administrative expenses. General and administrative expenses increased by approximately $200,000, or 14%, to approximately $1.6 million for the six months ended June 30, 2018, compared to approximately $1.4 million for the six months ended June 30, 2017. The increase was primarily attributable to increased personnel costs.

Sales and marketing expenses. Sales and marketing expenses increased by approximately $400,000, or 17%, to approximately $2.8 million for the six months ended June 30, 2018, compared to approximately $2.4 million for the six months ended June 30, 2017. The increase was primarily attributable to an increase in marketing and market access 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 unaudited condensed consolidated financial statements.

Within the respective financial statement line items included in the Other segment, stock-based compensation expense, collectively, was approximately $1.2 million for both three months ended June 30, 2018 and 2017 and approximately $2.4 million for both the six months ended June 30, 2018 and 2017.

Depreciation and amortization decreased by approximately $20,000, or 3%, to $650,000 for three months ended June 30, 2018, compared to $670,000 for the three months ended June 30, 2017 and was approximately $1.3 million for both the six months ended June 30, 2018 and 2017.

Liquidity and Capital Resources

Since inception, we have incurred recurring losses, negative cash flow from operations and have accumulated a deficit of $410.8 million through June 30, 2018. We have funded our operations through the public and private placement of common stock, convertible preferred stock, warrants, the sale of certain assets of the non-prescription business in which we were previously engaged and certain debt facilities.

In September 2014, we entered into a sales agreement with Cowen and Company, LLC (Cowen) to offer shares of our common stock from time to time through Cowen, as our sales agent for the offer and sale of the shares up to an aggregate offering price of $35.0 million. We paid a commission equal to 3% of the gross proceeds from the sales of shares of our common stock under the sales agreement. Our sales agreement with Cowen to sell additional shares expired on August 13, 2017.

During the three and six months ended June 30, 2017, we sold 2,140,713 shares of our common stock at a weighted average purchase price of $1.40 per share resulting in gross proceeds of approximately $3.0 million, prior to the payment of approximately $110,000 of sales agent discounts and commissions and related issuance costs. During the year ended December 31, 2017, we sold 4,203,015 shares of our common stock at a weighted average price of $1.43 per share through this at-the-market offering, for total gross proceeds of approximately $6.0 million, reduced by approximately $180,000 of related commissions, issuance costs and placement agent fees. We used the net proceeds from this offering for general corporate purposes and working capital.

In October 2017, we entered into a common stock sales agreement (Sales Agreement) with H.C. Wainwright & Co., LLC (HCW) to offer shares of our common stock from time to time through HCW, as our sales agent, for the offer and sale of the shares up to an aggregate offering price of $25.0. In June 2018, we notified HCW that we were terminating the Sales Agreement in accordance with the termination provisions of the Sales Agreement, effective on June 1, 2018. We had no obligation to sell shares under this sales agreement with HCW and we never sold shares under this agreement. We incurred no early termination penalties in connection with the termination of the Sales Agreement.

On January 5, 2018, we entered into the $40.0 million 2018 Loan Agreement with Solar Capital. Under this agreement, we borrowed the entire $40.0 million as a term loan that matures on July 1, 2022. We used the proceeds of the 2018 Loan Agreement to repay the Hercules Loan Agreement and related expenses. We expect to use the remaining loan proceeds to provide additional working capital for general corporate purposes. (See Note 10 of our notes to condensed consolidated financial statements).

As of June 30, 2018, we had approximately $16.7 million in cash and cash equivalents. We commercially market ILUVIEN directly in the U.S., Germany, the United Kingdom, Portugal, Austria and Ireland. We began selling ILUVIEN in Austria in the first quarter of 2017 and in Ireland in the fourth quarter of 2017. We sell ILUVIEN through distributors in the Middle East, France, Italy and Spain. Due to the limited revenue generated by ILUVIEN to date, we may have to raise additional capital to fund the continued commercialization of ILUVIEN. If we are unable to raise additional financing, we will need to adjust our commercial plans so that we can continue to operate with our existing cash resources. The actual amount of funds that we will need will depend on many factors, some of which are beyond our control. We may need funds sooner than currently anticipated.

We cannot be sure that additional financing will be available when needed or that, if available, the additional financing would be obtained on terms favorable to us or our stockholders. If we were to 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 were to attempt to raise additional funds through strategic collaboration agreements we may not be successful in obtaining collaboration agreements, or in receiving milestone or royalty payments under those agreements. If we were to attempt to raise additional funds through debt financing 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 six months ended June 30, 2018, cash used in our operations was $8.4 million. The cash used in our operations was primarily due to our net loss of $11.7 million, offset by $2.4 million of non-cash stock-based compensation expense, $1.8 million loss on our early extinguishment of debt, $1.3 million for non-cash depreciation and amortization, $420,000 for non-cash interest expense associated with the amortization of our debt discount and a $250,000 increase in accounts payable, accrued expenses and other current liabilities. Cash used in operations for the six months ended June 30, 2018 was further affected by an increase in accounts receivable of $2.1 million and an increase of $650,000 of inventory.

For the six months ended June 30, 2017, cash used by our operations of $7.0 million was primarily due to our net loss of $9.5 million offset by non-cash items, including $2.4 million of stock-based compensation expense, $1.3 million for depreciation and amortization and $690,000 for non-cash interest expense associated with our debt discount. Increasing cash

used in operations was a decrease in other long term liabilities of $1.4 million and increases in inventory of $720,000 and prepaid expenses and other current assets of $390,000. These increases were offset by an increase in accounts payable, accrued expenses and other current liabilities of $360,000 and a decrease in accounts receivable of $340,000.

