
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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

(State or other jurisdiction of
incorporation or organization)

**6120 Windward Parkway, Suite 290
Alpharetta, GA**

(Address of principal executive offices)

20-0028718

(I.R.S. Employer
Identification No.)

30005

(Zip Code)

(678) 990-5740

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

As of November 3, 2016 there were 64,862,904 shares of the registrant's Common Stock issued and outstanding.

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

- uncertainty as to our ability to achieve profitability and positive cash flow through the commercialization of ILUVIEN® in the European Economic Area (EEA), the United States (U.S.) and other regions of the world where we sell ILUVIEN;
- our ability to operate our business in compliance with the covenants and restrictions that we are subject to under our credit facility;
- dependence on third-party manufacturers to manufacture ILUVIEN or any future products or product candidates in sufficient quantities and quality;
- uncertainty as to the pricing and reimbursement guidelines for ILUVIEN or any future products or product candidates, including ILUVIEN in new markets;
- our ability to successfully commercialize ILUVIEN following regulatory approval in additional markets;
- delay in or failure to obtain regulatory approval of ILUVIEN in additional countries or any future products or product candidates;
- the extent of government regulations; and
- our need to raise additional financing.

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

We encourage you to read the discussion and analysis of our financial condition and our unaudited interim 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, 2015, which contains a more complete discussion of the risks and uncertainties associated with our business. In addition to the risks described above, other unknown or unpredictable factors also could affect our results. There can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Therefore, no assurance can be given that the outcomes stated in such forward-looking statements and estimates will be achieved.

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

	September 30, 2016	December 31, 2015
	(In thousands, except share and per share data)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 33,853	\$ 31,075
Restricted cash	38	37
Accounts receivable, net	13,397	9,799
Prepaid expenses and other current assets	3,402	2,696
Inventory, net (Note 5)	913	1,552
Total current assets	<u>51,603</u>	<u>45,159</u>
NON-CURRENT ASSETS:		
Property and equipment, net	2,054	2,553
Intangible asset, net (Note 6)	21,093	22,549
Deferred tax asset, net	230	223
TOTAL ASSETS	<u><u>\$ 74,980</u></u>	<u><u>\$ 70,484</u></u>
CURRENT LIABILITIES:		
Accounts payable	\$ 3,449	\$ 4,002
Accrued expenses (Note 7)	4,169	3,911
Note payable, net of discount (Note 9)	—	31,786
Capital lease obligations	235	234
Total current liabilities	<u>7,853</u>	<u>39,933</u>
NON-CURRENT LIABILITIES:		
Derivative warrant liability	1,060	2,815
Note payable, net of discount — less current portion (Note 9)	33,425	—
Capital lease obligations — less current portion	401	582
Other non-current liabilities	2,209	834
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value — 10,000,000 shares authorized at September 30, 2016 and December 31, 2015:		
Series A Convertible Preferred Stock, 1,300,000 authorized and 600,000 issued and outstanding at September 30, 2016 and December 31, 2015; liquidation preference of \$24,000 at September 30, 2016 and December 31, 2015	19,227	19,227
Series B Convertible Preferred Stock, 8,417 authorized and 8,416.251 issued and outstanding at September 30, 2016 and December 31, 2015; liquidation preference of \$50,750 at September 30, 2016 and December 31, 2015	49,568	49,568
Common stock, \$.01 par value — 100,000,000 shares authorized, 64,710,724 shares issued and outstanding at September 30, 2016 and 45,005,833 shares issued and outstanding at December 31, 2015	647	450
Additional paid-in capital	329,467	299,376
Common stock warrants	3,338	2,747
Accumulated deficit	(371,146)	(343,900)
Accumulated other comprehensive loss	(1,069)	(1,148)
TOTAL STOCKHOLDERS' EQUITY	<u>30,032</u>	<u>26,320</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 74,980</u></u>	<u><u>\$ 70,484</u></u>

See Notes to Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(In thousands, except share and per share data)			
NET REVENUE	\$ 8,298	\$ 6,901	\$ 23,656	\$ 16,615
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(486)	(634)	(1,420)	(1,293)
GROSS PROFIT	7,812	6,267	22,236	15,322
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	3,261	4,078	9,486	11,222
GENERAL AND ADMINISTRATIVE EXPENSES	3,645	3,031	11,079	10,471
SALES AND MARKETING EXPENSES	7,452	6,949	22,071	21,003
DEPRECIATION AND AMORTIZATION	697	653	2,082	1,864
OPERATING EXPENSES	15,055	14,711	44,718	44,560
NET LOSS FROM OPERATIONS	(7,243)	(8,444)	(22,482)	(29,238)
INTEREST EXPENSE, NET AND OTHER	(1,330)	(1,317)	(3,842)	(3,590)
UNREALIZED FOREIGN CURRENCY LOSS, NET	(51)	(63)	(31)	(34)
CHANGE IN FAIR VALUE OF DERIVATIVE WARRANT LIABILITY	(588)	8,363	1,755	13,085
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	—	(2,564)	—
NET LOSS BEFORE TAXES	(9,212)	(1,461)	(27,164)	(19,777)
PROVISION FOR TAXES	(33)	(82)	(84)	(155)
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (9,245)	\$ (1,543)	\$ (27,248)	\$ (19,932)
NET LOSS PER SHARE APPLICABLE TO COMMON STOCKHOLDERS — Basic and diluted	\$ (0.16)	\$ (0.03)	\$ (0.56)	\$ (0.45)
WEIGHTED AVERAGE SHARES OUTSTANDING — Basic and diluted	56,103,534	44,436,224	48,759,381	44,393,831

See Notes to Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	(In thousands)			
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (9,245)	\$ (1,543)	\$ (27,248)	\$ (19,932)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments	30	40	79	(248)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	30	40	79	(248)
COMPREHENSIVE LOSS	<u>\$ (9,215)</u>	<u>\$ (1,503)</u>	<u>\$ (27,169)</u>	<u>\$ (20,180)</u>

See Notes to Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

	Nine Months Ended September 30,	
	2016	2015
(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (27,248)	\$ (19,932)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,082	1,864
Inventory reserve	39	—
Unrealized foreign currency transaction loss	31	34
Loss on early extinguishment of debt	2,564	—
Amortization of debt discount	795	524
Stock-based compensation expense	3,753	3,702
Change in fair value of derivative warrant liability	(1,755)	(13,085)
Changes in assets and liabilities:		
Accounts receivable	(3,564)	(8,455)
Prepaid expenses and other current assets	(514)	627
Inventory	612	(88)
Accounts payable	(2,101)	(1,447)
Accrued expenses and other current liabilities	1,256	(828)
Other non-current liabilities	1,354	612
Net cash used in operating activities	(22,696)	(36,472)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(122)	(370)
Net cash used in investing activities	(122)	(370)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	157	278
Proceeds from sale of common stock	27,547	42
Payment of issuance cost of common stock	(1,227)	—
Payment of Series B Convertible Preferred Stock offering costs	—	(327)
Payment of debt costs	(715)	—
Payment of capital lease obligations	(178)	(207)
Net cash provided by (used in) financing activities	25,584	(214)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	12	(301)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,778	(37,357)
CASH AND CASH EQUIVALENTS — Beginning of period	31,075	76,697
CASH AND CASH EQUIVALENTS — End of period	\$ 33,853	\$ 39,340
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	\$ 2,977	\$ 2,904
Cash paid for income taxes	\$ 299	\$ 9
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment acquired under capital leases	\$ 76	\$ 997
Common stock issuance costs accrued but unpaid	\$ 114	\$ —
Note payable end of term payment accrued but unpaid	\$ 1,400	\$ —

There were no dividend payments made during the nine months ended September 30, 2016 and 2015.

See Notes to Consolidated Financial Statements.

ALIMERA SCIENCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Alimera Sciences, Inc., and its subsidiaries (the Company), is a pharmaceutical company that specializes in the research, development and commercialization of prescription ophthalmic pharmaceuticals. Alimera Sciences, Inc. 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 the EEA, the Company has committed to conduct a five-year, post-authorization, open label registry study in 800 patients treated with ILUVIEN per the labeled indication. Through September 30, 2016, over 430 patients have been enrolled.

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

In addition, the Company has entered into various agreements under which distributors will provide regulatory, reimbursement or sales and marketing support for future commercialization of ILUVIEN in numerous countries in the Middle East, Canada, Italy, Australia and New Zealand. In the third quarter of 2016, the Company's Middle East distributor initiated named patient sales of ILUVIEN in the Middle East.

2. BASIS OF PRESENTATION

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

The 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, 2015 and related notes included in the Company's Annual Report on Form 10-K, which was filed with the SEC on March 15, 2016. The financial results for any interim period are not necessarily indicative of the expected financial results for the full year.

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Financial Statements included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2015.

Allowance for Doubtful Accounts on Accounts Receivable

Allowance for doubtful accounts on accounts receivable were \$26,000 and \$118,000 as of September 30, 2016 and December 31, 2015, respectively.

Research and Development Expenses

Research and development expenses were \$1,567,000 and \$940,000 for the three months ended September 30, 2016 and 2015, respectively. Research and development expenses were \$4,438,000 and \$1,958,000 for the nine months ended September 30, 2016 and 2015, respectively.

Recent Accounting Pronouncements

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

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides a single, comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017 for public entities, with early adoption permitted in the annual reporting period beginning after December 15, 2016. The Company is continuing to evaluate the new guidance and plans to provide additional information about its expected financial impact at a future date.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements-Going Concern*. ASU 2014-15 provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the potential impact of adopting this guidance to have a material impact on its financial statements.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard requires all leases with durations greater than twelve months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018, although early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718)*. This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The Company does not expect the impact of the adoption to have a material effect on its financial statements.

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. FACTORS AFFECTING OPERATIONS

To date, the Company has incurred negative cash flow from operations and has accumulated a deficit of \$371,146,000 from inception through September 30, 2016. As of September 30, 2016, the Company had approximately \$33,853,000 in cash and cash equivalents.

Subsequent to September 30, 2016, the Company entered into the Fourth Loan Amendment (as defined below) with Hercules Capital, Inc. (Hercules) in order to modify certain terms of the Term Loan Agreement (as defined below) and obtain additional loan amounts (see Note 9 Loan Agreements). If there is an event of default, all amounts may become due under the Term Loan Agreement and there would be substantial doubt about the Company's ability to continue as a going concern.

Further, due to the limited revenue generated by ILUVIEN to date, the Company may need to raise additional capital to fund the continued commercialization of ILUVIEN. If the Company were unable to raise additional financing, the Company would need to adjust its commercial plans so that it could continue to operate with its existing cash resources. The actual amount of funds that the Company would need would be determined by many factors, some of which may be beyond its control.

The accompanying Interim Financial Statements have been prepared assuming the Company will continue as a going concern. However, the Company's negative cash flow from operations and accumulated deficit raise substantial doubt about its ability to continue as a going concern. The Interim Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

5. INVENTORY

Inventory consisted of the following:

	September 30, 2016	December 31, 2015
	(In thousands)	
Component parts (1)	\$ 172	\$ 131
Work-in-process (2)	214	333
Finished goods	566	1,525
Total inventory	952	1,989
Inventory reserve	(39)	(437)
Inventory — net	\$ 913	\$ 1,552

(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 as required by regulatory authorities in Europe.

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. INTANGIBLE ASSET

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

The gross carrying amount of the intangible asset is \$25,000,000, which is being amortized over approximately 13 years from the acquisition date. The amortization expense related to the intangible asset was \$489,000 for both the three months ended September 30, 2016 and 2015. The amortization expense related to the intangible asset was \$1,457,000 and \$1,451,000 for the nine months ended September 30, 2016 and 2015, respectively. The net book value of the intangible asset was \$21,093,000 and \$22,549,000 as of September 30, 2016 and December 31, 2015, respectively.

The estimated future amortization expense as of September 30, 2016 for the remainder of 2016, the next four years and thereafter is as follows (in thousands):

<u>Years Ending December 31</u>	
2016	\$ 489
2017	1,940
2018	1,940
2019	1,940
2020	1,940
Thereafter	12,844
Total	<u>\$ 21,093</u>

7. ACCRUED EXPENSES

Accrued expenses consisted of the following:

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
	(In thousands)	
Accrued compensation expenses	\$ 1,561	\$ 804
Accrued clinical investigator expenses	1,092	732
Accrued rebate and other revenue reserves	724	452
Accrued End of Term Payment (Note 9)	—	1,050
Other accrued expenses	792	873
Total accrued expenses	<u>\$ 4,169</u>	<u>\$ 3,911</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. LICENSE AGREEMENTS

The Company entered into an agreement with pSivida for the use of fluocinolone acetonide (FAC) in pSivida's proprietary delivery device in February 2005, which was subsequently amended in 2008 (the pSivida Agreement). The pSivida Agreement provides the Company with a worldwide exclusive license to utilize certain underlying technology used in the development and commercialization of ILUVIEN.

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

As a result of the FDA's approval of the NDA for ILUVIEN in September 2014, the Company made the pSivida Milestone Payment of \$25,000,000 in October 2014.

The Company must share 20% of the Company's net profits of ILUVIEN, determined on a cash basis, in each country where the Company sells ILUVIEN directly or through its distributors or sub-distributors and 33% of any lump sum milestone payments received from a sub-licensee of ILUVIEN, as defined by the pSivida Agreement. In connection with this arrangement, the Company is entitled to recover 20% of commercialization costs of ILUVIEN incurred prior to product profitability out of pSivida's share of net profits, as defined in the pSivida Agreement. As of September 30, 2016 and December 31, 2015, the Company was owed approximately \$25,239,000 and \$21,565,000, respectively, in commercialization costs. Due to the uncertainty of future net profits, the Company has fully reserved these amounts in the accompanying Interim Financial Statements.

In the second quarter of 2016, pSivida disputed portions of the Company's claimed commercialization costs for the year ended December 31, 2014. As part of this dispute, pSivida notified the Company that it disagreed with \$1,290,000 of the \$12,956,000 in commercialization costs receivable that the Company had reported as of December 31, 2014 and claimed incremental profit sharing payments of \$136,000 for the year ended December 31, 2014. The Company is disputing pSivida's assertions using the alternative dispute resolution mechanism under the pSivida Agreement. If pSivida's assertions were to prevail in the alternative dispute resolution mechanism and their assertions were then applied to the commercialization cost calculations for the year ended December 31, 2015 and the nine months ended September 30, 2016, then the Company believes the commercialization costs receivable from pSivida would be reduced from \$21,565,000 to \$18,504,000 at December 31, 2015 and from \$25,239,000 to \$20,931,000 at September 30, 2016. If pSivida's assertions were to prevail in the alternative dispute resolution mechanism, the impact on the statements of operations for the year ended December 31, 2015 and the nine months ended September 30, 2016 would be immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. LOAN AGREEMENTS*Hercules Loan Agreement*2014 Loan Agreement

In April 2014, Alimera Sciences Limited (Limited), a subsidiary of the Company, entered into a loan and security agreement (2014 Loan Agreement) with Hercules Capital, Inc. (Hercules) providing for a term loan of up to \$35,000,000 (2014 Term Loan), which Limited and Hercules amended in November 2015 (the First Loan Amendment), March 2016 (the Second Loan Amendment), May 2016 (the Third Loan Amendment) and October 2016 (the Fourth Loan Amendment and, collectively with the 2014 Loan Agreement, the First Loan Amendment, the Second Loan Amendment and the Third Loan Amendment, the Term Loan Agreement). Under the 2014 Loan Agreement, Hercules made an advance in the initial principal amount of \$10,000,000 to Limited at closing to provide Limited with additional working capital for general corporate purposes and to repay a 2013 term loan with Silicon Valley Bank. Hercules made an additional advance of \$25,000,000 to Limited in September 2014, following the approval of ILUVIEN by the FDA to fund the pSivida Milestone Payment. The 2014 Loan Agreement provided for interest only payments through November 2015. Interest on the 2014 Term Loan accrued at a floating per annum rate equal to the greater of (i) 10.90%, or (ii) the sum of (A) 7.65%, plus (B) the prime rate. Following the interest only period the 2014 Term Loan was due and payable to Hercules in equal monthly payments of principal and interest through May 1, 2018. The interest rate on the Term Loan Agreement was 11.15% as of September 30, 2016.

First Loan Amendment

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

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

Second Loan Amendment

In January 2016, the revenue threshold covenant was not met by the Consolidated Group and as a result, in March 2016, Limited and Hercules entered into the Second Loan Amendment, which further amended certain terms of the 2014 Loan Agreement. In conjunction with the Second Loan Amendment, Hercules waived this covenant violation.

The Second Loan Amendment adjusted the revenue covenant to a rolling three-month calculation, first measured for the three months ended May 31, 2016. In addition, the Second Loan Amendment increased the liquidity covenant. Upon execution of the Second Loan Amendment, Limited paid Hercules an amendment fee of \$350,000 and agreed to increase the End of Term Payment to \$1,400,000 from \$1,050,000, which was payable on the date that the 2014 Term Loan was to be paid in full.

The Company concluded that the Second Loan Amendment resulted in a substantial modification of the terms of debt when considered with the First Loan Amendment in accordance with the guidance in ASC 470-50, *Debt*. As a result, the Company accounted for the Second Loan Amendment as an extinguishment and recognized a loss on early extinguishment of debt of approximately \$2,564,000 within the consolidated statement of operations for the nine months ended September 30, 2016. The loss on early extinguishment consisted primarily of the unamortized debt discount associated with the warrant and debt issuance costs incurred prior to the Second Loan Amendment, the incremental fair value of the warrant as a result of modifying the terms of the warrant and the debt issuance costs of \$360,000 paid to Hercules for the Second Loan Amendment.

