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

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**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, 2019**

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	ALIM	The Nasdaq Stock Market LLC (Nasdaq Global Market)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of November 4, 2019, there were 74,454,419 shares of the registrant's Common Stock issued and outstanding.

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

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

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

- a slowdown or reduction in our sales in due to a reduction in end user demand, unanticipated competition, regulatory issues, or other unexpected circumstances;
- uncertainty regarding our ability to achieve profitability and positive cash flow through the commercialization of ILUVIEN® in the U.S., the European Economic Area and other regions of the world where we sell ILUVIEN;
- dependence on third-party manufacturers to manufacture ILUVIEN or any future products or product candidates in sufficient quantities and quality;
- uncertainty associated with our need to replace our key third-party manufacturer of certain component parts of the ILUVIEN injector before our manufacturing contract with the manufacturer expires on September 30, 2020;
- uncertainty regarding the pricing and reimbursement guidelines for ILUVIEN or any future products or product candidates, including ILUVIEN in new markets;
- uncertainty associated with our pursuit of reimbursement with local health authorities in countries including Belgium, Finland, France, Norway, Portugal, Spain and Sweden for the recently obtained additional indication for ILUVIEN for prevention of relapse in recurrent non-infectious uveitis affecting the posterior segment of the eye (NIPU);
- uncertainty associated with our ability to meet any post-market requirements for NIPU in the European Economic Area;
- our ability to successfully commercialize ILUVIEN following regulatory approval in additional markets;
- delay in or failure to obtain regulatory approval of ILUVIEN or any future products or product candidates in additional countries;
- the possibility that we may fail to regain compliance with the listing standards of The Nasdaq Global Market, including failure to meet the minimum requirements for the closing bid price and market value of our common stock on The Nasdaq Global Market;
- our ability to operate our business in compliance with the covenants and restrictions in our credit facility;
- current and future laws and regulations;
- uncertainties related to the proposed reverse stock split of our common stock;
- our likely need to raise additional financing; and
- our ability to recruit and retain a productive sales force.

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

We encourage you to read the discussion and analysis of our financial condition and our condensed consolidated financial statements contained in this report. We also encourage you to read Item 1A of Part II of this Quarterly Report on Form 10-Q, entitled “Risk Factors” and Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which contains a more detailed discussion of some of the risks and uncertainties associated with our business. In addition to the risks described above, other unknown or unpredictable factors also could affect our results. There can be no assurance that we

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will in fact achieve the actual results or developments we anticipate or, even if we do substantially realize them, that they will have the expected consequences to, or effects on, us. Therefore, we can give no assurances that we will achieve the outcomes stated in those forward-looking statements and estimates.

**PART I. FINANCIAL INFORMATION**

**ITEM 1. *Financial Statements (unaudited)***

**ALIMERA SCIENCES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2019	December 31, 2018
(In thousands, except share and per share data)		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 7,903	\$ 13,043
Restricted cash	31	32
Accounts receivable, net	16,377	17,259
Prepaid expenses and other current assets	2,155	2,109
Inventory (Note 7)	1,642	2,405
Total current assets	28,108	34,848
<b>NON-CURRENT ASSETS:</b>		
Property and equipment, net	1,060	1,355
Right of use assets, net	1,162	—
Intangible asset, net (Note 8)	15,272	16,723
Deferred tax asset	1,127	1,182
<b>TOTAL ASSETS</b>	<b>\$ 46,729</b>	<b>\$ 54,108</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 6,728	\$ 6,355
Accrued expenses (Note 9)	3,916	3,643
Note payable (Note 11)	3,333	—
Finance lease obligations	258	236
Total current liabilities	14,235	10,234
<b>NON-CURRENT LIABILITIES:</b>		
Note payable (Note 11)	35,166	37,873
Finance lease obligations — less current portion	132	305
Other non-current liabilities	3,672	2,974
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' (DEFICIT) EQUITY:</b>		
Preferred stock, \$.01 par value — 10,000,000 shares authorized at September 30, 2019 and December 31, 2018:		
Series A Convertible Preferred Stock, 1,300,000 authorized and 600,000 issued and outstanding at September 30, 2019 and December 31, 2018; liquidation preference of \$24,000 at September 30, 2019 and December 31, 2018	19,227	19,227
Series C Convertible Preferred Stock, 10,150 authorized issued and outstanding at September 30, 2019 and December 31, 2018; liquidation preference of \$10,150 at September 30, 2019 and December 31, 2018	11,117	11,117
Common stock, \$.01 par value — 150,000,000 shares authorized, 71,015,806 shares issued and outstanding at September 30, 2019 and 70,078,878 shares issued and outstanding at December 31, 2018	710	701
Additional paid-in capital	348,035	346,108
Common stock warrants	3,707	3,707
Accumulated deficit	(388,068)	(377,127)
Accumulated other comprehensive loss	(1,204)	(1,011)
<b>TOTAL STOCKHOLDERS' (DEFICIT) EQUITY</b>	(6,476)	2,722
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$ 46,729</b>	<b>\$ 54,108</b>

See Notes to Condensed Consolidated Financial Statements.