For the six months ended June 30, 2018, 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 additional software.

For the six months ended June 30, 2017, net cash used in our investing activities was approximately $170,000, which was due to the purchase of property and equipment, primarily for the purchase of manufacturing equipment and software.

For the six months ended June 30, 2018, net cash provided by our financing activities was approximately $1.2 million, which is primarily due to entering into the $40.0 million 2018 Loan Agreement with Solar Capital, offset by paying off the $35.0 million Hercules Loan Agreement and payment of related debt costs of $3.7 million.

For the six months ended June 30, 2017, net cash provided by our financing activities was approximately $2.9 million. During the second quarter of 2017, we sold a total of 2,140,713 shares of our common stock at a weighted average purchase price of $1.40 per share resulting in gross proceeds of approximately $3.0 million, prior to the payment of approximately $110,000 of sales agent discounts and commissions and related issuance costs.

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, 2017, filed with the SEC on March 2, 2018.

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 to facilitate 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.

Impact of Recent Accounting Pronouncements

See Note 3 our notes to condensed consolidated financial statements for a description of recent accounting pronouncements, including the expected dates of adoption and expected effects on results of operations and financial condition, if known.

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 Solar Capital. 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 $101,000 and $201,000 increase in interest expense for the three and six months ended June 30, 2018, 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 creditworthiness so that we can properly assess and respond to any changes in their credit profile. During the three and six months ended June 30, 2018 and 2017, we did not recognize any charges for write-offs of accounts receivable. As of June 30, 2018 and December 31, 2017, two U.S.-based distributors accounted for 82% and 81%, 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 affect 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.

ITEM 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

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 June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. ***Legal Proceedings***

On December 22, 2016, Cantor Fitzgerald & Co. (Cantor Fitzgerald) filed a complaint against us in the Supreme Court of the State of New York, County of New York (the Court). 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 then existing $35 million debt facility with Hercules and to secure an additional $10 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 have denied liability. Discovery has concluded and both parties have filed motions for summary judgment. The Court has scheduled oral argument on the parties' summary judgment motions for August 15, 2018. No trial date has been set, and we do not expect a trial date to be set until the third quarter of 2018 at the earliest. We are not able to predict the outcome of this litigation.

ITEM 1A. ***Risk Factors***

In our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 2, 2018, 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. Except as set forth below, 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, 2017. 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.

The following information should be read in conjunction with the interim condensed consolidated financial statements and related notes in Part I, Item 1, "Interim Condensed Consolidated Financial Statements" and the discussion and analysis of our financial condition in Part I, Item 2, "Management's, Discussion and Analysis of Financial Condition and Results of Operations."

We received notice in June 2018 from The Nasdaq Stock Market ("Nasdaq") that we failed to comply with the Nasdaq Global Market's minimum bid requirement because our stock price was below $1.00 per common share for 30 consecutive business days. Although we have regained compliance with Nasdaq's minimum bid requirement, it is possible that we may again fail to comply with Nasdaq's minimum bid requirement. If that were to occur and we were to fail to regain compliance, our shares could be delisted from the Nasdaq Global Market, which could materially reduce the liquidity of our common stock and have an adverse effect on its market price.

We received notice in June 2018 from Nasdaq Stock Market ("Nasdaq") that we failed to comply with the Nasdaq Global Market's minimum bid requirement because our stock price was below $1.00 per common share for 30 consecutive business days. On July 30, 2018, we received a letter from Nasdaq informing us that we have regained compliance with the minimum bid price requirement because our common stock had a closing bid price of $1.00 or more for 10 consecutive business days. Given that our stock price is currently trading close to $1.00 per share, however, it is possible that we may again fail to comply with Nasdaq's minimum bid requirement. If that were to occur and we were to fail to regain compliance with this continuing listing requirement, our shares could be delisted from the Nasdaq Global Market, which could materially reduce the liquidity of our common stock and have an adverse effect on its market price. A delisting would also likely make it more difficult for us to obtain financing through the sale of our equity. Any such sale of equity would likely be more dilutive to our current shareholders than would be the case if our shares were listed. For more information about this matter and the effects on us if again fail to comply with Nasdaq's minimum bid requirement, please see our Current Report on Form 8-K dated June 19, 2018 and filed with the SEC on June 22, 2018.

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.

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).
31.1	Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	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.

The certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Alimera Sciences, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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.

August 2, 2018

By: /s/ C. Daniel Myers

C. Daniel Myers
Chief Executive Officer
(Principal Executive Officer)

August 2, 2018

By: /s/ Richard S. Eiswirth, Jr.

Richard S. Eiswirth, Jr.
President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION

I, C. Daniel Myers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alimera Sciences, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision; to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ C. Daniel Myers

C. Daniel Myers

Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Richard S. Eiswirth, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alimera Sciences, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision; to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ Richard S. Eiswirth, Jr.

Richard S. Eiswirth, Jr.

President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Alimera Sciences, Inc. (the Company), does hereby certify, to the best of such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (the Form 10-Q) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2018 /s/ C. Daniel Myers

C. Daniel Myers

Chief Executive Officer
(Principal Executive Officer)

Date: August 2, 2018 /s/ Richard S. Eiswirth, Jr.

Richard S. Eiswirth, Jr.

President and Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request. This certification "accompanies" the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.