Third Loan Amendment and July 2016 Waiver

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Fourth Loan Amendment

In October 2016, Limited entered into the Fourth Loan Amendment with Hercules, which further amended certain terms of the Term Loan Agreement. Pursuant to the terms of the Fourth Loan Amendment, Hercules agreed to provide up to an additional \$10,000,000 to Limited with (i) the first \$5,000,000 available at Limited's option through June 30, 2017 subject to (A) the Consolidated Group's achievement of \$12,000,000 in trailing three month net product revenue and (B) no event of default having occurred since October 20, 2016 (the Effective Date) and (ii) the second \$5,000,000 available at Limited's option through December 31, 2017 subject to (A) the Consolidated Group's achievement of \$15,000,000 in trailing three month net product revenue, (B) no event of default having occurred since the Effective Date and (C) the prior \$5,000,000 having been advanced to Limited (the Additional Advances and, together with the 2014 Term Loan, the Term Loan). The Fourth Loan Amendment provides for interest only payments through November 30, 2018 (the Interest-Only Period). Pursuant to the Fourth Loan Amendment, interest on the Term Loan accrues at a floating per annum rate equal the greater of (i) 11.0% and (ii) the sum of (A) 11.0% plus (B) the prime rate as reported in The Wall Street Journal, or if not reported, the prime rate most recently reported in The Wall Street Journal, minus 3.5%. In addition to the interest described above, the principal balance of the Term Loan will bear "payment-in kind" interest at the rate of 1.0% (PIK Interest), which PIK Interest will be added to the outstanding principal balance of the Term Loan so as to increase the outstanding principal balance of the Term Loan on each payment date for the Term Loan and which amount will be payable when the aggregate outstanding principal amount of the Term Loan is payable. The Term Loan will be due and payable to Hercules in 24 equal monthly payments of principal and interest following the Interest-Only Period beginning on December 1, 2018 and matures in full on November 1, 2020.

Limited paid Hercules a facility charge of \$337,500 and reimbursed Hercules for legal and diligence fees incurred in connection with the Fourth Loan Amendment. If Limited prepays the Term Loan, it will pay Hercules a prepayment penalty (i) if such amounts are prepaid in any of the first 12 months following the Effective Date, equal to 3.0% of the principal amount of the Term Loan being repaid, (ii) if such amounts are prepaid after 12 months but prior to 24 months following the Effective Date, equal to 2.0% of the principal amount of the Term Loan being repaid, and (iii) if such amounts are prepaid at any time thereafter, equal to 1.0% of the principal amount of the Term Loan being repaid.

The Consolidated Group also agreed to customary affirmative and negative covenants, including, without limitation, covenants relating to minimum liquidity, minimum trailing six-month net revenue and adjusted EBITDA, and events of default in connection with these arrangements. The occurrence of an event of default could result in the acceleration of Limited's obligations under the Term Loan Agreement, as amended by the Fourth Loan Amendment and an increase to the applicable interest rate, and would permit Hercules to exercise remedies with respect to the collateral under the Term Loan Agreement, as amended by the Fourth Loan Amendment. In the event that the Company maintains \$35,000,000 in liquidity, including cash and eligible accounts receivable, at the end of the month and has not been and is not in breach of the amended debt facility, the six-month trailing revenue covenant is effectively waived for such month.

General Discussion of the Term Loan Agreement

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

2014 Warrant

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

2016 Warrant

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

Fair Value of Debt

The weighted average interest rates of the Company's notes payable approximate the rate at which the Company could obtain alternative financing; therefore, the carrying amount of the notes approximated their fair value at September 30, 2016 and December 31, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. LOSS PER SHARE (EPS)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Series A Convertible Preferred Stock	9,022,556	9,022,556	9,022,556	9,022,556
Series B Convertible Preferred Stock	8,416,251	8,416,251	8,416,251	8,416,251
Series A Convertible Preferred Stock warrants	4,511,279	4,511,279	4,511,279	4,511,279
Common stock warrants	1,336,947	362,970	1,336,947	362,970
Stock options	11,231,644	9,094,716	11,231,644	9,094,716
Total	34,518,677	31,407,772	34,518,677	31,407,772

11. PREFERRED STOCK*Series A Convertible Preferred Stock*

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

Each unit sold in the preferred stock financing included a warrant to purchase 0.30 shares of Series A Convertible Preferred Stock at an exercise price equal to \$44.00 per share. At the election of the holder of a warrant, the warrant may be exercised for the number of shares of common stock then issuable upon conversion of the Series A Convertible Preferred Stock that would otherwise be issued upon such exercise at the then-effective Conversion Price.

These warrants are considered derivative instruments because the agreements provide for settlement in Series A Convertible Preferred Stock shares or common stock shares at the option of the holder, an adjustment to the warrant exercise price for common shares at some point in the future and contain anti-dilution provisions whereby the number of shares for which the warrants are exercisable and/or the exercise price of the warrants are subject to change in the event of certain issuances of stock at prices below the then-effective exercise price of the warrants. Therefore, the warrants were recorded as a liability at issuance. The warrant anti-dilution provisions lapsed in September 2014. At September 30, 2016 and December 31, 2015, the fair market value of the warrants was estimated to be \$1,060,000 and \$2,815,000, respectively. During the three months ended September 30, 2016, the Company recorded a loss of \$588,000 and during the three months ended September 30, 2015, the Company recorded a gain of \$8,363,000, as a result of the change in fair value of the warrants. During the nine

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

months ended September 30, 2016 and 2015, the Company recorded gains of \$1,755,000 and \$13,085,000, respectively, as a result of the change in fair value of the warrants.

In April 2014, 2,255,639 shares of common stock were issued pursuant to the conversion of 150,000 shares of Series A Convertible Preferred Stock held by an investor. In September 2014, 3,759,398 shares of common stock were issued pursuant to the conversion of 250,000 shares of Series A Convertible Preferred Stock held by another investor. As of September 30, 2016, there were 600,000 shares of Series A Convertible Preferred Stock issued and outstanding.

Series B Convertible Preferred Stock

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

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

12. COMMON STOCK

In September 2014, the Company entered into a sales agreement with Cowen and Company, LLC (Cowen) to offer shares of its common stock from time to time through Cowen up to an aggregate offering price of \$35,000,000. During the nine months ended September 30, 2016, the Company sold a total of 662,779 shares of its common stock at a weighted average purchase price of \$1.83 per share, resulting in gross proceeds of \$1,211,000, prior to the payment of approximately \$62,000 of underwriter discounts and commissions and related issuance costs.

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

During the nine months ended September 30, 2016 and 2015, 41,413 and 10,993 shares of the Company's common stock were acquired through its employee stock purchase plan resulting in proceeds of \$78,000 and \$42,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. STOCK INCENTIVE PLANS

Stock Option Plans

During the three months ended September 30, 2016 and 2015, the Company recorded compensation expense related to stock options of approximately \$1,116,000 and \$1,355,000, respectively. During the nine months ended September 30, 2016 and 2015, the Company recorded compensation expense related to stock options of approximately \$3,683,000 and \$3,623,000, respectively. As of September 30, 2016, the total unrecognized compensation cost related to non-vested stock options granted was \$9,448,000 and is expected to be recognized over a weighted average period of 2.57 years. The following table presents a summary of stock option activity for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	10,648,702	\$ 3.30	9,292,947	\$ 3.49	9,475,890	\$ 3.43	7,681,256	\$ 3.03
Grants	749,250	1.53	69,000	4.39	2,169,750	2.06	1,902,500	5.38
Forfeitures	(114,837)	4.03	(200,260)	5.25	(313,297)	3.44	(349,645)	4.84
Exercises	(51,471)	1.33	(66,971)	2.09	(100,699)	1.56	(139,395)	1.99
Options outstanding at period end	<u>11,231,644</u>	<u>3.18</u>	<u>9,094,716</u>	<u>3.47</u>	<u>11,231,644</u>	<u>3.18</u>	<u>9,094,716</u>	<u>3.47</u>
Options exercisable at period end	<u>7,116,615</u>	<u>3.26</u>	<u>5,510,064</u>	<u>3.19</u>	<u>7,116,615</u>	<u>3.26</u>	<u>5,510,064</u>	<u>3.19</u>
Weighted average per share fair value of options granted during the period	<u>\$ 1.17</u>		<u>\$ 3.37</u>		<u>\$ 1.56</u>		<u>\$ 4.19</u>	

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options expected to vest as of September 30, 2016:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	11,231,644	\$ 3.18	6.69 years	\$ 71
Exercisable	7,116,615	3.26	5.46 years	70
Outstanding, vested and expected to vest	10,696,132	3.19	6.57 years	71

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options expected to vest as of December 31, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	9,475,890	\$ 3.43	6.96 years	\$ 2,565
Exercisable	5,808,528	3.27	5.87 years	2,186
Outstanding, vested and expected to vest	9,016,217	3.41	6.86 years	2,541

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Employee Stock Purchase Plan

During the three months ended September 30, 2016 and 2015, the Company recorded compensation expense related to its employee stock purchase plan of approximately \$18,000 and \$38,000, respectively. During the nine months ended September 30, 2016 and 2015, the Company recorded compensation expense related to its employee stock purchase plan of approximately \$69,000 and \$79,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. INCOME TAXES

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

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

The Company's income tax expense and resulting effective tax rate are based upon the respective estimated annual effective tax rates applicable for the respective periods adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions and other items. The Company's effective tax rate for the three months ended September 30, 2016 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 believes that its income tax filing positions and deductions are more likely than not to be sustained on audit; therefore, no ASC 740-10 liabilities and no related penalties and interest have been recorded. The Company does not anticipate any material changes to its uncertain tax positions within the next 12 months. Tax years since 2003 remain subject to examination in Georgia, Tennessee and at the federal level. The time period is longer than the standard statutory 3-year period due to net operating losses (NOLs) from 2003 being available for utilization. The statute of limitations on these years will close when the NOLs expire or when the statute closes on the years in which the NOLs are utilized. Tax years since 2012 remain subject to examination in the United Kingdom and the Netherlands. Tax years since 2013 remain subject to examination in Germany.

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

At December 31, 2015, the Company had federal NOL carry-forwards of approximately \$100,835,000 and state NOL carry-forwards of approximately \$78,762,000 available to reduce future income. The Company's federal NOL carry-forwards remain fully reserved as of September 30, 2016. If not utilized, the federal NOL carry-forwards will expire at various dates between 2029 and 2035 and the state NOL carry-forwards will expire at various dates between 2020 and 2035.

The Company's NOL carry-forwards may be subject to annual limitations under Internal Revenue Code (IRC) Section 382 (or comparable provisions of state law) in the event that certain changes in ownership of the Company were to occur. The Company periodically evaluates its NOL carry-forwards and whether certain changes in ownership, including its August 2016 common stock issuance, have occurred that would limit its ability to utilize a portion of the Company's NOL carry-forwards. Currently, a full valuation allowance has been recorded against the NOL deferred tax asset.

As of December 31, 2015, the Company had cumulative book losses in foreign subsidiaries of \$67,452,000. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. FAIR VALUE

The Company applies ASC 820, *Fair Value Measurements*, in determining the fair value of certain assets and liabilities. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. The hierarchy of those valuation approaches is broken down into three levels based on the reliability of inputs as follows:

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

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

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

There have been no changes in the methodologies used at September 30, 2016 and December 31, 2015.

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

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents (1)	\$ —	\$ —	\$ —	\$ —
Assets measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities:				
Derivative warrant liability (2)	\$ —	\$ 1,060	\$ —	\$ 1,060
Liabilities measured at fair value	<u>\$ —</u>	<u>\$ 1,060</u>	<u>\$ —</u>	<u>\$ 1,060</u>
December 31, 2015				
	Level 1	Level 2	Level 3	Total
(In thousands)				
Assets:				
Cash equivalents (1)	\$ 1,010	\$ —	\$ —	\$ 1,010
Assets measured at fair value	<u>\$ 1,010</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,010</u>
Liabilities:				
Derivative warrant liability (2)	\$ —	\$ 2,815	\$ —	\$ 2,815
Liabilities measured at fair value	<u>\$ —</u>	<u>\$ 2,815</u>	<u>\$ —</u>	<u>\$ 2,815</u>

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

16. SEGMENT INFORMATION

During the three months ended September 30, 2016 and 2015, two customers within the U.S. segment accounted for 75% and 73%, respectively, of the Company's consolidated revenues as a result of our sales to two pharmaceutical distributors in the U.S. During the nine months ended September 30, 2016 and 2015, these two customers within the U.S. segment accounted for 74% and 68%, respectively, of the Company's consolidated revenues. These two customers within the U.S. segment accounted for approximately 89% and 88% of the Company's consolidated accounts receivable at September 30, 2016 and December 31, 2015, respectively.

The following table presents a summary of the Company's reporting segments for the three months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	U.S.	International	Consolidated	U.S.	International	Consolidated
	(In thousands)					
NET REVENUE	\$ 6,184	\$ 2,114	\$ 8,298	\$ 5,032	\$ 1,869	\$ 6,901
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(374)	(112)	(486)	(245)	(389)	(634)
GROSS PROFIT	5,810	2,002	7,812	4,787	1,480	6,267
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	2,204	1,057	3,261	2,320	1,758	4,078
GENERAL AND ADMINISTRATIVE EXPENSES	2,232	1,413	3,645	1,712	1,319	3,031
SALES AND MARKETING EXPENSES	5,618	1,834	7,452	4,546	2,403	6,949
DEPRECIATION AND AMORTIZATION	674	23	697	639	14	653
OPERATING EXPENSES	10,728	4,327	15,055	9,217	5,494	14,711
NET LOSS FROM OPERATIONS	(4,918)	(2,325)	(7,243)	(4,430)	(4,014)	(8,444)
OTHER INCOME AND EXPENSES, NET			(1,969)			6,983
NET LOSS BEFORE TAXES			\$ (9,212)			\$ (1,461)

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents a summary of the Company's reporting segments for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	U.S.	International	Consolidated	U.S.	International	Consolidated
	(In thousands)					
NET REVENUE	\$ 17,511	\$ 6,145	\$ 23,656	\$ 11,279	\$ 5,336	\$ 16,615
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(964)	(456)	(1,420)	(573)	(720)	(1,293)
GROSS PROFIT	16,547	5,689	22,236	10,706	4,616	15,322
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	6,024	3,462	9,486	5,176	6,046	11,222
GENERAL AND ADMINISTRATIVE EXPENSES	6,569	4,510	11,079	6,080	4,391	10,471
SALES AND MARKETING EXPENSES	16,573	5,498	22,071	14,274	6,729	21,003
DEPRECIATION AND AMORTIZATION	2,015	67	2,082	1,819	45	1,864
OPERATING EXPENSES	31,181	13,537	44,718	27,349	17,211	44,560
NET LOSS FROM OPERATIONS	(14,634)	(7,848)	(22,482)	(16,643)	(12,595)	(29,238)
OTHER INCOME AND EXPENSES, NET			(4,682)			9,461
NET LOSS BEFORE TAXES			\$ (27,164)			\$ (19,777)

ALIMERA SCIENCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

17. SUBSEQUENT EVENT

In October 2016, Limited and Hercules entered into the Fourth Loan Amendment (see Note 9 Loan Agreements).

In connection with the Fourth Loan Amendment, the Company agreed to issue to Hercules the 2016 Warrant (see Note 9 Loan Agreements).

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

Overview

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

Our only commercial product is ILUVIEN[®], which has been developed to treat diabetic macular edema (DME). DME is a disease of the retina that affects individuals with diabetes and can lead to severe vision loss and blindness. ILUVIEN has received marketing authorization in the United States (U.S.), Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden and the United Kingdom. In the U.S., ILUVIEN is indicated for the treatment of DME in patients who have been previously treated with a course of corticosteroids and did not have a clinically significant rise in intraocular pressure (IOP). In the European Economic Area (EEA) countries in which ILUVIEN has received marketing authorization, it is indicated for the treatment of vision impairment associated with DME considered insufficiently responsive to available therapies. As part of the approval process in the EEA, we have committed to conduct a five-year, post-authorization, open label registry study in 800 patients of ILUVIEN per the labeled indication. Through September 30, 2016, over 430 patients have been enrolled.

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

In addition, we have entered into various agreements under which distributors will provide regulatory, reimbursement or sales and marketing support for future commercialization of ILUVIEN in numerous countries in the Middle East, Canada, Italy, Australia and New Zealand. In the third quarter of 2016 our Middle East distributor initiated named patient sales of ILUVIEN in the Middle East.

We commenced operations in June 2003. Since our inception we have incurred significant losses. As of September 30, 2016, we have accumulated a deficit of \$371.1 million. We expect to continue to incur losses as we:

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

As of September 30, 2016, we had approximately \$33.9 million in cash and cash equivalents.

As a result of the limited revenue generated by ILUVIEN to date, our negative cash flow from operations and accumulated deficit raise substantial doubt about our ability to continue as a going concern. Our Interim Financial Statements do not include any adjustments that might result from the outcome of this uncertainty. We believe that we have sufficient funds to allow us to become cash flow positive in the countries in which we sell ILUVIEN. However, it is possible that we may determine that we may need to raise additional funds in the future in order to support our business in these countries, to expand ILUVIEN into new geographies, to allow us to expand the indication of ILUVIEN or other business development activities. We cannot be sure that additional financing will be available when needed or that, if available, the additional financing will be obtained on terms favorable to us or our stockholders.

Our Agreement with pSivida

We entered into an agreement with pSivida US, Inc. (pSivida) for the use of fluocinolone acetonide (FAC) in pSivida's proprietary delivery device in February 2005, which was subsequently amended and restated in 2008 (the pSivida Agreement). The pSivida Agreement provides us with a worldwide exclusive license to utilize certain underlying technology used in the development and commercialization of ILUVIEN. ILUVIEN consists of a tiny polyimide tube with a permeable membrane cap on one end and an impermeable silicone cap on the other end that is filled with FAC in a polyvinyl alcohol matrix for delivery to the back of the eye for the treatment and prevention of eye diseases in humans (other than uveitis). The pSivida Agreement also provides us with a worldwide non-exclusive license to utilize pSivida's proprietary delivery device to deliver other corticosteroids to the back of the eye for the treatment and prevention of eye diseases in humans (other than uveitis) or to treat DME by delivering a compound to the back of the eye through a direct delivery method through an incision required for a 25-gauge or larger needle. We do not have the right to utilize pSivida's proprietary delivery device in connection with indications for diseases outside of the eye or for the treatment of uveitis. Further, the pSivida Agreement permits pSivida to grant to any other party the right to use its intellectual property (i) to treat DME through an incision smaller than that required for a 25-gauge needle, unless using a corticosteroid delivered to the back of the eye, (ii) to deliver any compound outside the back of the eye unless it is to treat DME through an incision required for a 25-gauge or larger needle, or (iii) to deliver non-corticosteroids to the back of the eye, unless it is to treat DME through an incision required for a 25-gauge or larger needle.

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

The pSivida Agreement provides that after commercialization of ILUVIEN, pSivida will be entitled to 20% of our net profits determined on a cash basis, in each country where we sell ILUVIEN directly or through our distributors or sub-distributors and 33% of any lump sum milestone payments received from a sub-licensee of ILUVIEN, as defined in the pSivida Agreement. In connection with this arrangement we are entitled to recover 20% of commercialization costs of ILUVIEN incurred prior to product profitability out of pSivida's share of net profits, as defined in the pSivida Agreement. As of September 30, 2016 and December 31, 2015, pSivida owed us \$25.2 million and \$21.6 million, respectively, in commercialization costs. Due to the uncertainty of future profits from ILUVIEN, we have fully reserved these amounts in the accompanying consolidated financial statements.