**ALIMERA SCIENCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands, except share and per share data)			
NET REVENUE	\$ 12,850	\$ 11,137	\$ 36,595	\$ 31,484
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,579)	(965)	(4,353)	(2,982)
GROSS PROFIT	11,271	10,172	32,242	28,502
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	2,761	2,799	8,322	8,398
GENERAL AND ADMINISTRATIVE EXPENSES	3,121	3,446	10,189	10,530
SALES AND MARKETING EXPENSES	6,437	5,480	18,458	17,375
DEPRECIATION AND AMORTIZATION	668	642	1,974	1,941
OPERATING EXPENSES	12,987	12,367	38,943	38,244
NET LOSS FROM OPERATIONS	(1,716)	(2,195)	(6,701)	(9,742)
INTEREST EXPENSE AND OTHER	(1,232)	(1,211)	(3,696)	(3,540)
UNREALIZED FOREIGN CURRENCY (LOSS) GAIN, NET	(115)	(16)	(135)	18
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	—	—	(1,766)
NET LOSS BEFORE TAXES	(3,063)	(3,422)	(10,532)	(15,030)
PROVISION FOR TAXES	(77)	(28)	(409)	(104)
NET LOSS	(3,140)	(3,450)	(10,941)	(15,134)
GAIN ON EXTINGUISHMENT OF PREFERRED STOCK	—	38,330	—	38,330
NET (LOSS) INCOME AVAILABLE TO STOCKHOLDERS	\$ (3,140)	\$ 34,880	\$ (10,941)	\$ 23,196
NET (LOSS) INCOME PER COMMON SHARE — Basic	\$ (0.04)	\$ 0.40	\$ (0.15)	\$ 0.26
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING — Basic	71,002,307	70,038,411	70,912,124	69,981,744
NET (LOSS) INCOME PER COMMON SHARE — Diluted	\$ (0.04)	\$ 0.39	\$ (0.15)	\$ 0.26
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING — Diluted	71,002,307	70,549,340	70,912,124	70,503,747

See Notes to Condensed Consolidated Financial Statements.

**ALIMERA SCIENCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>(In thousands)</b>			
NET LOSS	\$ (3,140)	\$ (3,450)	\$ (10,941)	\$ (15,134)
<b>OTHER COMPREHENSIVE LOSS</b>				
Foreign currency translation adjustments	(165)	(27)	(193)	(134)
TOTAL OTHER COMPREHENSIVE LOSS	(165)	(27)	(193)	(134)
COMPREHENSIVE LOSS	<u>\$ (3,305)</u>	<u>\$ (3,477)</u>	<u>\$ (11,134)</u>	<u>\$ (15,268)</u>

See Notes to Condensed Consolidated Financial Statements.

**ALIMERA SCIENCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (10,941)	\$ (15,134)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,974	1,941
Inventory reserve	—	9
Unrealized foreign currency transaction loss (gain)	135	(18)
Loss on early extinguishment of debt	—	1,766
Amortization of debt discount	626	631
Stock-based compensation expense	1,903	3,390
Changes in assets and liabilities:		
Accounts receivable	663	(2,933)
Prepaid expenses and other current assets	(451)	(538)
Inventory	726	(250)
Accounts payable	497	(779)
Accrued expenses and other current liabilities	(89)	(246)
Other long-term liabilities	383	(52)
Net cash used in operating activities	(4,574)	(12,213)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(150)	(174)
Net cash used in investing activities	(150)	(174)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	—	2
Proceeds from issuance of common stock	34	49
Issuance of debt	—	40,000
Payment of principal on notes payable	—	(35,000)
Payment of extinguishment of debt costs	—	(2,544)
Payment of deferred financing costs	—	(1,142)
Payment of preferred stock exchange costs	—	(122)
Payment of finance lease obligations	(234)	(268)
Net cash (used in) provided by financing activities	(200)	975
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(217)	(65)
NET CHANGE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(5,141)	(11,477)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	13,075	24,101
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH — End of period	\$ 7,934	\$ 12,624
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for interest	\$ 3,070	\$ 2,571
Cash paid for income taxes	\$ 10	\$ 229
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Property and equipment acquired under finance leases	\$ 124	\$ 575
Property and equipment acquired under operating leases	\$ 676	\$ —
Note payable end of term payment accrued but unpaid	\$ 1,800	\$ 1,800

See Notes to Condensed Consolidated Financial Statements.