In the second quarter of 2016, pSivida disputed portions of our claimed commercialization costs for the year ended December 31, 2014. As part of this dispute, pSivida notified us that it disagreed with \$1.3 million of the \$13.0 million in commercialization costs receivable that we had reported as of December 31, 2014 and claimed incremental profit sharing payments of \$136,000 for the year ended December 31, 2014. We are disputing pSivida's assertions through the alternative dispute resolution mechanism under the pSivida Agreement. If pSivida's assertions were to prevail in the alternative dispute resolution mechanism and their assertions were then applied to the commercialization cost calculations for the year ended December 31, 2015 and the nine months ended September 30, 2016, then the commercialization costs receivable from pSivida would be reduced from \$21.6 million to \$18.5 million at December 31, 2015 and from \$25.2 million to \$20.9 million at September 30, 2016. If pSivida's assertions were to prevail in the alternative dispute resolution mechanism, the impact on the statements of operations for the year ended December 31, 2015 and the nine months ended September 30, 2016 would be immaterial.

Our Loan Agreements

Hercules Loan Agreement

2014 Loan Agreement

In April 2014, Alimera Sciences Limited (Limited), our subsidiary, entered into a loan and security agreement (2014 Loan Agreement) with Hercules Capital, Inc. (Hercules) providing for a term loan of up to \$35.0 million (2014 Term Loan), which Limited and Hercules amended in November 2015 (the First Loan Amendment), March 2016 (the Second Loan Amendment), May 2016 (the Third Loan Amendment) and October 2016 (the Fourth Loan Amendment) and, together with the 2014 Loan Agreement, the First Loan Amendment, the Second Loan Amendment and Third Loan Amendment, the Term Loan Agreement). Under the 2014 Loan Agreement, Hercules made an advance in the initial principal amount of \$10.0 million to Limited at closing to provide Limited with additional working capital for general corporate purposes and to repay a 2013 term loan with Silicon Valley Bank. Hercules made an additional advance of \$25.0 million to Limited in September 2014, following the approval of ILUVIEN by the FDA to fund the pSivida Milestone Payment. The 2014 Loan Agreement provided for interest only payments through November 2015. Interest on the 2014 Term Loan accrued at a floating per annum rate equal to the greater of (i) 10.90%, or (ii) the sum of (A) 7.65%, plus (B) the prime rate. Following the interest only period, the 2014 Term Loan was due and payable to Hercules in equal monthly payments of principal and interest through May 1, 2018. The interest rate on the Term Loan Agreement was 11.15% as of September 30, 2016.

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First Loan Amendment

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

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

Second Loan Amendment

In January 2016, the revenue threshold covenant was not met by the Consolidated Group and as a result, in March 2016, Limited entered into the Second Loan Amendment, which further amended certain terms of the Term Loan Agreement. In conjunction with the Second Loan Amendment, Hercules waived this covenant violation.

The Second Loan Amendment adjusted the revenue covenant to a rolling three-month calculation, first measured for the three months ended May 31, 2016. In addition, the Second Loan Amendment increased the liquidity covenant. Upon execution of the Second Loan Amendment, Limited paid Hercules an amendment fee of \$350,000 and agreed to increase the End of Term Payment to \$1,400,000 from \$1,050,000, which was payable on the date that the 2014 Term Loan was to be paid in full.

We concluded that the Second Loan Amendment resulted in a substantial modification of the terms of debt when considered with the First Loan Amendment in accordance with the guidance in ASC 470-50, *Debt*. As a result, we accounted for the Second Loan Amendment as an extinguishment and recognized a loss on early extinguishment of debt of approximately \$2.6 million within the consolidated statement of operations for the nine months ended September 30, 2016. The loss on early extinguishment consisted primarily of the unamortized debt discount associated with the warrant and debt issuance costs incurred prior to the Second Loan Amendment, the incremental fair value of the warrant as a result of modifying the terms of the warrant and the debt issuance costs of \$360,000 paid to Hercules for the Second Loan Amendment.

Third Loan Amendment and July 2016 Waiver

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

In July 2016, Limited obtained a waiver of the requirements of the liquidity covenant (the Waiver) because the Consolidated Group was not in compliance with the liquidity covenant as of June 30, 2016. The Waiver cured the default of the liquidity covenant then existing under the Term Loan Agreement and decreased the liquidity requirement. In addition, the Waiver modified the three-month revenue covenant so that it was not measured at July 31, 2016 and reduced the three-month revenue target to be measured at August 31, 2016. Following execution of the Waiver, Limited incurred a weekly ticking fee equal to 0.05% multiplied by the outstanding principal amount through the closing of our public offering in August 2016, totaling \$65,000. Further, Limited paid Hercules a fee of \$350,000 associated with the Waiver.

Fourth Loan Amendment

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

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The Term Loan will be due and payable to Hercules in 24 equal monthly payments of principal and interest following the Interest-Only Period beginning on December 1, 2018 and matures in full on November 1, 2020.

Limited paid to Hercules a facility charge of \$337,500 and reimbursed Hercules for legal and diligence fees incurred of approximately \$4,000 in connection with the Fourth Loan Amendment. If Limited prepays the Term Loan, it will pay Hercules a prepayment penalty (i) if such amounts are prepaid in any of the first 12 months following the Effective Date, equal to 3.0% of the principal amount of the Term Loan being repaid, (ii) if such amounts are prepaid after 12 months but prior to 24 months following the Effective Date, equal to 2.0% of the principal amount of the Term Loan being repaid, and (iii) if such amounts are prepaid at any time thereafter, equal to 1.0% of the principal amount of the Term Loan being repaid.

The Consolidated Group also agreed to customary affirmative and negative covenants, including, without limitation, covenants relating to minimum liquidity, minimum trailing six-month net revenue and adjusted EBITDA and events of default in connection with these arrangements. The occurrence of an event of default could result in the acceleration of Limited's obligations under the Term Loan Agreement and an increase to the applicable interest rate and would permit Hercules to exercise remedies with respect to the collateral under the Term Loan Agreement, as amended by the Fourth Loan Amendment. In the event that we maintain \$35.0 million in liquidity, including cash and eligible accounts receivable, at the end of the month and has not been and is not in breach of the amended debt facility, the six-month trailing revenue covenant is effectively waived for such month.

General Discussion of the Term Loan Agreement

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

2014 Warrant

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

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

2016 Warrant

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

Fair Value of Debt

The weighted average interest rates of our notes payable approximate the rate at which we could obtain alternative financing; therefore, the carrying amount of the notes approximated their fair value at September 30, 2016 and December 31, 2015.

Financial Operations Overview

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
NET REVENUE	\$ 8,298	\$ 6,901	\$ 23,656	\$ 16,615
GROSS PROFIT	7,812	6,267	22,236	15,322
OPERATING EXPENSES	15,055	14,711	44,718	44,560
NET LOSS FROM OPERATIONS	(7,243)	(8,444)	(22,482)	(29,238)
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	(9,245)	(1,543)	(27,248)	(19,932)

Revenue

We began generating revenue from ILUVIEN in the second quarter of 2013. In addition to generating revenue from product sales, we may seek to generate revenue from other sources such as upfront fees, milestone payments in connection with collaborative or strategic relationships and royalties resulting from the licensing of ILUVIEN or any future product candidates and other intellectual property. We expect the revenue we generate in countries where we are commercialized will continue to fluctuate from quarter to quarter based on seasonality and the timing of orders from our customers. Specifically, in the U.S., our revenue could fluctuate quarter over quarter, based on our distributors' ordering patterns which may not correspond directly with their customers' ordering patterns. Additionally, margins will be lower in countries where we choose to partner with distributors who will provide regulatory, reimbursement or sales and marketing support for future commercialization of ILUVIEN. Further, we expect any revenue we generate will fluctuate from quarter to quarter as a result of the nature, timing and amount of any milestone payments we may receive from potential collaborative and strategic relationships.

Net revenue increased by approximately \$1.4 million, or 20%, to approximately \$8.3 million for the three months ended September 30, 2016 compared to approximately \$6.9 million for the three months ended September 30, 2015 and by approximately \$7.1 million, or 43%, to approximately \$23.7 million for the nine months ended September 30, 2016 compared to approximately \$16.6 million for the nine months ended September 30, 2015. The increases in both the three and nine months ended September 30, 2016 were primarily a result of increased U.S. sales.

Operating Expenses

Operating expenses increased by approximately \$400,000, or 3%, to approximately \$15.1 million for the three months ended September 30, 2016 compared to approximately \$14.7 million for the three months ended September 30, 2015 primarily as a result of increases in sales and marketing expenses of \$500,000 and general and administrative expenses of \$610,000, offset by a decrease of \$820,000 in research, development and medical affairs expenses.

Operating expenses increased by approximately \$100,000, or less than 1%, to approximately \$44.7 million for the nine months ended September 30, 2016 compared to approximately \$44.6 million for the nine months ended September 30, 2015 primarily as a result of increases in sales and marketing expenses of \$1.1 million and general and administrative expenses of \$610,000, offset by a decrease of \$1.7 million in research, development and medical affairs expenses.

Research, Development and Medical Affairs Expenses

Substantially all of our research, development and medical affairs expenses incurred to date related to our continuing operations have been related to the development of ILUVIEN. We may incur additional research, development and medical affairs expenses in the future as we expand the availability of ILUVIEN in additional geographies, evaluate and possibly pursue the regulatory approval of ILUVIEN in additional jurisdictions, the development of ILUVIEN for additional indications, or develop additional products or product candidates. We recognize research, development and medical affairs expenses as they are incurred. Our research, development and medical affairs expenses consist primarily of:

- salaries and related expenses for personnel, including medical sales liaisons;
- costs related to the provision of medical affairs support, including scientific advisory boards and symposia development for physician education;
- costs related to compliance with FDA, EU or other regulatory requirements;

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- fees paid to consultants and contract research organizations in conjunction with independently monitoring clinical trials and acquiring and evaluating data in conjunction with clinical trials, including all related fees such as investigator grants, patient screening, lab work and data compilation and statistical analysis;
- costs incurred with third parties related to the establishment of a commercially viable manufacturing process for products or product candidates;
- consulting fees paid to third-parties involved in research, development and medical affairs activities; and
- costs related to stock options or other stock-based compensation granted to personnel in development functions.

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

We expect that a large percentage of our research, development and medical affairs expenses for the foreseeable future will be incurred in support of educating physicians on the clinical benefits of ILUVIEN.

General and Administrative Expenses

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

Sales and Marketing Expenses

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

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

In Europe we have commercial personnel in France, Germany, Portugal and the United Kingdom consisting of approximately 28 persons as of September 30, 2016, of which five are consultants. As of September 30, 2016, we had a U.S. field force of approximately 47 persons, including sales personnel, reimbursement specialists and payor relations directors.

Critical Accounting Policies and Estimates

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

Results of Operations - Segment Review

The following selected unaudited financial and operating data are derived from our Interim Financial Statements and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Interim Financial Statements. The results and discussions that follow are reflective of how our executive management monitors the performance of our reporting segments.

Certain operating expenses are allocated between our reporting segments based on activity-based costing methods. These activity-based costing methods require us to make estimates that impact the amount of each expense category that is attributed to each segment. Changes in these estimates will directly impact 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 2016 or 2015.

U.S. Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
NET REVENUE	\$ 6,184	\$ 5,032	\$ 17,511	\$ 11,279
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(374)	(245)	(964)	(573)
GROSS PROFIT	5,810	4,787	16,547	10,706
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	2,204	2,320	6,024	5,176
GENERAL AND ADMINISTRATIVE EXPENSES	2,232	1,712	6,569	6,080
SALES AND MARKETING EXPENSES	5,618	4,546	16,573	14,274
DEPRECIATION AND AMORTIZATION	674	639	2,015	1,819
OPERATING EXPENSES	10,728	9,217	31,181	27,349
NET LOSS FROM OPERATIONS	\$ (4,918)	\$ (4,430)	\$ (14,634)	\$ (16,643)

Three months ended September 30, 2016 compared to the three months ended September 30, 2015

Net Revenue. Net revenue increased by approximately \$1.2 million, or 24%, to approximately \$6.2 million for the three months ended September 30, 2016 compared to approximately \$5.0 million for the three months ended September 30, 2015. The increase was primarily attributable to an increase in sales volume as ILUVIEN continued to gain market acceptance in the U.S.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization increased by approximately \$120,000, or 48%, to approximately \$370,000 for the three months ended September 30, 2016 compared to approximately \$250,000 for the three months ended September 30, 2015 as a result of our increase in sales volume and minor increases in supplier costs.

Research, development and medical affairs expenses. Research, development and medical affairs expenses decreased by approximately \$100,000, or 4%, to approximately \$2.2 million for the three months ended September 30, 2016 compared to approximately \$2.3 million for the three months ended September 30, 2015. The decrease was primarily attributable to decreases of \$680,000 in costs incurred with third parties related to potential product enhancements incurred in the third quarter of 2015 and \$290,000 for costs associated with maintaining the registration of ILUVIEN in the U.S., offset by an increase of \$730,000 in allocated costs associated with global research and development.

General and administrative expenses. General and administrative expenses increased by approximately \$500,000, or 29%, to approximately \$2.2 million for the three months ended September 30, 2016 compared to approximately \$1.7 million for the three months ended September 30, 2015. The increase was primarily attributable to an increase of \$360,000 for certain professional fees associated with pursuing alternative debt options.

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Sales and marketing expenses. Sales and marketing expenses increased by approximately \$1.1 million, or 24%, to approximately \$5.6 million for the three months ended September 30, 2016 compared to approximately \$4.5 million for the three months ended September 30, 2015. The increase was primarily attributable to an increase of \$940,000 in marketing costs including professional fees for the promotion of ILUVIEN, medical communications and an increased presence at certain regional and national meetings.

Depreciation and amortization. Depreciation and amortization increased by approximately \$30,000, or 5%, to approximately \$670,000 for the three months ended September 30, 2016 compared to approximately \$640,000 for the three months ended September 30, 2015.

Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015

Net Revenue. Net revenue increased by approximately \$6.2 million, or 55%, to approximately \$17.5 million for the nine months ended September 30, 2016 compared to approximately \$11.3 million for the nine months ended September 30, 2015. The increase was primarily attributable to an increase in sales volume as ILUVIEN continued to gain market acceptance in the U.S.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization increased by approximately \$390,000, or 68%, to approximately \$960,000 for the nine months ended September 30, 2016 compared to approximately \$570,000 for the nine months ended September 30, 2015 as a result of our increase in sales volume and minor increases in supplier costs.

Research, development and medical affairs expenses. Research, development and medical affairs expenses increased by approximately \$800,000, or 15%, to approximately \$6.0 million for the nine months ended September 30, 2016 compared to approximately \$5.2 million for the nine months ended September 30, 2015. The increase was primarily attributable to an increase of \$2.1 million in allocated costs associated with global research and development. These costs are allocated based upon our future expected revenues from our segments. These costs were offset by a decrease of \$1.0 million in costs with third parties related to potential product enhancements incurred during 2015.

General and administrative expenses. General and administrative expenses increased by approximately \$500,000, or 8%, to approximately \$6.6 million for the nine months ended September 30, 2016 compared to approximately \$6.1 million for the nine months ended September 30, 2015. The increase was primarily attributable to an increase of \$360,000 for certain professional fees associated with pursuing alternative debt options.

Sales and marketing expenses. Sales and marketing expenses increased by approximately \$2.3 million, or 16%, to approximately \$16.6 million for the nine months ended September 30, 2016 compared to approximately \$14.3 million for the nine months ended September 30, 2015. The increase was primarily attributable to an increase of \$990,000 in costs for the commercial team hired for the launch of ILUVIEN in the U.S. in the first quarter of 2015, an increase of \$590,000 for commissions paid to our U.S. sales force due to increased sales, and an increase of \$450,000 in marketing costs including professional fees for the promotion of ILUVIEN, medical communications and an increased presence at certain regional and national meetings.

Depreciation and amortization. Depreciation and amortization increased by approximately \$200,000, or 11%, to approximately \$2.0 million for the nine months ended September 30, 2016 compared to approximately \$1.8 million for the nine months ended September 30, 2015. The increase was primarily attributable to depreciation expense associated with capital leases entered into beginning in late March 2015 for automobiles for the U.S. commercial team.

International Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
NET REVENUE	\$ 2,114	\$ 1,869	\$ 6,145	\$ 5,336
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(112)	(389)	(456)	(720)
GROSS PROFIT	2,002	1,480	5,689	4,616
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,057	1,758	3,462	6,046
GENERAL AND ADMINISTRATIVE EXPENSES	1,413	1,319	4,510	4,391
SALES AND MARKETING EXPENSES	1,834	2,403	5,498	6,729
DEPRECIATION AND AMORTIZATION	23	14	67	45
OPERATING EXPENSES	4,327	5,494	13,537	17,211
NET LOSS FROM OPERATIONS	\$ (2,325)	\$ (4,014)	\$ (7,848)	\$ (12,595)

Three months ended September 30, 2016 compared to the three months ended September 30, 2015

Net Revenue. Net revenue increased by approximately \$200,000, or 11%, to approximately \$2.1 million for the three months ended September 30, 2016 compared to approximately \$1.9 million for the three months ended September 30, 2015. The increase was primarily attributable to higher sales volumes in Portugal and Germany offset by a decrease in sales volume in the United Kingdom. Revenue was further reduced by the change in the value of the British pound sterling and the Euro which reduced reported revenue by \$80,000 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization decreased by approximately \$280,000, or 72%, to approximately \$110,000 for the three months ended September 30, 2016 compared to approximately \$390,000 for the three months ended September 30, 2015. The decrease was primarily attributable to a decrease of \$260,000 in charges for expiring inventory recorded in the third quarter of 2015, offset by the increase in sales volume and minor increases in supplier costs.

Research, development and medical affairs expenses. Research, development and medical affairs expenses decreased by approximately \$700,000, or 39%, to approximately \$1.1 million for the three months ended September 30, 2016 compared to approximately \$1.8 million for the three months ended September 30, 2015. The decrease was primarily attributable to a reduction of \$730,000 in allocated research and development expenses associated with global research and development in the third quarter of 2016 as compared to 2015, as these costs are allocated based upon our future expected revenues from our segments. There was also a decrease of \$110,000 in consulting costs as we hired an in-house head of drug safety in the second quarter of 2016.

General and administrative expenses. General and administrative expenses increased by approximately \$100,000, or 8%, to approximately \$1.4 million for the three months ended September 30, 2016 compared to \$1.3 million for the three months ended September 30, 2015.

Sales and marketing expenses. Sales and marketing expenses decreased by approximately \$600,000, or 25%, to approximately \$1.8 million for the three months ended September 30, 2016 compared to approximately \$2.4 million for the three months ended September 30, 2015. The decrease was primarily attributable to a decrease of \$570,000 in marketing costs including reductions of \$170,000 in medical communications, \$160,000 in public relation costs and \$110,000 in trade show costs.

Nine months ended September 30, 2016 compared to the nine months ended September 30, 2015

Net Revenue. Net revenue increased by approximately \$800,000, or 15%, to approximately \$6.1 million for the nine months ended September 30, 2016 compared to approximately \$5.3 million for the nine months ended September 30, 2015. The increase was primarily attributable to higher sales volumes in Portugal and Germany offset by decreases in sales volume in the United Kingdom. Revenue was further reduced by the change in the value of the British pound sterling and the Euro which

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reduced reported revenue by \$170,000 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

Cost of goods sold, excluding depreciation and amortization. Cost of goods sold, excluding depreciation and amortization decreased by approximately \$260,000, or 36%, to approximately \$460,000 for the nine months ended September 30, 2016 compared to approximately \$720,000 for the nine months ended September 30, 2015. The decrease was primarily attributable to a decrease of \$320,000 in charges for expiring inventory recorded in the second and third quarters of 2015, offset by increased sales volume and minor increases in supplier costs.

Research, development and medical affairs expenses. Research, development and medical affairs expenses decreased by approximately \$2.5 million, or 42%, to approximately \$3.5 million for the nine months ended September 30, 2016 compared to approximately \$6.0 million for the nine months ended September 30, 2015. The decrease was primarily attributable to a reduction of \$2.1 million in allocated research and development expenses associated with global research and development in 2016 as compared to 2015, as these costs are allocated based upon our future expected revenues from our segments.

General and administrative expenses. General and administrative expenses increased by approximately \$100,000, or 2%, to approximately \$4.5 million for the nine months ended September 30, 2016 compared to approximately \$4.4 million for the nine months ended September 30, 2015.

Sales and marketing expenses. Sales and marketing expenses decreased by approximately \$1.2 million, or 18%, to approximately \$5.5 million for the nine months ended September 30, 2016 compared to approximately \$6.7 million for the nine months ended September 30, 2015. The decrease was primarily attributable to a decrease of \$1.4 million in marketing costs including reductions of \$800,000 in trade show costs, \$280,000 in medical communications and \$190,000 in market research costs.

Consolidated other income and expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
NET LOSS FROM OPERATIONS	\$ (7,243)	\$ (8,444)	\$ (22,482)	\$ (29,238)
INTEREST EXPENSE, NET AND OTHER	(1,330)	(1,317)	(3,842)	(3,590)
UNREALIZED FOREIGN CURRENCY LOSS, NET	(51)	(63)	(31)	(34)
CHANGE IN FAIR VALUE OF DERIVATIVE WARRANT LIABILITY	(588)	8,363	1,755	13,085
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	—	(2,564)	—
NET LOSS BEFORE TAXES	(9,212)	(1,461)	(27,164)	(19,777)
PROVISION FOR TAXES	(33)	(82)	(84)	(155)
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	<u>\$ (9,245)</u>	<u>\$ (1,543)</u>	<u>\$ (27,248)</u>	<u>\$ (19,932)</u>

Interest expense, net and other.

Interest expense, net and other was approximately \$1.3 million for the three months ended September 30, 2016 and 2015.

Interest expense, net and other increased by approximately \$200,000, or 6%, to approximately \$3.8 million for the nine months ended September 30, 2016 compared to approximately \$3.6 million for the nine months ended September 30, 2015. The increase was primarily attributable to an increase in the underlying prime interest rate on our Term Loan Agreement.

Unrealized foreign currency loss, net.

We recorded a non-cash unrealized foreign currency loss of approximately \$50,000 for the three months ended September 30, 2016 compared to a loss of approximately \$60,000 for the three months ended September 30, 2015. We recorded a non-cash unrealized foreign currency gain of approximately \$30,000 for each of the nine months ended September 30, 2016 and 2015, respectively.

Change in fair value of derivative warrant liability.

An increase in the fair value of our derivative warrant liability resulted in a non-cash loss of approximately \$590,000 for the three months ended September 30, 2016. A decrease in the fair value of our derivative warrant liability resulted in a non-cash gain of approximately \$8.4 million for the three months ended September 30, 2015. The changes in fair value were primarily attributable to changes in the fair market value of our underlying common stock during both the three-month periods ended September 30, 2016 and 2015.

A decrease in the fair value of our derivative warrant liability resulted in a non-cash gains of approximately \$1.8 million and \$13.1 million for the nine months ended September 30, 2016 and 2015, respectively. The changes in fair value were primarily attributable to decreases in the fair market value of our underlying common stock during both the nine-month periods ended September 30, 2016 and 2015.

Loss on early extinguishment of debt.

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

Liquidity and Capital Resources

To date, we have incurred negative cash flow from operations and have accumulated a deficit of \$371.1 million from our inception through September 30, 2016.

As of September 30, 2016, we had approximately \$33.9 million in cash and cash equivalents.

In October 2016, Limited entered into the Fourth Loan Amendment. Under the Fourth Loan Amendment, Hercules agreed to provide up to an additional \$10.0 million to Limited with (i) the first \$5.0 million available at Limited's option through June 30, 2017 subject to (A) the achievement of \$12.0 million in trailing three month net product revenue and (B) no event of default having occurred since the Effective Date and (ii) the second \$5.0 million available at Limited's option through December 31, 2017 subject to (A) the achievement of \$15.0 million in trailing three month net product revenue, (B) no event of default having occurred since the Effective Date and (C) the prior \$5.0 million having been advanced to Limited.

The Term Loan Agreement requires that we maintain at least \$25.0 million in liquid assets, with a minimum of \$12.5 million in cash. Additionally, in any month in which we have \$35.0 million in liquidity, including cash and eligible accounts receivable, the revenue requirement will be waived.

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

We cannot be sure that additional financing would 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 and debt financing, we may not be successful in obtaining collaboration agreements, or in receiving milestone or royalty payments under those agreements, or the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to commercialize ILUVIEN or any future products or product candidates or operate our business.

For the nine months ended September 30, 2016, cash used by our operations of \$22.7 million was primarily due to our net loss of \$27.2 million, increased by a non-cash gain of \$1.8 million for the change in our derivative warrant liability and offset by non-cash items including a \$2.6 million loss on early debt extinguishment for the amendment to our Term Loan Agreement, \$3.8 million of stock-based compensation expense, \$2.1 million for depreciation and amortization and \$800,000 for non-cash interest expense associated with our debt discount. Cash used in operations was also decreased by a decrease in inventory of approximately \$600,000 and an increase in accounts payable, accrued expenses and other current liabilities and other non-current liabilities of approximately \$510,000. Cash used by operations were offset by increases in accounts receivable of approximately \$3.6 million and in prepaid and other current assets of approximately \$510,000.

For the nine months ended September 30, 2015, cash used by our operations of \$36.5 million was primarily due to our net loss of \$19.9 million, \$8.5 million increase in accounts receivable and \$2.3 million decrease in accounts payable, accrued expenses and other current liabilities, offset by a decrease in prepaid expenses and other current assets of \$630,000, an increase in other non-current liabilities of \$610,000 and by the impact of non-cash items on our net operating loss. Accounts receivable increased primarily due to the U.S. launch of ILUVIEN during the first quarter of 2015. Accounts payable and accrued expenses and other current liabilities decreased primarily due to the milestone payment of \$2.0 million to a consultant that was engaged to assist with the pursuit of approval of ILUVIEN in the U.S. and a decrease of \$1.2 million in amounts payable to Quintiles Commercial offset by increases of \$1.5 million in accrued payroll and related costs including bonuses. Prepaid expenses and other current assets decreased by approximately \$700,000 associated with the termination of the Quintiles Commercial project orders. Other non-current liabilities increased primarily due to receipt of \$500,000 upon the execution of a distribution agreement, which is deferred over the service period. Non-cash items included a gain of \$13.1 million for the change in our derivative warrant liability offset by \$3.7 million of stock-based compensation expense, \$1.9 million for depreciation and amortization and \$520,000 for non-cash interest expense associated with deferred financing costs and our debt discount.

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

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For the nine months ended September 30, 2015, net cash used in our investing activities was approximately \$370,000, which was due to the purchase of property and equipment, primarily the purchase of drug safety management software.

For the nine months ended September 30, 2016, net cash provided by our financing activities was approximately \$25.6 million. In August 2016, we closed an underwritten public offering pursuant to which we sold and issued 18,900,000 shares of our common stock at a price to the public of \$1.40 per share, resulting in gross proceeds of \$26,460,000. Offsetting this increase were payments of approximately \$1.2 million in payments of the issuance costs of common stock, \$720,000 associated with the amendments of our Term Loan Agreement and \$180,000 in payments on capital leases.

For the nine months ended September 30, 2015, net cash used in our financing activities was approximately \$210,000 due to the payment of issuance costs of approximately \$330,000 in January 2015 associated with the sale of our Series B Convertible Preferred Stock in December 2014 and approximately \$210,000 in payments on capital leases offset by cash received of approximately \$280,000 from the proceeds from exercises of stock options.

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, 2015, filed with the SEC on March 15, 2016.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 provides a single, comprehensive revenue recognition model for all contracts with customers. The revenue guidance contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017 for public entities, with early adoption permitted in the annual reporting period beginning after December 15, 2016. Our management is still evaluating the potential impact of adopting this guidance on our financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements-Going Concern*. ASU 2014-15 provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The new standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. Our management does not expect the potential impact of adopting this guidance to have a material impact on our financial statements.

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

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In February 2016, the FASB issued ASU No. 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. Our management is currently in the process of evaluating the impact of the adoption on our financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718)*. This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. Our management does not expect the potential impact of adopting this guidance to have a material impact on our financial statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Liquidity

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

Interest Rate Risk

Our earnings and cash flows are subject to fluctuations due to changes in interest rates, principally in connection with our loan agreement with Hercules. We do not believe we are materially exposed to changes in interest rates. We do not currently use interest rate derivative instruments to manage exposure to interest rate changes. We estimate that a 100 basis point, or 1%, unfavorable change in interest rates would have resulted in approximately a \$90,000 and \$270,000 increase in interest expense for the three months ended September 30, 2016 and nine months ended September 30, 2016, respectively.

Credit Quality Risk

We are subject to credit risk in connection with accounts receivable from our product sales of ILUVIEN. We have contractual payment terms with each of our customers and we monitor our customers’ financial performance and credit worthiness so that we can properly assess and respond to any changes in their credit profile. During the three and nine months ended September 30, 2016 and 2015, we did not recognize any charges for write-offs of accounts receivable. As of September 30, 2016 and December 31, 2015, two U.S. distributors accounted for 89% and 88%, respectively, of our accounts receivable balances.

Foreign Exchange Risk

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

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the three months ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. *Legal Proceedings*

We are not a party to any material pending legal proceedings and management is not aware of any contemplated proceedings by any governmental authority against us.

ITEM 1A. *Risk Factors*

In our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on March 15, 2016, 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 Form 10-K for the fiscal year ended December 31, 2015. 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.”

The results of the United Kingdom’s referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

On June 23, 2016, the United Kingdom (UK) held a referendum in which voters approved an exit from the European Union (EU), commonly referred to as “Brexit.” As a result of the referendum, it is expected that the British government will begin negotiating the terms of the UK’s withdrawal from the EU. A withdrawal could, among other outcomes, disrupt the free movement of goods, services and people between the UK and the EU, undermine bilateral cooperation in key policy areas and significantly disrupt trade between the UK and the EU. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws and regulations to replace or replicate, including tax and pharmaceutical laws and regulations. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications the withdrawal of the UK from the EU would have and how such withdrawal would affect us.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The strengthening of the U.S. dollar relative to other currencies may adversely affect our operating results. The announcement of Brexit and the withdrawal of the UK from the EU have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity. Any of these effects of Brexit, among others, could adversely affect our business, financial condition, operating results and cash flows.

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.

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ITEM 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
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).
4.15	Third Amendment to Warrant Agreement dated July 21, 2016 by and among the Registrant and Hercules Capital, Inc. f/k/a Hercules Technology Growth Capital, Inc.
4.16	Warrant Agreement dated October 20, 2016 by and among the Registrant and Hercules Capital, Inc. f/k/a Hercules Technology Growth Capital, Inc.
10.44	Waiver by Hercules Capital, Inc. of Certain Defaults under Loan and Security Agreement dated July 21, 2016.
10.45	Fourth Amendment to Loan and Security Agreement dated October 20, 2016 by and among Alimera Sciences Limited, Hercules Capital Funding Trust and Hercules Capital, Inc. f/k/a Hercules Technology Growth Capital, Inc.
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.

November 4, 2016

By: /s/ C. Daniel Myers

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

November 4, 2016

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

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

EXHIBIT INDEX

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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.

AMENDMENT NO. 3 TO WARRANT AGREEMENT

THIS AMENDMENT NO. 3 TO WARRANT AGREEMENT is made this 21st day of July, 2016, by and between Hercules Capital, Inc., a Maryland corporation f/k/a Hercules Technology Growth Capital, Inc. (“Warrantholder”) and Alimera Sciences, Inc., a Delaware Corporation (the “Company”).

WHEREAS, Warrantholder is the holder of that certain Warrant Agreement dated April 24, 2014 between Warrantholder and the Company, as amended (the “Warrant”); and

WHEREAS, in connection with a certain Waiver of even date herewith, the parties hereto desire to further amend the Warrant in the manner set forth below;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Warrant Amendments. The Warrant is hereby amended as follows, such amendments to be effective as of the date hereof:

(a) Exercise Price. The definition of Exercise Price in Section 1(a) of the Warrant is hereby deleted in its entirety and the following new definition substituted therefor:

“Exercise Price” means \$1.39, subject to adjustment from time to time in accordance with the provisions of this Warrant.”

(b) Number of Shares. Section 1(b) of the Warrant is hereby deleted in its entirety and the following new Section 1(b) substituted therefor:

“(b) Number of Shares. This Warrant shall be exercisable for 1,258,993 shares of Common Stock, subject to adjustment from time to time in accordance with the provisions of this Warrant.”

2. Corporate Authority. The execution and delivery by the Company of this Amendment No. 3 has been duly authorized by all necessary actions of its Board of Directors and stockholders.

3. No Other Amendments. Except as amended hereby, the Warrant shall remain in full force and effect as originally written.

4. Governing Law. This Amendment No. 3 shall be governed by and construed in accordance with the internal domestic laws of the State of New York, without giving effect to its principles regarding conflicts of law.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this Amendment No. 3 to Warrant Agreement as of the date first above written.

ALIMERA SCIENCES, INC.

By: /s/ Dan Myers

Name: Dan Myers

Title: CEO

HERCULES CAPITAL, INC.

By: /s/ Jennifer Choe

Name: Jennifer Choe

Title: Assistant General Counsel

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS, AND MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR, SUBJECT TO SECTION 11 HEREOF, AN OPINION OF COUNSEL (WHICH MAY BE COMPANY COUNSEL) REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE ACT, OR ANY APPLICABLE STATE SECURITIES LAWS.

WARRANT AGREEMENT

To Purchase Shares of the Common Stock of

Alimera Sciences, Inc.

Dated as of October 20, 2016 (the "Effective Date")

WHEREAS, a subsidiary of Alimera Sciences, Inc., a Delaware corporation (the "Company"), Alimera Sciences Limited, a company organized under the laws of the UK and Wales ("Alimera Sciences Limited") has entered into the Loan Agreement (as defined below) with Hercules Capital, Inc., a Maryland corporation, as agent (the "Warrantholder"); and

WHEREAS, as additional consideration to the Warrantholder for, among other things, its agreements in connection with certain amendments to the Loan Agreement of even date herewith, the Company has agreed to issue to the Warrantholder this Warrant Agreement, evidencing the right to purchase shares of the Company's Common Stock (as defined below) (this "Warrant," "Agreement" or "Warrant Agreement").

NOW, THEREFORE, in consideration of the Warrantholder having executed and delivered the Loan Agreement and provided the financial accommodations contemplated therein, and in consideration of the mutual covenants and agreements contained herein, the Company and Warrantholder agree as follows:

SECTION 1. GRANT OF THE RIGHT TO PURCHASE COMMON STOCK.

(a) For value received, the Company hereby grants to the Warrantholder, and the Warrantholder is entitled, upon the terms and subject to the conditions hereinafter set forth, to subscribe for and purchase, from the Company, up to the number of fully paid and non-assessable shares of Common Stock as determined pursuant to Section 1(c) below, at a purchase price per share equal to the Exercise Price (as determined pursuant to Section 1(b) below). The number and Exercise Price of such shares are subject to adjustment as provided in Section 8. As used herein, the following terms shall have the following meanings:

"Act" means the Securities Act of 1933, as amended.

"Charter" means the Company's Certificate of Incorporation or other constitutional document, as may be amended and in effect from time to time.

"Common Stock" means the Company's common stock, \$0.01 par value per share, as presently constituted under the Charter, and any class and/or series of Company

capital stock for or into which such common stock may be converted or exchanged in a reorganization, recapitalization or similar transaction.

“Liquid Sale” means the closing of a Merger Event in which the consideration received by the Company and/or its stockholders, as applicable, consists solely of cash and/or Marketable Securities.

“Loan Agreement” means that certain Loan and Security Agreement dated April 24, 2014 among Alimera Sciences Limited, the several banks and other financial institutions or entities from time to time Lender parties thereto (including, without limitation, the Warrantholder), and Hercules Capital, Inc. in its capacity as administrative agent for itself and the Lender(s), as amended and/or restated and in effect from time to time.