**ALIMERA SCIENCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY**

	Common Stock		Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Additional Paid-In Capital	Common Stock Warrants	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount					
<b>2019</b>													
(In thousands, except share data)													
Balance, December 31, 2018	70,078,878	\$ 701	600,000	\$19,227	—	\$ —	10,150	\$11,117	\$ 346,108	\$ 3,707	\$ (377,127)	\$ (1,011)	\$ 2,722
Issuance of common stock, net of issuance costs	889,752	9	—	—	—	—	—	—	(9)	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	770	—	—	—	770
Net loss	—	—	—	—	—	—	—	—	—	—	(2,763)	—	(2,763)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—	—	(83)	(83)
Balance, March 31, 2019	70,968,630	\$ 710	600,000	\$19,227	—	\$ —	10,150	\$11,117	\$ 346,869	\$ 3,707	\$ (379,890)	\$ (1,094)	\$ 646
Issuance of common stock, net of issuance costs	31,865	—	—	—	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	655	—	—	—	655
Net loss	—	—	—	—	—	—	—	—	—	—	(5,038)	—	(5,038)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—	—	55	55
Balance, June 30, 2019	71,000,495	\$ 710	600,000	\$19,227	—	\$ —	10,150	\$11,117	\$ 347,524	\$ 3,707	\$ (384,928)	\$ (1,039)	\$ (3,682)
Issuance of common stock, net of issuance costs	15,311	—	—	—	—	—	—	—	7	—	—	—	7
Stock-based compensation	—	—	—	—	—	—	—	—	504	—	—	—	504
Net loss	—	—	—	—	—	—	—	—	—	—	(3,140)	—	(3,140)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—	—	(165)	(165)
Balance, September 30, 2019	71,015,806	\$ 710	600,000	\$19,227	—	\$ —	10,150	\$11,117	\$ 348,035	\$ 3,707	\$ (388,068)	\$ (1,204)	\$ (6,476)
<b>2018</b>													
Balance, December 31, 2017	69,146,381	\$ 691	600,000	\$19,227	8,416	\$49,568	—	\$ —	\$ 341,622	\$ 3,707	\$ (399,074)	\$ (821)	\$ 14,920
Issuance of common stock, net of issuance costs	839,285	9	—	—	—	—	—	—	(9)	—	—	—	—
Exercise of stock options	1,563	—	—	—	—	—	—	—	2	—	—	—	2
Stock-based compensation	—	—	—	—	—	—	—	—	1,207	—	—	—	1,207

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Net loss	—	—	—	—	—	—	—	—	—	—	—	(7,684)	—	(7,684)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—	—	—	106	106
Balance, March 31, 2018	<u>69,987,229</u>	<u>\$ 700</u>	<u>600,000</u>	<u>\$19,227</u>	<u>8,416</u>	<u>\$49,568</u>	<u>—</u>	<u>\$ —</u>	<u>\$342,822</u>	<u>\$ 3,707</u>	<u>\$ (406,758)</u>	<u>\$ (715)</u>	<u>\$ 8,551</u>	
Issuance of common stock, net of issuance costs	51,182	—	—	—	—	—	—	—	(9)	—	—	—	—	(9)
Stock-based compensation	—	—	—	—	—	—	—	—	1,209	—	—	—	—	1,209
Net loss	—	—	—	—	—	—	—	—	—	—	—	(4,000)	—	(4,000)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—	—	—	(213)	(213)
Balance, June 30, 2018	<u>70,038,411</u>	<u>\$ 700</u>	<u>600,000</u>	<u>\$19,227</u>	<u>8,416</u>	<u>\$49,568</u>	<u>—</u>	<u>\$ —</u>	<u>\$344,022</u>	<u>\$ 3,707</u>	<u>\$ (410,758)</u>	<u>\$ (928)</u>	<u>\$ 5,538</u>	
Stock-based compensation	—	—	—	—	—	—	—	—	1,031	—	—	—	—	1,031
Preferred stock exchange, net of transaction costs	—	—	—	—	(8,416)	(49,568)	10,150	11,117	—	—	—	38,330	—	(121)
Net loss	—	—	—	—	—	—	—	—	—	—	—	(3,450)	—	(3,450)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—	—	—	(27)	(27)
Balance, September 30, 2018	<u>70,038,411</u>	<u>\$ 700</u>	<u>600,000</u>	<u>\$19,227</u>	<u>—</u>	<u>\$ —</u>	<u>10,150</u>	<u>\$11,117</u>	<u>\$345,053</u>	<u>\$ 3,707</u>	<u>\$ (375,878)</u>	<u>\$ (955)</u>	<u>\$ 2,971</u>	