“Marketable Securities” in connection with a Merger Event means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and is then current in its filing of all required reports and other information under the Act and the Exchange Act; (ii) the class and series of shares or other security of the issuer that would be received by the Warrantholder in connection with the Merger Event were the Warrantholder to exercise this Warrant on or prior to the closing thereof is then traded on a national securities exchange or over-the-counter market, and (iii) following the closing of such Merger Event, Warrantholder would not be restricted from publicly re-selling all of the issuer’s shares and/or other securities that would be received by Warrantholder in such Merger Event were Warrantholder to exercise this Warrant in full on or prior to the closing of such Merger Event, except to the extent that any such restriction (x) arises solely under federal or state securities laws, rules or regulations, and (y) does not extend beyond six (6) months from the closing of such Merger Event.

“Merger Event” means any of the following: (i) a sale, lease or other transfer of all or substantially all assets of the Company, (ii) any merger or consolidation involving the Company in which the Company is not the surviving entity or in which the outstanding shares of the Company’s capital stock are otherwise converted into or exchanged for shares of capital stock or other securities or property of another entity, or (iii) any sale by holders of the outstanding voting equity securities of the Company in a single transaction or series of related transactions of shares constituting a majority of the outstanding combined voting power of the Company.

“Purchase Price” means, with respect to any exercise of this Warrant, an amount equal to the then-effective Exercise Price multiplied by the number of shares of Common Stock as to which this Warrant is then exercised.

(b) Exercise Price. The purchase price per share hereunder (the “*Exercise Price*”) shall equal the lowest volume-weighted average sale price for a share of Common Stock reported over any ten (10) consecutive trading days during the period commencing on (and including) September 23, 2016 and ending on the earlier to occur of (i) December 30, 2016 (inclusive of such date), and (ii) the second trading day immediately preceding the date of closing of a Merger Event. Not later than January 3, 2016 (in the case of (i)) or the business day immediately preceding the date of closing of the Merger Event (in the case of (ii)), the Company shall deliver written notice of its calculation of the Exercise Price in accordance with the foregoing formula to

the Warrantholder, which Company calculation shall be conclusive in the absence of manifest error.

(c) Number of Shares. This Warrant shall be exercisable for such number of shares of Common Stock, as shall equal (i) \$500,000.00, divided by (ii) the Exercise Price, as it may be adjusted from time to time in accordance with the provisions of this Warrant.

SECTION 2. TERM OF THE AGREEMENT.

The term of this Agreement and the right to purchase Common Stock as granted herein shall commence on the Effective Date and, subject to Section 8(a) below, shall be exercisable for a period ending upon the fifth (5th) anniversary of the Effective Date.

SECTION 3. EXERCISE OF THE PURCHASE RIGHTS.

(a) Exercise. The purchase rights set forth in this Agreement are exercisable by the Warrantholder, in whole or in part, at any time, or from time to time, prior to the expiration of the term set forth in Section 2, by tendering to the Company at its principal office a notice of exercise in the form attached hereto as Exhibit I (the "Notice of Exercise"), duly completed and executed. Promptly upon receipt of the Notice of Exercise and the payment of the Purchase Price in accordance with the terms set forth below, and in no event later than three (3) days thereafter, the Company or its transfer agent shall either, at the direction of the Warrantholder, (i) issue to the Warrantholder a certificate for the number of shares of Common Stock purchased or (ii) the Company shall direct its transfer agent to credit to the Warrantholder no later than the third trading day following the Company's receipt of the Notice of Exercise and shall execute the acknowledgment of exercise in the form attached hereto as Exhibit II (the "Acknowledgment of Exercise") indicating the number of shares which remain subject to future purchases under this Warrant, if any. Notwithstanding the foregoing, the shares issuable upon exercise of this Warrant shall bear a restrictive legend until such time that the shares are freely tradable.

The Purchase Price may be paid at the Warrantholder's election either (i) by cash, check or wire, or (ii) by surrender of all or a portion of the Warrant for shares of Common Stock to be exercised under this Agreement and, if applicable, an amended warrant agreement setting forth the remaining number of shares purchasable hereunder, as determined below ("Net Issuance"). If the Warrantholder elects the Net Issuance method, the Company will issue shares of Common Stock in accordance with the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where: X = the number of shares of Common Stock to be issued to the Warrantholder.

Y = the number of shares of Common Stock requested to be exercised under this Agreement.

A = the then-current fair market value of one (1) share of Common Stock at the time of exercise.

B = the then-effective Exercise Price.

For purposes of the above calculation, the current fair market value of shares of Common Stock shall mean with respect to each share of Common Stock:

(i) at all times when the Common Stock shall be traded on a national securities exchange, inter-dealer quotation system or over-the-counter bulletin board service, the average of the closing prices over a five (5) day period ending three (3) days before the day the current fair market value of the securities is being determined;

(ii) if the exercise is in connection with a Merger Event, the fair market value of a share of Common Stock shall be deemed to be the per share value received by the holders of the outstanding shares of Common Stock pursuant to such Merger Event as determined in accordance with the definitive transaction documents executed among the parties in connection therewith; or

(iii) in cases other than as described in the foregoing clauses (i) and (ii), the current fair market value of a share of Common Stock shall be determined in good faith by the Company's Board of Directors.

Upon partial exercise by either cash or, upon request by the Warrantholder and surrender of all or a portion of this Warrant, Net Issuance, prior to the expiration or earlier termination hereof, the Company shall promptly issue an amended warrant agreement representing the remaining number of shares purchasable hereunder. All other terms and conditions of such amended warrant agreement shall be identical to those contained herein, including, but not limited to, the Effective Date hereof.

(b) Exercise Prior to Expiration. To the extent this Warrant is not previously exercised as to all shares subject hereto, and if the then-current fair market value of one share of Common Stock is greater than the Exercise Price then in effect, or, in the case of a Liquid Sale, where the value per share of Common Stock (as determined as of the closing of such Liquid Sale in accordance with the definitive agreements executed by the parties in connection with such Merger Event) to be paid to the holders thereof is greater than the Exercise Price then in effect, this Agreement shall be deemed automatically exercised on a Net Issuance basis pursuant to Section 3(a) (even if not surrendered) as of immediately before its expiration determined in accordance with Section 2. For purposes of such automatic exercise, the fair market value of one share of Common Stock upon such expiration shall be determined pursuant to Section 3(a). To the extent this Warrant or any portion hereof is deemed automatically exercised pursuant to this Section 3(b), the Company agrees to promptly notify the Warrantholder of the number of shares of Common Stock if any, the Warrantholder is to receive by reason of such automatic exercise, and to issue a certificate to Warrantholder evidencing such shares.

SECTION 4. RESERVATION OF SHARES.

During the term of this Agreement, the Company will at all times have authorized and reserved a sufficient number of shares of its Common Stock to provide for the exercise of the rights to purchase Common Stock as provided for herein.

SECTION 5. NO FRACTIONAL SHARES OR SCRIP.

No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Agreement, but in lieu of such fractional shares the Company shall make a cash payment therefor upon the basis of the Exercise Price then in effect.

SECTION 6. NO RIGHTS AS STOCKHOLDER.

Without limitation of any provision hereof, Warrantholder agrees that this Agreement does not entitle the Warrantholder to any voting rights or other rights as a stockholder of the Company prior to the exercise of any of the purchase rights set forth in this Agreement.

SECTION 7. WARRANTHOLDER REGISTRY.

The Company shall maintain a registry showing the name and address of the registered holder of this Agreement. Warrantholder's initial address, for purposes of such registry, is set forth in Section 12(g) below. Warrantholder may change such address by giving written notice of such changed address to the Company in accordance with Section 12(g) below.

SECTION 8. ADJUSTMENT RIGHTS.

The Exercise Price and the number of shares of Common Stock purchasable hereunder are subject to adjustment from time to time, as follows:

(a) Merger Event. In connection with a Merger Event that is a Liquid Sale, this Warrant shall, on and after the closing thereof, automatically and without further action on the part of any party or other person, represent the right to receive the consideration payable on or in respect of all shares of Common Stock that are issuable hereunder as of immediately prior to the closing of such Merger Event less the Purchase Price for all such shares of Common Stock (such consideration to include both the consideration payable at the closing of such Merger Event and all deferred consideration payable thereafter, if any, including, but not limited to, payments of amounts deposited at such closing into escrow and payments in the nature of earn-outs, milestone payments or other performance-based payments), and such Merger Event consideration shall be paid to Warrantholder as and when it is paid to the holders of the outstanding shares of Common Stock. In connection with a Merger Event that is not a Liquid Sale, the Company shall cause the successor or surviving entity to assume this Warrant and the obligations of the Company hereunder on the closing thereof, and thereafter this Warrant shall be exercisable for the same number and type of securities or other property as the Warrantholder would have received in consideration for the shares of Common Stock issuable hereunder had it exercised this Warrant in full as of immediately prior to such closing, at an aggregate Exercise Price no greater than the aggregate Exercise Price in effect as of immediately prior to such closing, and subject to further adjustment from time to time in accordance with the provisions of this Warrant. The provisions of this Section 8(a) shall similarly apply to successive Merger Events.

(b) Reclassification of Shares. Except for Merger Events subject to Section 8(a), if the Company at any time shall, by combination, reclassification, exchange or subdivision of securities or otherwise, change any of the securities as to which purchase rights under this Agreement exist into the same or a different number of securities of any other class or classes of securities, this Agreement shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Agreement immediately prior to such combination, reclassification, exchange, subdivision or other change. The provisions of this Section 8(b) shall similarly apply to successive combination, reclassification, exchange, subdivision or other change.

(c) Subdivision or Combination of Shares. If the Company at any time shall combine or subdivide its Common Stock, (i) in the case of a subdivision, the Exercise Price shall be proportionately decreased and the number of shares for which this Warrant is exercisable shall be proportionately increased, or (ii) in the case of a combination, the Exercise Price shall be

proportionately increased and the number of shares for which this Warrant is exercisable shall be proportionately decreased.

(d) Stock Dividends. If the Company at any time while this Agreement is outstanding and unexpired shall:

(i) pay a dividend with respect to the outstanding shares of Common Stock payable in additional shares of Common Stock, then the Exercise Price shall be adjusted, from and after the date of determination of stockholders entitled to receive such dividend or distribution, to that price determined by multiplying the Exercise Price in effect immediately prior to such date of determination by a fraction (A) the numerator of which shall be the total number of shares of Common Stock outstanding immediately prior to such dividend or distribution, and (B) the denominator of which shall be the total number of shares of Common Stock outstanding immediately after such dividend or distribution, and the number of shares of Common Stock for which this Warrant is exercisable shall be proportionately increased; or

(ii) make any other dividend or distribution on or with respect to Common Stock, except any dividend or distribution (A) in cash, or (B) specifically provided for in any other clause of this Section 8, then, in each such case, provision shall be made by the Company such that the Warrantholder shall receive upon exercise or conversion of this Warrant a proportionate share of any such distribution as though it were the holder of the Common Stock (or other stock for which the Common Stock is convertible) as of the record date fixed for the determination of the stockholders of the Company entitled to receive such distribution.

(e) Notice of Certain Events. If: (i) the Company shall declare any dividend or distribution upon its outstanding Common Stock, payable in stock, cash, property or other securities (provided that Warrantholder in its capacity as lender under the Loan Agreement consents to such dividend); (ii) the Company shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights; (iii) there shall be any Merger Event; or (iv) there shall be any voluntary dissolution, liquidation or winding up of the Company; then, in connection with each such event, the Company shall give the Warrantholder notice thereof at the same time and in the same manner as it gives notice thereof to the holders of outstanding Common Stock.

SECTION 9. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE COMPANY.

(a) Reservation of Common Stock. The Company covenants and agrees that all shares of Common Stock, if any, that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be validly issued and outstanding, fully paid and non-assessable. The Company further covenants and agrees that the Company will, at all times during the term hereof, have authorized and reserved, free from preemptive rights, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant. If at any time during the term hereof the number of authorized but unissued shares of Common Stock shall not be sufficient to permit exercise of this Warrant in full, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(b) Due Authority. The execution and delivery by the Company of this Agreement and the performance of all obligations of the Company hereunder, including the issuance to Warrantholder of the right to acquire the shares of Common Stock, have been duly authorized by all necessary corporate action on the part of the Company. This Agreement: (1) does not violate

the Company's Charter or current bylaws; (2) does not contravene any law or governmental rule, regulation or order applicable to it; and (3) except as could not reasonably be expected to have a Material Adverse Effect (as defined in the Loan Agreement), does not and will not contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument to which it is a party or by which it is bound. This Agreement constitutes a legal, valid and binding agreement of the Company, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws) and by general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(c) Consents and Approvals. No consent or approval of, giving of notice to, registration with, or taking of any other action in respect of any state, federal or other governmental authority or agency is required with respect to the execution, delivery and performance by the Company of its obligations under this Agreement, except for the filing of notices pursuant to Regulation D under the Act and any filing required by applicable state securities law, which filings will be effective by the time required thereby.

(d) [Intentionally Omitted].

(e) [Intentionally Omitted].

(f) Exempt Transaction. Subject to the accuracy of the Warrantholder's representations in Section 10, the issuance of the Common Stock upon exercise of this Agreement will constitute a transaction exempt from (i) the registration requirements of Section 5 of the Act, in reliance upon Section 4(2) thereof, and (ii) the qualification requirements of the applicable state securities laws.

(g) Resale Rights.

(i) If, prior to the date on which Warrantholder may sell all shares of Common Stock issuable upon exercise of this Warrant without restriction (including, without limitation, limitations as to volume and/or manner of sale and assuming that Warrantholder were to exercise this Warrant by Net Issuance) pursuant to Rule 144 promulgated under the Act ("*Rule 144*"), the Company proposes to register under the Act for resale any shares of Common Stock held by any person (other than the Company), then the Company shall give Warrantholder reasonable prior written notice of such proposed registration and shall permit Warrantholder to include (but Warrantholder shall not be obligated to include) all or a portion (as determined by Warrantholder in its sole discretion) of the shares of Common Stock issuable upon exercise of this Warrant in such registration on a *pari passu* basis with the other holders participating therein and on the same terms and conditions as applicable to such other holders.

(ii) If the Warrantholder at any time reasonably believes that it will not be permitted to sell all shares of Common Stock issuable on exercise hereof pursuant to Rule 144 on the date that is six (6) months plus one (1) day (the "*Resale Date*") following the Effective Date (assuming that Warrantholder were to exercise this Warrant by Net Issuance), then upon the Warrantholder's written notice thereof to the Company, the Company shall at its sole expense (A) promptly following its receipt of such notice, file with the Securities and Exchange Commission (the "*SEC*") a registration statement covering the Warrantholder's resale on a delayed or continuous basis of all shares of Common Stock issuable on exercise hereof, (B) cause such registration statement to be declared effective by the SEC not later than the later to occur of (1) the Resale Date, and (2) sixty (60) days following the Company's receipt of the Warrantholder's aforementioned notice, and (C) continuously maintain the effectiveness of such registration

statement and the prospectus related thereto until the Warrantholder has sold all shares of Common Stock issuable on exercise of this Warrant.

(iii) Unless the Company shall have received (A) a written notice from the Warrantholder pursuant to Section 9(g)(ii) above prior to the date on which the Warrantholder shall have sold all shares of Common Stock issuable on exercise hereof, or (B) within thirty (30) days following the Effective Date, written advice from the Company's securities law counsel (a copy of which the Company shall promptly provide to the Warrantholder) that in its opinion the Warrantholder (who shall be assumed not to be or at any time to have been an affiliate of the Company) will not or may not be permitted to sell all shares of Common Stock issuable upon exercise of this Warrant without restriction (including, without limitation, limitations as to volume and/or manner of sale and assuming that Warrantholder were to exercise this Warrant by Net Issuance) pursuant to Rule 144 on the Resale Date, then in connection with each sale of any such shares by the Warrantholder on or after the Resale Date (other than sales pursuant to an effective registration statement covering such shares), the Company shall at its sole expense cause such counsel to timely deliver its legal opinion to the Company's transfer agent that such sale is permitted without restriction pursuant to Rule 144.

(iv) If, at any time prior to the date on which the Warrantholder has sold all shares issuable on exercise of this Warrant, the Company shall know or have reason to believe that the Warrantholder may not be permitted under Rule 144 to sell without restriction (including, without limitation, limitations as to volume and/or manner of sale and assuming that Warrantholder were to exercise this Warrant by Net Issuance) on or after the Resale Date all shares issuable on exercise of this Warrant, then the Company shall (A) promptly notify the Warrantholder in writing thereof setting forth in reasonable detail the basis for such Company knowledge or belief, and (B) promptly and at its sole expense (1) file with the SEC a registration statement covering the Warrantholder's resale on a delayed or continuous basis of all shares of Common Stock issuable on exercise hereof and not previously sold, (2) cause such registration statement to be declared effective by the SEC not later than the later to occur of (1) the Resale Date, and (2) sixty (60) days following the date on which the Company first knew, believed or should have known or believed that Rule 144 would be unavailable to the Warrantholder, and (C) continuously maintain the effectiveness of such registration statement and the prospectus related thereto until the Warrantholder has sold all shares of Common Stock issuable on exercise of this Warrant and not previously sold.

(h) Information Rights. At all times (if any) prior to the earlier to occur of (x) the date on which all shares of Common Stock issued on exercise of this Warrant have been sold, or (y) the expiration or earlier termination of this Warrant, when the Company shall not be required to file reports pursuant to Section 13 or 15(d) of the Exchange Act or shall not have timely filed all such required reports, Warrantholder shall be entitled to the information rights contained in Section 7.1(b) – (f) of the Loan Agreement, and in any such event Section 7.1(b) – (f) of the Loan Agreement is hereby incorporated into this Agreement by this reference as though fully set forth herein, provided, however, that the Company shall not be required to deliver a Compliance Certificate once all Indebtedness (as defined in the Loan Agreement) owed by the Company to Warrantholder has been repaid.

(i) Rule 144 Compliance. The Company shall, at all times prior to the earlier to occur of (x) the date of sale or other disposition by Warrantholder of this Warrant or all shares of Common Stock issued on exercise of this Warrant, (y) the registration pursuant to subsection (g) above of the shares issued on exercise of this Warrant, or (z) the expiration or earlier termination of this Warrant if the Warrant has not been exercised in full or in part on such date, use all commercially reasonable efforts to timely file all reports required under the 1934 Act and otherwise timely take all actions necessary to permit the Warrantholder to sell or otherwise dispose of this Warrant and

the shares of Common Stock issued on exercise hereof pursuant to Rule 144 promulgated under the Act as amended and in effect from time to time, provided that the foregoing shall not apply in the event of a Merger Event following which the successor or surviving entity is not subject to the reporting requirements of the 1934 Act. If the Warrantholder proposes to sell Common Stock issuable upon the exercise of this Agreement in compliance with Rule 144, then, upon Warrantholder's written request to the Company, the Company shall furnish to the Warrantholder, within ten (10) business days after receipt of such request, a written statement confirming the Company's compliance with the filing and other requirements of such Rule.

SECTION 10. REPRESENTATIONS AND COVENANTS OF THE WARRANTHOLDER.

This Agreement has been entered into by the Company in reliance upon the following representations and covenants of the Warrantholder:

(a) Investment Purpose. This Warrant and the shares issued on exercise hereof will be acquired for investment and not with a view to the sale or distribution of any part thereof in violation of applicable federal and state securities laws, and the Warrantholder has no present intention of selling or engaging in any public distribution of the same except pursuant to a registration or exemption.

(b) Private Issue. The Warrantholder understands (i) that the Common Stock issuable upon exercise of this Agreement is not, as of the Effective Date, registered under the Act or qualified under applicable state securities laws, and (ii) that the Company's reliance on exemption from such registration is predicated on the representations set forth in this Section 10.

(c) Financial Risk. The Warrantholder has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment, and has the ability to bear the economic risks of its investment.

(d) Accredited Investor. Warrantholder is an "accredited investor" within the meaning of Rule 501 of Regulation D promulgated under the Act, as presently in effect ("Regulation D").

(e) No Short Sales. Neither Warrantholder nor any of its affiliates have at any time on or prior to the Effective Date engaged in any short sales or equivalent transactions in the Common Stock. Warrantholder agrees that at all times from and after the Effective Date and on or before the expiration or earlier termination of this Warrant, neither Warrantholder nor any of its affiliates shall engage in any short sales or equivalent transactions in the Common Stock.

SECTION 11. TRANSFERS.

Subject to compliance with applicable federal and state securities laws, this Agreement and all rights hereunder are transferable, in whole or in part, without charge to the holder hereof (except for transfer taxes) upon surrender of this Agreement properly endorsed. Each taker and holder of this Agreement, by taking or holding the same, consents and agrees that this Agreement, when endorsed in blank, shall be deemed negotiable, and that the holder hereof, when this Agreement shall have been so endorsed and its transfer recorded on the Company's books, shall be treated by the Company and all other persons dealing with this Agreement as the absolute owner hereof for any purpose and as the person entitled to exercise the rights represented by this Agreement. The transfer of this Agreement shall be recorded on the books of the Company upon receipt by the Company of a notice of transfer in the form attached hereto as Exhibit III (the "Transfer Notice"), at its principal offices and the payment by the Warrantholder or the transferee to the Company of all transfer taxes and other governmental charges imposed on such transfer. Until the Company receives such Transfer Notice, the Company may treat the registered owner hereof as the owner for all purposes. Notwithstanding anything herein or in any

legend to the contrary, the Company shall not require an opinion of counsel in connection with any sale, assignment or other transfer by Warrantholder of this Warrant (or any portion hereof or any interest herein) or of any shares of Common Stock issued upon any exercise hereof to an affiliate (as defined in Regulation D) of Warrantholder, provided that such affiliate is an “accredited investor” as defined in Regulation D (and any such affiliate transferee shall certify such “accredited investor” status in writing to the Company promptly following the Company’s request therefor).

SECTION 12. MISCELLANEOUS.

(a) Effective Date. The provisions of this Agreement shall be construed and shall be given effect in all respects as if it had been executed and delivered by the Company on the date hereof. This Agreement shall be binding upon any successors or assigns of the Company.

(b) Remedies. In the event of any default hereunder, the non-defaulting party may proceed to protect and enforce its rights either by suit in equity and/or by action at law, including but not limited to an action for damages as a result of any such default, and/or an action for specific performance for any default where Warrantholder will not have an adequate remedy at law and where damages will not be readily ascertainable.

(c) No Impairment of Rights. The Company will not, by amendment of its Charter or through any other means, avoid or seek to avoid the observance or performance of any of the terms of this Agreement, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate in order to protect the rights of the Warrantholder against impairment.

(d) Additional Documents. The Company agrees to supply such other documents as the Warrantholder may from time to time reasonably request.

(e) Attorneys’ Fees. In any litigation, arbitration or court proceeding between the Company and the Warrantholder relating hereto, the prevailing party shall be entitled to attorneys’ fees and expenses and all costs of proceedings incurred in enforcing this Agreement. For the purposes of this Section 12(e), attorneys’ fees shall include without limitation fees incurred in connection with the following: (i) contempt proceedings; (ii) discovery; (iii) any motion, proceeding or other activity of any kind in connection with an insolvency proceeding; (iv) garnishment, levy, and debtor and third party examinations; and (v) post-judgment motions and proceedings of any kind, including without limitation any activity taken to collect or enforce any judgment.

(f) Severability. In the event any one or more of the provisions of this Agreement shall for any reason be held invalid, illegal or unenforceable, the remaining provisions of this Agreement shall be unimpaired, and the invalid, illegal or unenforceable provision shall be replaced by a mutually acceptable valid, legal and enforceable provision, which comes closest to the intention of the parties underlying the invalid, illegal or unenforceable provision.

(g) Notices. Except as otherwise provided herein, any notice, demand, request, consent, approval, declaration, service of process or other communication that is required, contemplated, or permitted under this Agreement or with respect to the subject matter hereof shall be in writing, and shall be deemed to have been validly served, given, delivered, and received upon the earlier of: (a) personal delivery to the party to be notified, (b) when sent by confirmed telex, electronic transmission or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one day after deposit with a nationally recognized

overnight courier, specifying next day delivery, with written verification of receipt, and shall be addressed to the party to be notified as follows:

If to Warrantholder:

HERCULES CAPITAL, INC.
Legal Department
Attention: Chief Legal Officer
400 Hamilton Avenue, Suite 310
Palo Alto, CA 94301
Facsimile: 650-473-9194
Telephone: 650-289-3060

If to the Company:

ALIMERA SCIENCES, INC.
Attention: General Counsel
6120 Windward Parkway, Suite 290
Alpharetta, GA 30005
Facsimile: 678-990-5742
Telephone: 678-990-5740

or to such other address as each party may designate for itself by like notice.

(h) Entire Agreement; Amendments. This Agreement constitutes the entire agreement and understanding of the parties hereto in respect of the subject matter hereof, and supersedes and replaces in their entirety any prior proposals, term sheets, letters, negotiations or other documents or agreements, whether written or oral, with respect to the subject matter hereof. None of the terms of this Agreement may be amended except by an instrument executed by each of the parties hereto.

(i) Headings. The various headings in this Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Agreement or any provisions hereof.

(j) Advice of Counsel. Each of the parties represents to each other party hereto that it has discussed (or had an opportunity to discuss) with its counsel this Agreement and, specifically, the provisions of Sections 12(n), 12(o), 12(p), 12(q) and 12(r).

(k) No Strict Construction. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

(l) No Waiver. No omission or delay by Warrantholder at any time to enforce any right or remedy reserved to it, or to require performance of any of the terms, covenants or provisions hereof by Warrantholder at any time designated, shall be a waiver of any such right or remedy to which Warrantholder is entitled, nor shall it in any way affect the right of Warrantholder to enforce such provisions thereafter during the term of this Agreement.

(m) Survival. All agreements, representations and warranties contained in this Agreement or in any document delivered pursuant hereto shall be for the benefit of Warrantholder and shall survive the execution and delivery of this Agreement and the expiration or other termination of this Agreement.

(n) Governing Law. This Agreement has been negotiated and delivered to Warrantholder in the State of New York, and shall be deemed to have been accepted by Warrantholder in the State of New York. Delivery of Common Stock to Warrantholder by the Company under this Agreement is due in the State of New York. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, excluding conflict of laws principles that would cause the application of laws of any other jurisdiction.

(o) Consent to Jurisdiction and Venue. All judicial proceedings arising in or under or related to this Agreement may be brought in any state or federal court of competent jurisdiction located in the State of New York. By execution and delivery of this Agreement, each party hereto generally and unconditionally: (a) consents to personal jurisdiction in New York County, State of New York; (b) waives any objection as to jurisdiction or venue in New York County, State of New York; (c) agrees not to assert any defense based on lack of jurisdiction or venue in the aforesaid courts; and (d) irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Service of process on any party hereto in any action arising out of or relating to this Agreement shall be effective if given in accordance with the requirements for notice set forth in Section 12(g), and shall be deemed effective and received as set forth in Section 12(g). Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of either party to bring proceedings in the courts of any other jurisdiction.

(p) Mutual Waiver of Jury Trial. Because disputes arising in connection with complex financial transactions are most quickly and economically resolved by an experienced and expert person and the parties wish applicable state and federal laws to apply (rather than arbitration rules), the parties desire that their disputes arising under or in connection with this Warrant be resolved by a judge applying such applicable laws. EACH OF THE COMPANY AND WARRANTHOLDER SPECIFICALLY WAIVES ANY RIGHT IT MAY HAVE TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, CROSS-CLAIM, COUNTERCLAIM, THIRD PARTY CLAIM OR ANY OTHER CLAIM (COLLECTIVELY, "CLAIMS") ASSERTED BY THE COMPANY AGAINST WARRANTHOLDER OR ITS ASSIGNEE OR BY WARRANTHOLDER OR ITS ASSIGNEE AGAINST THE COMPANY RELATING TO THIS WARRANT. This waiver extends to all such Claims, including Claims that involve persons or entities other than the Company and Warrantholder; Claims that arise out of or are in any way connected to the relationship between the Company and Warrantholder; and any Claims for damages, breach of contract, specific performance, or any equitable or legal relief of any kind, arising out of this Agreement.

(q) Arbitration. If the Mutual Waiver of Jury Trial set forth in Section 12(p) is ineffective or unenforceable, the parties agree that all Claims shall be submitted to binding arbitration in accordance with the commercial arbitration rules of JAMS (the "Rules"), such arbitration to occur before one arbitrator, which arbitrator shall be a retired New York state judge or a retired Federal court judge. Such proceeding shall be conducted in New York County, State of New York, with New York rules of evidence and discovery applicable to such arbitration. The decision of the arbitrator shall be binding on the parties, and shall be final and nonappealable to the maximum extent permitted by law. Any judgment rendered by the arbitrator may be entered in a court of competent jurisdiction and enforced by the prevailing party as a final judgment of such court.

(r) Pre-arbitration Relief. In the event Claims are to be resolved by arbitration, either party may seek from a court of competent jurisdiction identified in Section 12(o), any prejudgment order, writ or other relief and have such prejudgment order, writ or other relief

enforced to the fullest extent permitted by law notwithstanding that all Claims are otherwise subject to resolution by binding arbitration.

(s) Counterparts. This Agreement and any amendments, waivers, consents or supplements hereto may be executed in any number of counterparts, and by different parties hereto in separate counterparts, each of which when so delivered shall be deemed an original, but all of which counterparts shall constitute but one and the same instrument.

(t) Specific Performance. The parties hereto hereby declare that it is impossible to measure in money the damages which will accrue to Warrantholder by reason of the Company's failure to perform any of the obligations under this Agreement and agree that the terms of this Agreement shall be specifically enforceable by Warrantholder. If Warrantholder institutes any action or proceeding to specifically enforce the provisions hereof, any person against whom such action or proceeding is brought hereby waives the claim or defense therein that Warrantholder has an adequate remedy at law, and such person shall not offer in any such action or proceeding the claim or defense that such remedy at law exists.

(u) Lost, Stolen, Mutilated or Destroyed Warrant. If this Warrant is lost, stolen, mutilated or destroyed, the Company or its transfer agent may, on such terms as to indemnity or otherwise as it may reasonably impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination and tenor as this Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

(v) Legends. To the extent required by applicable laws, this Warrant and the shares of Common Stock issuable hereunder (and the securities issuable, directly or indirectly, upon conversion of such shares of Common Stock, if any) may be imprinted with a restricted securities legend in substantially the following form:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR PURSUANT TO RULE 144 OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Warrant Agreement to be executed by its officers thereunto duly authorized as of the Effective Date.

COMPANY: ALIMERA SCIENCES, INC.

By: /s/ Richard S. Eiswirth, Jr.
Name: Richard S. Eiswirth, Jr.
Title: President and Chief Financial Officer

WARRANTHOLDER: HERCULES CAPITAL, INC.

By: /s/ Jennifer Choe
Name: Jennifer Choe
Assistant General Counsel

Title:

EXHIBIT I
NOTICE OF EXERCISE

To: [_____]

- (1) The undersigned Warrantholder hereby elects to purchase [_____] shares of the Common Stock of [_____], pursuant to the terms of the Agreement dated the [__] day of [_____, ____] (the "Agreement") between [_____] and the Warrantholder, and tenders herewith payment of the Purchase Price in full, together with all applicable transfer taxes, if any. [NET ISSUANCE: elects pursuant to Section 3(a) of the Agreement to effect a Net Issuance.]
- (2) Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below.

(Name)

(Address)

WARRANTHOLDER: HERCULES CAPITAL, INC.

By: _____
Name:
Title:

EXHIBIT II

1. ACKNOWLEDGMENT OF EXERCISE

The undersigned [_____], hereby acknowledge receipt of the "Notice of Exercise" from Hercules Capital, Inc. to purchase [____] shares of the Common Stock of [_____], pursuant to the terms of the Agreement, and further acknowledges that [_____] shares remain subject to purchase under the terms of the Agreement.

COMPANY: [_____]

By: _____

Title: _____

Date: _____

EXHIBIT III
TRANSFER NOTICE

(To transfer or assign the foregoing Agreement execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Agreement and all rights evidenced thereby are hereby transferred and assigned to

(Please Print)

whose address is _____

Dated: _____

Holder's Signature: _____

Holder's Address: _____

Signature Guaranteed: _____

NOTE: The signature to this Transfer Notice must correspond with the name as it appears on the face of the Agreement, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Agreement.

WAIVER

This Waiver (this “**Waiver**”), dated as of July 21, 2016, is by and among (a) **ALIMERA SCIENCES LIMITED**, a company registered under the laws of England and Wales under company number 08018355 and having its registered office at Centaur House, Ancells Road, Fleet, Hampshire, United Kingdom, GU51 2UJ (“**Borrower**”), (b) **HERCULES CAPITAL FUNDING TRUST 2014-1**, a statutory trust created and existing under the laws of the State of Delaware (“**Lender**”) and (c) **HERCULES CAPITAL, INC.**, a Maryland corporation (formerly known as Hercules Technology Growth Capital, Inc.), in its capacity as administrative agent for itself and Lender (in such capacity, the “**Agent**”).

WITNESSETH:

WHEREAS, Borrower, Lender and the Agent are parties to a certain Loan and Security Agreement, dated as of April 24, 2014, as amended by a First Amendment to Loan and Security Agreement dated as of November 2, 2015, a Second Amendment to Loan and Security Agreement dated as of March 14, 2016, and a Third Amendment to Loan and Security Agreement dated as of May 26, 2016 (as the same may from time to time be amended, modified or supplemented in accordance with its terms, the “**Loan Agreement**”). To the extent not otherwise defined herein, the capitalized terms used herein shall have the meanings assigned to them in the Loan Agreement.

WHEREAS, Borrower has notified Lender and the Agent that Borrower is not in compliance with Section 7.16(b) of the Loan Agreement by virtue of the fact that the Consolidated Group has failed to maintain Liquidity of not less than \$25,000,000 of which at least \$17,500,000 is in the form of cash (the “**Existing Event of Default**”);

WHEREAS, Borrower has notified Lender and the Agent that the Existing Event of Default constitutes an “Event of Default” under Section 9 of the Loan Agreement

WHEREAS, Borrower has requested that Lender (i) waive the Existing Event of Default and (ii) waive compliance by Borrower with Section 7.16(a) of the Loan Agreement for (A) the month ended July 31, 2016 and the three (3) months then ended and (B) the month ended August 31, 2016 and the three (3) months then ended (the foregoing, collectively, the “**Requested Waivers**”);

WHEREAS, subject to the terms and conditions of this Waiver, Lender has agreed to grant the Requested Waivers;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged the parties hereto agree as follows:

1. **Waivers**. Lender hereby waives any Event of Default arising as a result of the Existing Event of Default, and agrees, subject to the effectiveness of this Waiver and the terms and conditions hereof, that each such Existing Event of Default shall be deemed waived as of the date of occurrence of such Existing Event of Default. Lender hereby waives compliance by Borrower with Section 7.16(a) of the Loan Agreement for (i) the month ended July 31, 2016 and the three (3) months then ended and (ii) the month ended August 31, 2016 and the three (3) months then ended. In addition, Lender hereby waives compliance by Borrower with Section 7.16(b) of the Loan Agreement.

2. **Conditions to Waivers**. Lender and Borrower agree that the waivers set forth in Section 1 above are subject to compliance by Borrower with the following (and to the extent Borrower fails to comply, such waiver shall cease as of the date of such failure (“Waiver Condition Failure Date”)) :

(a) Commencing on the Effective Date (as defined below), the Consolidated Group shall at all times maintain Liquidity of not less than \$20,000,000 of which at least \$12,500,000 shall be in the form of cash;

(b) The Consolidated Group shall achieve revenues from sales of Borrower Products for the three month period ending August 31, 2016 that are greater than or equal to \$8,647,006;

(c) Commencing on the Effective Date, Borrower shall pay a weekly waiver ticking fee (the “**Waiver Ticking Fee**”) accrued at a seven (7) day rate of five one-hundredths of one percent (0.05%) multiplied by the outstanding principal amount of all Term Loan Advances. The Waiver Ticking Fee shall be calculated on the basis of a week of seven (7) days and actual days elapsed. All accrued Waiver Ticking Fees shall be due and payable by Borrower on the first Business Day of each month, commencing with August 1, 2016. The Waiver Ticking Fee shall cease to be payable on the earliest to occur of (i) receipt by Borrower of net proceeds from the issuance of equity by Borrower of not less than \$15,000,000 from and after the Effective Date, (ii) the date that Borrower repays the outstanding Secured Obligations in full, and (iii) the date, if any, after the Effective Date, on which Borrower, Agent and Lender execute and deliver an additional amendment to the Loan Agreement in order to restructure the terms of the Loan. The Waiver Ticking Fee is fully earned on the Effective Date and is non-refundable; and

(d) On the date that is the earliest to occur of (i) receipt by Borrower of net proceeds from the issuance of equity by Borrower of not less than \$15,000,000 from and after the Effective Date, (ii) the date that Borrower repays the outstanding Secured Obligations in full, (iii) the date, if any, after the Effective Date, on which Borrower, Agent and Lender execute and deliver an additional amendment to the Loan Agreement in order to restructure the terms of the Loan, (iv) the acceleration of the Secured Obligations due to the occurrence of an Event of Default, and (v) September 1, 2016, Borrower shall pay to Lender, for the account of Lender, a waiver fee of Three Hundred Fifty Thousand Dollars (\$350,000), which fee shall be deemed fully earned on the date hereof.