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS**

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

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

In addition, as explained in the following paragraph, ILUVIEN is now indicated for prevention of relapse in recurrent non-infectious uveitis affecting the posterior segment of the eye (NIPU) in the EEA countries where the Company has satisfied the country's labeling requirements. Uveitis is an inflammatory disease of the uveal tract, which is comprised of the iris, ciliary body and choroid, that can lead to severe vision loss and blindness. As of the date of this filing, the Company has satisfied the labeling requirements in Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Luxembourg, Norway, Poland, Portugal, Spain and Sweden and the United Kingdom and expects to comply with the local labeling requirements of the remaining two EEA countries, but timelines for satisfying individual country requirements vary.

In July 2017, the Company amended its license with EyePoint Pharmaceuticals US, Inc. (EyePoint) formerly known as pSivida US, Inc. for the technology underlying ILUVIEN to include the treatment of uveitis, including NIPU in Europe, the Middle East and Africa (See Note 10). In December 2017, the Company filed an application for a new indication for ILUVIEN for NIPU in the 17 EEA countries where ILUVIEN is currently approved for the treatment of DME. In March 2019, the Company received the Final Variation Assessment Report (FVAR) for ILUVIEN from the Medicines and Healthcare products Regulatory Agency of the United Kingdom (MHRA) based on the Company's submission to the MHRA through the Mutual Recognition Procedure. Under that procedure, the United Kingdom has acted as the Reference Member State and prepared an assessment report to share with the 16 other countries in the EEA in which the Company applied for the NIPU indication. The FVAR states that ILUVIEN is approved for the additional indication for prevention of relapse in NIPU. In June 2019, the United Kingdom's National Institute for Health and Care Excellence (NICE) recommended funding for ILUVIEN for NIPU. In the United Kingdom, a NICE recommendation for funding signifies that the country's National Health Service (NHS) will pay for ILUVIEN prescriptions for the treatment of NIPU as part of its offering. In September 2019, the Company established national pricing in Germany for use of ILUVIEN for the treatment of NIPU with the Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte), the medical regulatory authority in Germany. Timing for receiving reimbursement for ILUVIEN for NIPU, if received at all, in the other EEA countries in which the Company has applied for the additional indication can vary. The reimbursement process in each EEA country usually starts after the Company has satisfied the labeling requirements of that country.

The Company has completed enrollment for a five-year, post-authorization, open label registry study in patients treated with ILUVIEN. In total, 562 patients enrolled in this study, and the Company anticipates the follow up period to be completed in early 2020.

The Company markets ILUVIEN directly in the U.S., Germany, the United Kingdom, Portugal, Austria and Ireland. The Company has entered into various agreements under which distributors provide regulatory, reimbursement and sales and marketing support for commercialization or future commercialization of ILUVIEN in Belgium, France, Italy, Luxembourg, the Netherlands, Spain, Australia, New Zealand, Canada and several countries in the Middle East. In 2016, the Company's Middle East distributor launched ILUVIEN and initiated named-patient sales in the United Arab Emirates. The Company's Italian distributor launched ILUVIEN in Italy in 2017. The Company's Spanish distributor began selling on a named-patient basis in 2017 and is currently pursuing reimbursement at the national level. The Company's French distributor received pricing and reimbursement approval in March 2019 for ILUVIEN for DME and began selling in April 2019. The first application for reimbursement in Canada was not approved by the Canadian Agency for Drugs & Technologies in Health. However, the Company's Canadian distributor is considering resubmission using real world data and opinions from experts in DME that were not included in the initial application. As of September 30, 2019, the Company has recognized sales of ILUVIEN to the Company's international distributors in the Middle East, France, Italy and Spain.

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

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**2. BASIS OF PRESENTATION**

The Company has prepared the accompanying unaudited interim condensed consolidated financial statements and notes thereto (Interim Financial Statements) in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, these Interim Financial Statements 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, 2018 and related notes included in the Company's Annual Report on Form 10-K, which was filed with the SEC on February 25, 2019. 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company's accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Financial Statements included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2018.

*Research and Development Expenses*

Research and development expenses were \$113,000 and \$397,000 for the three months ended September 30, 2019 and 2018, respectively. Research and development expenses were \$421,000 and \$811,000 for the nine months ended September 30, 2019 and 2018, respectively.