3. **Conditions to Effectiveness.** Lender and Borrower agree that this Waiver shall become effective upon the satisfaction of the following conditions precedent, each in form and substance satisfactory to Lender (the date on which such conditions have been satisfied, the “**Effective Date**”):

(a) The Agent shall have received a fully-executed counterpart of this Waiver signed by Borrower; and

(b) Lender shall have received a fully-executed counterpart of Amendment No. 3 to Warrant Agreement dated as of the date hereof (the “**Warrant Amendment**”) signed by Alimera Sciences, Inc., a Delaware corporation (“**Alimera US**”);

(c) The Agent shall have received certified resolutions of Borrower’s and Alimera US’s board of directors evidencing approval of this Waiver and Alimera US’s board of directors evidencing approval of the Warrant Amendment;

(d) The Agent and Lender shall have received payment for all reasonable and documented out-of-pocket fees and expenses incurred by the Agent and Lender in connection with this Waiver, including, but not limited to, all legal fees and expenses, payable pursuant to Section 11.11 of the Loan Agreement.

4. **Payment of Costs and Expenses.** Borrower shall reimburse Lender for all reasonable and documented costs and out-of-pocket expenses of every kind actually incurred by Lender in connection with the preparation, negotiation, execution and delivery of this Waiver and any documents and instruments relating hereto or thereto (which costs include, without limitation, the out-of-pocket reasonable and documented fees and expenses of any attorneys retained by Lender).

5. **Miscellaneous.**

(a) THIS WAIVER SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, EXCLUDING CONFLICT OF LAWS PRINCIPLES THAT WOULD CAUSE THE APPLICATION OF LAWS OF ANY OTHER JURISDICTION.

(b) The captions in this Waiver are for convenience of reference only and shall not define or limit the provisions hereof.

(c) This Waiver expresses the entire understanding of the parties with respect to the transactions contemplated hereby. No prior negotiations or discussions shall limit, modify, or otherwise affect the provisions hereof.

(d) Any determination that any provision of this Waiver or any application hereof is invalid, illegal or unenforceable in any respect and in any instance shall not affect the validity, legality, or enforceability of such provision in any other instance, or the validity, legality or enforceability of any other provisions of this Waiver.

6. **Further Assurances.** The parties hereto shall execute and deliver such additional documents to take such additional action as may be reasonably necessary or desirable to effectuate the provisions and purposes of this Waiver.

7. **Binding Effect.** This Waiver shall be binding upon and insure to the benefit of the parties hereto and their respective legal representatives, successors or assigns.

8. **Headings.** The headings listed herein are for convenience only and do not constitute matters to be construed in interpreting this Waiver.

9. **Effect on Loan Documents.**

(a) The waivers set forth herein shall be limited precisely as written and shall not be deemed (i) to be a forbearance, waiver, or modification of any other term or condition of the Loan Agreement or of any Loan Documents or to prejudice any right or remedy which Lender may now have or may have in the future under or in connection with the Loan Documents; (ii) to be a consent to any future consent or modification, forbearance, or waiver to the Loan Agreement or any other Loan Document, or to any waiver of any of the provisions thereof; or (iii) to limit or impair Lender's right to demand strict performance of all terms and covenants as of any date, provided that Lender agrees that it will not charge interest pursuant to Section 2.3 of the Loan Agreement related to the Existing Event of Default specifically identified herein until the Waiver Condition Failure Date, and then only beginning with such date. Borrower hereby ratifies and reaffirms its obligations under the Loan Agreement and the other Loan Documents to which it is a party and agrees that none of the waivers to the Loan Agreement set forth in this Waiver shall impair Borrower's obligations under the Loan Documents or Lender's

rights under the Loan Documents. Borrower hereby further ratifies and reaffirms the validity and enforceability of all of the liens heretofore granted, pursuant to and in connection with the Loan Documents to Lender, as collateral security for the obligations under the Loan Documents, in accordance with their respective terms, and acknowledges that all of such liens, and all collateral heretofore pledged as security for such obligations, continues to be and remain collateral for such obligations from and after the date hereof. Borrower acknowledges and agrees that the Loan Agreement and each other Loan Document is still in full force and effect and acknowledges as of the date hereof that Borrower has no defenses to enforcement of the Loan Documents. Borrower waives any and all defenses to enforcement of the Loan Agreement as amended hereby and each other Loan Documents that might otherwise be available as a result of this Waiver.

(b) This Waiver is a Loan Document.

[Remainder of this page left intentionally blank]

IN WITNESS WHEREOF, each party has executed, or caused to be executed by a duly authorized individual, this Waiver as of the date first set forth above.

BORROWER:

ALIMERA SCIENCES LIMITED

Signature: /s/ Dan Myers
Print Name: Dan Myers
Title: Director

Accepted in Palo Alto, California:

LENDER:

HERCULES CAPITAL FUNDING TRUST 2014-1, a statutory trust created and existing under the laws of the State of Delaware

By: Hercules Capital, Inc., its servicer
By:
Signature: /s/ Jennifer Choe
Print Name: Jennifer Choe
Title: Assistant General Counsel

AGENT:

HERCULES CAPITAL, INC.
f/k/a HERCULES TECHNOLOGY GROWTH CAPITAL, INC.
Signature: /s/ Jennifer Choe
Print Name: Jennifer Choe

[Signature page to Waiver to Loan Agreement]

FOURTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This **FOURTH AMENDMENT TO LOAN AND SECURITY AGREEMENT** (this “**Amendment**”), dated as of October 20, 2016 (the “**Fourth Amendment Date**”), is by and among (a) **ALIMERA SCIENCES LIMITED**, a company registered under the laws of England and Wales under company number 08018355 and having its registered office at Royal Pavilion, Wellesley Road, Aldershot, Hampshire, United Kingdom, GU11 1PZ (“**Borrower**”), (b) the several banks and other financial institutions or entities from time to time parties to this Loan Agreement (as defined below) (collectively, referred to as “**Lender**”), and (c) **HERCULES CAPITAL, INC.**, a Maryland corporation, in its capacity as administrative agent for itself and Lender (in such capacity, the “**Agent**”).

WHEREAS, Borrower, Lender and the Agent are parties to a certain Loan and Security Agreement, dated as of April 24, 2014, as amended by a certain First Amendment to Loan and Security Agreement dated as of November 2, 2015, as further amended by a certain Second Amendment to Loan and Security Agreement dated as of March 14, 2016, and as further amended by a certain Third Amendment to Loan and Security Agreement dated as of May 26, 2016 (as the same has been and may from time to time be further amended, modified, supplemented, restated or amended and restated in accordance with its terms, the “**Loan Agreement**”); and

WHEREAS, in accordance with Section 11.3 of the Loan Agreement, Agent, Borrower and Lender desire to amend the Loan Agreement as provided herein.

NOW THEREFORE, in consideration of the mutual agreements contained in the Loan Agreement and herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. **Defined Terms.** Terms not otherwise defined herein which are defined in the Loan Agreement shall have the same respective meanings herein as therein.

2. **Amendments to Loan Agreement.** Subject to the satisfaction of the conditions set forth in Section 3 of this Amendment, as of the Fourth Amendment Date, the Loan Agreement is hereby amended as follows:

(a) The Loan Agreement shall be amended by deleting Recital A thereof in its entirety and inserting in lieu thereof the following:

“ A. Borrower has requested Lender to make available to Borrower term loans (each a “**Term Loan Advance**” and collectively, the “**Term Loan Advances**”) in an aggregate principal amount of up to Forty-Five Million Dollars (\$45,000,000.00) (the “**Maximum Term Loan Amount**”); and”

(b) The Loan Agreement is hereby amended by inserting the following new definitions to each appear alphabetically in Section 1.1 thereof:

“ “**Adjusted EBITDA**” means, as calculated on a consolidated basis for the Consolidated Group, (a) Net Income, plus (b) Interest Expense, plus (c) to the extent deducted in the calculation of Net Income, depreciation expense and amortization expense, plus (d) income tax expense, plus (e) non-cash stock compensation expense, plus (f) to the extent deducted in the calculation of Net Income, non-realized losses from foreign currency exchange transactions, minus

(g) to the extent included in the calculation of Net Income, non-realized gains from foreign currency exchange transactions, plus (h) to the extent included in the calculation of Net Income, losses from the change in fair value of derivative warrant liability, minus (i) to the extent included in the calculation of Net Income, gains from the change in fair value of derivative warrant liability.”

“ **“Adjusted EBITDA Letter Agreement”** means that certain letter agreement among Agent, Lender and Borrower regarding the Adjusted EBITDA required pursuant to Section 7.16(b), dated as of the Fourth Amendment Date, as may from time to time be amended, modified, supplemented, restated or amended and restated in accordance with the terms of this Agreement.”

“ **“Adjusted EBITDA Required Amount”** means, with respect to any date of determination, the amount of Adjusted EBITDA for the six-month period ending on such date of determination set forth in the Adjusted EBITDA Letter Agreement.”

“ **“Fourth Amendment Date”** means October 20, 2016.”

“ **“Fourth Draw Period”** means the period commencing upon the Fourth Draw Period Availability Event and ending on the earlier to occur of (a) December 31, 2017, and (b) an Event of Default.”

“ **“Fourth Draw Period Availability Event”** means the occurrence of all of the following: (a) Borrower delivering to Agent and Lender evidence reasonably acceptable to each of Agent and Lender that the Consolidated Group has achieved net revenue from sales of Borrower Products in an aggregate amount greater than or equal to Fifteen Million Dollars (\$15,000,000.00) during any three month period ending on the last day of any calendar month after the Fourth Amendment Date, (b) no Event of Default having at any time occurred or having been continuing after the Fourth Amendment Date, and (c) Lender having made to Borrower a Term Loan Advance in an amount equal to Five Million Dollars (\$5,000,000.00) during the Third Draw Period.”

“ **“Interest Expense”** means, for any fiscal period, interest expense of the Consolidated Group (whether cash or non-cash) determined in accordance with GAAP for the relevant period ending on such date, including, in any event, interest expense with respect to any Term Loan Advance and other Indebtedness of any member of the Consolidated Group, including, without limitation or duplication, all commissions, discounts, or related amortization and other fees and charges with respect to letters of credit and bankers’ acceptance financing and the net costs associated with interest rate swap, cap, and similar arrangements, and the interest portion of any deferred payment obligation (including leases of all types).”

“ **“Liquidity Reduction Beginning Measurement Date”** means the first day of the first month of the three consecutive calendar months in which Borrower has achieved positive Adjusted EBITDA, on a trailing three (3) month basis, that immediately precede the Minimum Required Liquidity Reduction Period Commencement Date.”

“ **“Minimum Required Liquidity Amount”** means Twenty-Five Million Dollars (\$25,000,000.00), of which at least Twelve Million Five Hundred Thousand Dollars (\$12,500,000.00) shall be in the form of unrestricted and unencumbered cash, provided, however, that during the Minimum Required Liquidity Reduction Period only, the Minimum Required Liquidity Amount shall be Twenty Million Dollars (\$20,000,000.00), of which at least Ten Million Dollars (\$10,000,000.00) shall be in the form of unrestricted and unencumbered cash.”

“ **“Minimum Required Liquidity Reduction Period”** means the period commencing upon the Minimum Required Liquidity Reduction Period Commencement Date and terminating upon the earlier to occur of (a) the Minimum Required Liquidity Reduction Period Termination Date, and (b) the occurrence or during the continuance of an Event of Default.”

“ **“Minimum Required Liquidity Reduction Period Commencement Date”** is the date on which both Agent and Lender have determined in writing in the sole discretion of each that the Consolidated Group has achieved positive Adjusted EBITDA on a trailing three (3) month basis for three (3) consecutive three-month periods each ending on the last day of a calendar month that is after the Fourth Amendment Date.”

“ **“Minimum Required Liquidity Reduction Period Termination Date”** is (a) at all times through and including the date that is six (6) months after the Minimum Required Liquidity Reduction Period Commencement Date, the earlier to occur of (i) the Consolidated Group failing to maintain, as of any date of determination, positive net Adjusted EBITDA for the period (A) commencing upon the Liquidity Reduction Beginning Measurement Date, and (B) ending on such date of determination, and (ii) the Consolidated Group failing to maintain Adjusted EBITDA of at least (\$1,500,000) for any three-month period ending on the last day of a calendar month, and (b) as of the date that is six (6) months after the Minimum Required Liquidity Reduction Period Commencement Date, and at all times thereafter, the occurrence of Borrower failing to maintain positive three (3) month Adjusted EBITDA for any three-month period ending on the last day of a calendar month.”

“ **“Net Income”** means, as calculated on a consolidated basis for the Consolidated Group for any period as at any date of determination, the net profit (or loss), after provision for taxes, of the Consolidated Group for such period taken as a single accounting period.”

“ **“Net Revenue Monthly Required Amount”** means (a) with respect to the month ending August 31, 2016 and each calendar month prior thereto, the amount that is ninety percent (90.0%) of the actual net revenues of the Consolidated Group from the sale of Borrower Products achieved during such month, and (b) with respect to the month ending September 30, 2016 and each calendar month thereafter, seventy percent (70.0%) of the amount of net revenues of the Consolidated Group from the sale of Borrower Products projected for such month in the Plan.”

“ **“Net Revenue Required Amount”** means, with respect to any trailing six-month period, the lesser of (a) the sum of the Net Revenue Monthly Required Amount for each calendar month occurring during such trailing six-month period, and (b) Thirty Million Dollars (\$30,000,000.00).”

“ **“PIK Interest”** shall have the meaning assigned to such term in Section 2.1(c)(ii).”

“ **“PIK Interest Rate”** means one percent (1.0%).”

“ **“Tested Month”** means each calendar month other than a calendar month in which both (a) the Consolidated Group maintains Liquidity at all times during such calendar month of not less than Thirty-Five Million Dollars (\$35,000,000.00) at all times during such month, and (b) no Event of Default has occurred or is continuing at any time during such calendar month.”

“ **“Third Draw Period”** means the period commencing upon the occurrence of the Third Draw Period Availability Event, and ending on the earlier to occur of (a) June 30, 2017, and (b) an Event of Default.”

“ **“Third Draw Period Availability Event”** means the occurrence of both of the following: (a) Borrower delivering to Agent and Lender evidence reasonably acceptable to each of Agent and Lender that the Consolidated Group has achieved net revenue from sales of Borrower Products in an aggregate amount greater than or equal to Twelve Million Dollars (\$12,000,000.00) during any three month period ending on the last day of any calendar month after the Fourth Amendment Date, and (b) no Event of Default having at any time occurred or having been continuing after the Fourth Amendment Date.”

(c) The Loan Agreement is hereby amended by deleting the following terms and their definitions from Section 1.1 thereof in their entirety and inserting in lieu thereof the following:

“ **“Amortization Date”** means December 1, 2018.”

“ **“Loan Documents”** means this Agreement, the Notes, the ACH Authorization, the Account Control Agreements, the Joinder Agreements, all UCC Financing Statements, the Warrant, the Debenture, the Alimera US Guaranty, the AS C.V. Guaranty, the Alimera Sciences B.V. Guaranty, the Alimera US Security Agreement, the Deed of Disclosed Pledge of Receivables, the Adjusted EBITDA Letter Agreement, and any other documents executed in connection with the Secured Obligations or the transactions contemplated hereby, as the same may from time to time be amended, modified, supplemented or restated.”

“ **“Term Loan Interest Rate”** means for any day, a floating per annum rate equal to: (a) prior to the Fourth Amendment Date, the greater of (i) ten and nine-tenths of one percent (10.90%), and (ii) the sum of (A) ten and nine-tenths of one percent (10.90%), plus (B) the Prime Rate minus three and one-quarter of one percent (3.25%), and (b) on and after the Fourth Amendment Date, the greater of (i) eleven percent (11.0%), and (ii) an amount equal to (A) eleven

percent (11.0%), plus (B) the Prime Rate, minus (C) three and one-half of one percent (3.50%). The Term Loan Interest Rate will change from time to time on the day the Prime Rate changes.”

“ **“Term Loan Maturity Date”** means November 1, 2020.”

(d) The Loan Agreement is hereby amended by amending and restating Section 2.1(a) thereof as follows:

“ (a) Advances. Lender has made, and Borrower has drawn, Term Loan Advances in the original principal amount of Thirty-Five Million Dollars (\$35,000,000), which Term Loan Advances are outstanding as of the Fourth Amendment Date. Subject to the terms and conditions of this Agreement, Borrower may request a Term Loan Advance: (i) one (1) time during the Third Draw Period, in the principal amount of Five Million Dollars (\$5,000,000.00), and (ii) one (1) time during the Fourth Draw Period, in the principal amount of Five Million Dollars (\$5,000,000.00), provided that no Lender shall be required to make a Term Loan Advance exceeding its Term Loan Commitment with respect to any above date or draw period. The aggregate principal amount of all Term Loan Advances shall not exceed the Maximum Term Loan Amount. Proceeds of any Advance shall be deposited into an account that is subject to a perfected security interest in favor of Agent perfected by an Account Control Agreement.”

(e) The Loan Agreement is hereby amended by amending and restating Section 2.1(c) thereof as follows:

“ (c) Interest.

(i) Cash Interest. In addition to PIK Interest, the principal balance of each Term Loan Advance (including, for the avoidance of doubt, any PIK Interest added to principal pursuant to Section 2.1(c)(ii)) shall bear interest thereon from such Advance Date at the Term Loan Interest Rate based on a year consisting of 360 days, with interest computed daily based on the actual number of days elapsed. The Term Loan Interest Rate will float and change on the day the Prime Rate changes from time to time; and

(ii) PIK Interest. In addition to interest accrued pursuant to Section 2.1(c)(i) at the Term Loan Interest Rate, commencing on the Fourth Amendment Date, the principal balance of each Term Loan Advance shall bear “payment-in kind” interest at the PIK Interest Rate based on a year consisting of 360 days, with interest computed daily based on the actual number of days elapsed (“**PIK Interest**”), which PIK Interest shall be added to the outstanding principal balance so as to increase the outstanding principal balance of the Term Loan Advance on each payment date for such Term Loan Advance and which amount shall be payable when the aggregate outstanding principal amount of the Term Loan Advance is payable in accordance with Section 2.1(d) or otherwise hereunder.”

(f) The Loan Agreement is hereby amended by amending and restating Section 2.1(d) thereof as follows:

“ (d) Payment. Borrower will pay interest (other than PIK Interest) on each Term Loan Advance on the first Business Day of each calendar month,

beginning the calendar month after its Advance Date. Borrower shall repay the aggregate outstanding principal balance of the Term Loan Advances on the day immediately preceding the Amortization Date (excluding all accrued PIK Interest added to such principal balance prior to such date), in equal monthly installments of principal and interest (mortgage style) beginning on the Amortization Date and continuing on the first Business Day of each calendar month thereafter until the Term Loan Maturity Date. The entire Term Loan principal balance (including all accrued PIK Interest added to the principal balances set forth in Section 2.1(c)(ii)) and all accrued but unpaid interest hereunder shall be due and payable on the Term Loan Maturity Date. Borrower shall make all payments under this Agreement without setoff, recoupment or deduction and regardless of any counterclaim or defense. Lender will initiate debit entries to the Borrower's account as authorized on the ACH Authorization (i) on each payment date of all periodic obligations payable to Lender under each Term Loan Advance and (ii) out-of-pocket legal fees and costs incurred by Agent or Lender in connection with Section 11.11 of this Agreement. Once repaid, a Term Loan Advance or any portion thereof may not be reborrowed. All payments from Borrower or any other Consolidated Group member to Agent and/or Lender with respect to the Secured Obligations shall be made in US Dollars and all Secured Obligations shall be deemed payable in US Dollars."

(g) The second (2nd) sentence of Section 2.2 of the Loan Agreement is hereby amended in its entirety and replaced with the following:

"If a court of competent jurisdiction shall finally determine that Borrower has actually paid to Lender an amount of interest in excess of the amount that would have been payable if all of the Secured Obligations had at all times borne interest at the Maximum Rate, then such excess interest actually paid by Borrower shall be applied as follows: first, to the payment of the Secured Obligations consisting of the outstanding principal of the Term Loan Advances (including any accrued PIK Interest added to the principal balance); second, after all principal is repaid, to the payment of Lender's accrued interest, costs, expenses, reasonable professional fees and any other Secured Obligations; and third, after all Secured Obligations are repaid, the excess (if any) shall be refunded to Borrower."

(h) The first (1st) sentence of Section 2.4 of the Loan Agreement is hereby amended in its entirety and replaced with the following:

"At its option upon at least five (5) Business Days prior notice to Agent, Borrower may prepay all or any portion of the outstanding Advances by paying the entire principal balance (or such portion thereof), and all accrued and unpaid interest with respect to the principal balance being prepaid thereon, together with a prepayment charge equal to the following percentage of the principal amount of the Term Loan Advance being prepaid (including any accrued PIK Interest added to the principal balance that is prepaid): (a) if such amounts are prepaid in any of the first twelve (12) months following the Fourth Amendment Date, three percent (3.0%); (b) if such amounts are prepaid after twelve (12) months but prior to twenty-four (24) months following the Fourth Amendment Date, two percent (2.0%); and (c) if such amounts are prepaid at any time thereafter, one percent (1.0%) (each, a "**Prepayment Charge**")."

(i) Section 7.1 of the Loan Agreement shall be amended by deleting the following text appearing at the end of subsection (e) thereof: “; and”, deleting the following text appearing at the end of subsection (f) thereof: “.”, and inserting in lieu thereof the following text: “; and”, and inserting the following new subsection (g) thereof to appear immediately after the existing subsection (f) thereof: “(g) as soon as practicable (and in any event within fourteen (14) days) after the end of each calendar month, a report showing agings of accounts receivable and accounts payable.”

(j) Section 7.16 of the Loan Agreement (Financial Covenants) is hereby amended and restated in its entirety to read as follows:

“ 7.16 Financial Covenants.

(a) Net Revenue. Commencing on October 31, 2016, and at all times thereafter, the Consolidated Group shall have achieved net revenues from sales of Borrower Products for the six-month period ending on the date of determination, tested monthly at the end of each Tested Month, in an amount greater than or equal to the Net Revenue Required Amount.

(b) Adjusted EBITDA. The Consolidated Group shall have achieved Adjusted EBITDA for the immediately preceding six-month period, tested monthly at the end of each Tested Month, in an amount greater than or equal to the Adjusted EBITDA Required Amount.

(c) Commencing on the Fourth Amendment Date and at all times thereafter, the Consolidated Group shall at all times (to be tested at all times) maintain Liquidity of not less than the Minimum Required Liquidity Amount.”

(k) The Compliance Certificate appearing as Exhibit F to the Loan Agreement is hereby amended and restated in its entirety with the Compliance Certificate appearing as Exhibit A hereto.

(l) Schedule 1.1 is hereby amended and restated in its entirety with the Schedule 1.1 appearing as Exhibit B hereto.

3 . Conditions to Effectiveness. Agent, Lender and Borrower agree that this Amendment shall become effective upon the satisfaction of the following conditions precedent, each in form and substance satisfactory to Agent and Lender:

(a) Agent and Lender shall have received a fully-executed counterpart of this Amendment signed by Borrower, that certain Warrant Agreement dated as of the Fourth Amendment Date (the “**Additional Warrant**”) signed by Alimera Sciences, Inc., a Delaware corporation (“**Alimera US**”), and the fully-executed Adjusted EBITDA Letter Agreement;

(b) As of the Fourth Amendment Date, no fact or condition exists that would (or would, with the passage of time, the giving of notice, or both) constitute an Event of Default;

(c) The Agent shall have received certified resolutions of Borrower's board of directors and an authorized person of each Guarantor evidencing approval of this Amendment and Alimera US's board of directors evidencing approval of this Amendment and the Additional Warrant;

(d) Agent shall have received the Acknowledgement of Amendment and Reaffirmation of Guaranty and Grant of Security substantially in the form attached hereto as Exhibit C;

(e) Borrower's payment to Agent, for the ratable benefit of Lenders, of a fully-earned, non-refundable facility charge in an amount equal to Three Hundred Thirty-Seven Thousand Five Hundred Dollars (\$337,500.00); and

(f) Borrower shall have paid all reasonable and documented out-of-pocket fees and expenses incurred by the Agent and Lender in connection with this Amendment, including, but not limited to, all legal fees and expenses, payable pursuant to Section 11.11 of the Loan Agreement.

4. **Representations and Warranties.** Borrower hereby represents and warrants to Agent and Lender as follows:

(a) Representations and Warranties in the Agreement. The representations and warranties of Borrower set forth in Section 5 of the Loan Agreement are true and correct in all material respects on and as of the Fourth Amendment Date with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(b) Authority, Etc. The execution and delivery by Borrower of this Amendment and the Additional Warrant and the performance by Borrower of all of its agreements and obligations under the Loan Agreement, the Warrant and the other Loan Documents, as amended hereby, are within the corporate or limited liability company authority, as applicable, of Borrower and have been duly authorized by all necessary corporate action on the part of Borrower. With respect to Borrower, the execution and delivery by Borrower of this Amendment and the Additional Warrant does not and will not require any registration with, consent or approval of, or notice to any Person (including any governmental authority).

(c) Enforceability of Obligations. This Amendment, the Additional Warrant, the Loan Agreement, the Warrant and the other Loan Documents, as amended hereby, constitute the legal, valid and binding obligations of Borrower enforceable against Borrower in accordance with their terms, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium, general equitable principles or other laws relating to or affecting generally the enforcement of, creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

(d) No Default. Immediately after giving effect to this Amendment (i) no fact or condition exists that would (or would, with the passage of time, the giving of notice, or both) constitute an Event of Default, and (ii) no event that has had or could reasonably be expected to have a Material Adverse Effect has occurred and is continuing.

5. **Reaffirmations.** Except as expressly provided in this Amendment, all of the terms and conditions of the Loan Agreement and the other Loan Documents remain in full force and effect. Nothing contained in this Amendment or the Additional Warrant shall in any way prejudice, impair or effect any rights or remedies of Lender under the Loan Agreement, the Debenture, the Warrant and the other Loan Documents. Except as specifically amended hereby, Borrower hereby ratifies, confirms, and reaffirms all covenants contained in the Loan Agreement, the Warrant and the other Loan Documents. The Loan Agreement, together with this Amendment, shall be read and construed as a single agreement. All references in the Loan Documents to the Loan Agreement or any other Loan Document shall hereafter refer to the Loan Agreement or such other Loan Document as amended hereby.

6. **Execution in Counterparts.** This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but which together shall constitute one instrument.

7. **Miscellaneous.**

(a) THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, EXCLUDING CONFLICT OF LAWS PRINCIPLES THAT WOULD CAUSE THE APPLICATION OF LAWS OF ANY OTHER JURISDICTION.

(b) The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions hereof.

(c) This Amendment expresses the entire understanding of the parties with respect to the transactions contemplated hereby. No prior negotiations or discussions shall limit, modify, or otherwise affect the provisions hereof.

(d) Any determination that any provision of this Amendment or any application hereof is invalid, illegal or unenforceable in any respect and in any instance shall not affect the validity, legality, or enforceability of such provision in any other instance, or the validity, legality or enforceability of any other provisions of this Amendment.

[Signature Page Follows]

IN WITNESS WHEREOF, Borrower, Lender and the Agent have duly executed and delivered this Amendment as of the day and year first above written.

BORROWER:

ALIMERA SCIENCES LIMITED

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

Print Name: Richard S. Eiswirth, Jr.

Title: Director

Accepted in Palo Alto, California:

LENDER:

HERCULES CAPITAL FUNDING TRUST 2014-1, a statutory trust created and existing under the laws of the State of Delaware

By: Hercules Capital, Inc., its Servicer

Signature: /s/ Jennifer Choe

Print Name: Jennifer Choe

Title: Assistant General Counsel

HERCULES CAPITAL, INC.

Signature: /s/ Jennifer Choe

Print Name: Jennifer Choe

Title: Assistant General Counsel

AGENT:

HERCULES CAPITAL, INC.

Signature: /s/ Jennifer Choe

Print Name: Jennifer Choe

Title: Assistant General Counsel

EXHIBIT A

EXHIBIT F

COMPLIANCE CERTIFICATE

Hercules Capital, Inc.
400 Hamilton Avenue, Suite 310
Palo Alto, CA 94301

Reference is made to that certain Loan and Security Agreement dated April 24, 2014 and the Loan Documents (as defined therein) entered into in connection with such Loan and Security Agreement, all as may be amended from time to time (hereinafter referred to collectively as the "Loan Agreement"), by and among Hercules Capital, Inc. (the "Agent"), the several banks and other financial institutions or entities from time to time party thereto (collectively, the "Lender"), and ALIMERA SCIENCES LIMITED, a company registered under the laws of England and Wales under company number 08018355 and having its registered office at Centaur House, Ancells Road, Fleet, Hampshire, United Kingdom, GU51 2UJ (the "Company") as Borrower. All capitalized terms not defined herein shall have the same meaning as defined in the Loan Agreement.

The undersigned is an Officer of the Company, knowledgeable of all financial matters relating to the Consolidated Group, and is authorized to provide certification of information regarding the Company and the Consolidated Group; hereby certifies, in such capacity, that in accordance with the terms and conditions of the Loan Agreement, the Company is in compliance for the period ending _____ of all covenants, conditions and terms and hereby reaffirms that all representations and warranties contained therein are true and correct on and as of the date of this Compliance Certificate with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date, after giving effect in all cases to any standard(s) of materiality contained in the Loan Agreement as to such representations and warranties. Attached are the required documents supporting the above certification. The undersigned further certifies that these are prepared in accordance with GAAP (except for the absence of footnotes with respect to unaudited financial statement and subject to normal year end adjustments) and are consistent from one period to the next except as explained below.

REPORTING REQUIREMENT	REQUIRED	CHECK IF ATTACHED
Interim Financial Statements	Monthly within 30 days	_____
Interim Financial Statements	Quarterly within 30 days	_____
Audited Financial Statements	FYE within 91 days	_____
Aged Listings of A/R and A/P	Monthly within 14 days	_____

The undersigned hereby also confirms the below disclosed accounts represent all depository accounts and securities accounts presently open in the name of each member of the Consolidated Group and/or its Subsidiary/Affiliate, as applicable.

BORROWER/GUARANTOR Name/Address:	Depository AC #	Financial Institution	Account Type (Depository / Securities)	Last Month Ending Account Balance	Purpose of
					Account

	1					
	2					
	3					
	4					
	5					
	6					
	7					

SUBSIDIARY / AFFILIATE COMPANY
Name/Address

	1					
	2					
	3					
	4					
	5					
	6					
	7					

Very Truly Yours,

ALIMERA SCIENCES LIMITED

Signature: _____

Print Name: _____

Title: _____

EXHIBIT B

SCHEDULE 1.1
COMMITMENTS

EXISTING TERM LOANS

LENDER	EXISTING TERM LOAN
HERCULES CAPITAL FUNDING TRUST 2014-1	\$10,000,000
HERCULES CAPITAL, INC.	\$25,000,000
TOTAL COMMITMENTS	\$35,000,000

ADDITIONAL TERM LOANS

LENDER	TRANCHE	TERM COMMITMENT
HERCULES CAPITAL, INC.	THIRD DRAW PERIOD	\$5,000,000
HERCULES CAPITAL, INC.	FOURTH DRAW PERIOD	\$5,000,000
TOTAL COMMITMENTS		\$10,000,000

EXHIBIT C**ACKNOWLEDGMENT OF AMENDMENT
AND REAFFIRMATION OF GUARANTY AND GRANT OF SECURITY**

Section 1. Reference is hereby made to that certain Loan and Security Agreement (as has been and as may be further amended, modified, supplemented, restated and/or amended and restated from time to time, the “**Loan Agreement**”), dated as of April 24, 2014 (the “**Effective Date**”), by and among (a) **ALIMERA SCIENCES LIMITED**, a company registered under the laws of England and Wales under company number 08018355 and having its registered office at Centaur House, Ancells Road, Fleet, Hampshire, United Kingdom, GU51 2UJ (“**Borrower**”), (b) the several banks and other financial institutions or entities from time to time parties to this Loan Agreement (as defined below) (collectively, referred to as “**Lender**”), and (c) **HERCULES CAPITAL, INC.**, a Maryland corporation, in its capacity as administrative agent for itself and Lender (in such capacity, the “**Agent**”). Capitalized terms used herein but not otherwise defined herein shall have the meaning given such terms in the Loan Agreement.

Section 2. Reference is further made to (a) with respect of each undersigned Guarantor, a certain Unconditional Guaranty, dated as of the Effective Date, by such Guarantor in favor of Agent and Lender (as may be amended, modified, supplemented, restated and/or amended and restated from time to time, each a “**Guaranty**” and, collectively, the “**Guarantees**”), (b) that certain Security Agreement, dated as of the Effective Date, by and among Alimera Sciences, Inc., a Delaware corporation (“**Alimera US**”), Lenders, and Agent (as may be amended, modified, supplemented, restated and/or amended and restated from time to time, the “**Alimera US Security Agreement**”), and (c) that certain Deed and Disclosed Pledge of Receivables, dated as of the Effective Date, by and among **ALIMERA SCIENCES B.V.**, a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of The Netherlands, having its corporate seat in Eindhoven, The Netherlands with registered address at Naritaweg 165, 1043 BW Amsterdam, The Netherlands and registered with the Dutch Commercial Register under number 56645775 (“**Alimera B.V.**”), **ALIMERA SCIENCES (DE), LLC**, established and existing under the laws of the State of Delaware, United States of America, having its registered office at Wilmington, New Castle County, Delaware, United States of America, and its principal place of business at c/o Alimera Sciences, Inc., 6120 Windward Parkway, Suite 290, Alpharetta, GA 30005, United States of America, acting in its capacity of general partner of **AS C.V.**, a limited partnership agreement (*commanditaire vennootschap*) incorporated under the laws of The Netherlands, having its seat in Amsterdam, The Netherlands with registered address at with registered address at Naritaweg 165, 1043 BW Amsterdam, The Netherlands and registered with the Dutch Commercial Register under number 57184607 (“**Alimera C.V.**”), Borrower, Alimera US and Agent (the “**Dutch Security Agreement**”).

Section 3. Each undersigned Guarantor hereby acknowledges and confirms that it has reviewed and approved the terms and conditions of that certain Fourth Amendment to Loan and Security Agreement, dated as of even date herewith, by and among Borrower, Agent and Lender.

Section 4. Each undersigned Guarantor hereby consents to the Amendment and agrees that the Guaranty relating to the Secured Obligations of Borrower under the Loan Agreement, the Alimera US Security Agreement and the Dutch Security Agreement shall each continue in full force and effect, shall each be valid and enforceable and shall each not be impaired or otherwise affected by the execution of the Amendment, any prior amendment or any other document or instruction delivered in connection therewith.

Section 5. Each undersigned Guarantor represents and warrants that, after giving effect to the Amendment, all representations and warranties contained in each Guaranty, the Alimera US Security Agreement, and the Dutch Security Agreement are true, accurate and complete as if made the date hereof.

Section 6. Each undersigned Guarantor hereby acknowledges and agrees that such Guarantor does not now have, and has never had, any claims, counterclaims, offsets, or defenses against Agent or Lender directly or indirectly relating to such Guarantor's relationship with, and/or such Guarantor's obligations to, Agent or Lender, and to the extent that such Guarantor has or ever had any such claims, counterclaims, offsets, or defenses, then Guarantor affirmatively WAIVES the same, other than claims, counterclaims, offsets or defenses arising from Agent's or Lender's gross negligence or willful misconduct.

Dated as of October 20, 2016

GUARANTOR:

ALIMERA SCIENCES, INC.

By: _____

Name:

Title:

ALIMERA SCIENCES, B.V.

By: _____

Trust International Management (T.I.M.) B.V.

Name:

As: Managing Director A

ALIMERA SCIENCES, B.V.

By: _____

Richard S. Eiswirth, Jr.

As: Managing Director B

ALIMERA SCIENCES (DE), LLC acting in its capacity of general partner of AS C.V.

By: _____

Name:

Title:

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: November 4, 2016

/s/ C. Daniel Myers

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

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: November 4, 2016

/s/ Richard S. Eiswirth, Jr.

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

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 September 30, 2016 (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: November 4, 2016

/s/ C. Daniel Myers

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

Date: November 4, 2016

/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.