*Prior period reclassification*

An immaterial reclassification of prior period amounts related to revenue and cost of goods sold, excluding depreciation and amortization has been made to conform to the current period presentation. This reclassification did not have any impact on gross profit, net loss from operations or net loss.

*Recent Accounting Pronouncements*

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

*Adoption of New Accounting Standards*

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (ASC 842)*, to increase transparency and comparability among organizations for lease recognition and disclosure. ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet, while recognizing expenses on the income statements in a manner similar to the guidance previously in effect. ASU 2016-02 became effective for fiscal years and interim periods for the Company in the first quarter of 2019. ASU 2016-02 requires that leases be recognized and measured as of the earliest period presented, using a modified retrospective approach, with all periods presented being adjusted and presented under the new standard. In July 2018, the FASB issued ASU 2018-11, *Leases (ASC 842): Targeted Improvements*, which provides companies an optional adoption method to ASU 2016-02 whereby a company does not have to adjust comparative period financial statements for the new standard.

The Company adopted this ASU on January 1, 2019 and did not restate comparative periods. The Company elected the transition package of three practical expedients permitted within the standard. In accordance with the package of practical expedients, the Company did not reassess initial direct costs, lease classification, or whether its contracts contain or are leases. The Company also made an accounting policy election not to recognize right of use assets and liabilities for leases with a term of 12 months or less, unless the leases include options to renew or purchase the underlying asset that are reasonably certain to be exercised. See Note 5 for expanded disclosures.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* to allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted in December 2017. Upon adoption of the ASU, entities are required to describe the accounting policy for releasing income tax effects from accumulated other comprehensive income. The Company adopted this standard on January 1, 2019. The adoption of this guidance did not have a material impact on the Company's financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Stock-based Compensation: Improvements to Nonemployee Share-based Payment Accounting* which amends the existing accounting standards for share-based payments to nonemployees. This ASU aligns much of the guidance on measuring and classifying nonemployee awards with that of awards to employees. Under the new guidance, the measurement of nonemployee equity awards is fixed on the grant date. This ASU became effective on January 1, 2019, and the Company adopted it at that time. Entities will apply the ASU by recognizing a cumulative-effect adjustment to retained earnings as of the beginning of the annual period of adoption. The adoption of this guidance did not have an impact on the Company's financial statements.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Accounting Standards Issued but Not Yet Effective*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments*. This ASU replaces the current incurred loss impairment methodology for financial assets measured at amortized cost with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information, including forecasted information, to develop credit loss estimates. The standard is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption available. The Company is in the process of determining the effect that the adoption will have on its financial statements.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. REVENUE RECOGNITION

*Net Revenue*

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

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

As of September 30, 2019, the Company had received a total of \$1,000,000 of milestone payments in connection with the Company's Canadian distributor that it has not recognized as revenue based on the Company's analysis in connection with ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)*. These deferred revenues are included as a component of other non-current liabilities on the Company's balance sheets.

*Estimates of Variable Consideration*

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

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

With respect to the Company's international contracts with third party distributors, certain contracts have elements of variable consideration, and management reviews those contracts on a regular basis and makes estimates of revenue based on historical ordering patterns and known market events and data. The amount of variable consideration included in net sales in each period could vary depending on the terms of these contracts and the probability of reversal in future periods.

*Consideration Payable to Customers*

Distribution service fees are payments issued to distributors for compliance with various contractually-defined inventory management practices or services provided to support patient access to a product. Distribution service fees reserves are based on the terms of each individual contract and are classified within accrued expenses and are recorded as a reduction of revenue.

*Product Returns*

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

The estimation process for product returns involves, in each case, several interrelating assumptions, which vary for each Customer. The Company estimates the amount of its product sales that may be returned by its Customers and records this

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

estimate as a reduction of revenue from product sales in the period the related revenue is recognized, and because this returned product cannot be resold, there is no corresponding asset for product returns. To date, product returns have been minimal.

*Other Revenue*

The Company enters into agreements in which it licenses certain rights to its products to partner companies that act as distributors. The terms of these arrangements may include payment to the Company of one or more of the following: non-refundable, up-front license fees; development, regulatory and commercial milestone payments; payments for manufacturing supply services the Company provides; and a revenue share on net sales of licensed products. Each of these payments is recognized as other revenues.

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

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

*Customer Payment Obligations*

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

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**5. LEASES**

The Company evaluates all of its contracts to determine whether it is or contains a lease at inception. The Company reviews its contracts for options to extend, terminate or purchase any right of use assets and accounts for these, as applicable, at inception of the contract. Upon adoption of ASC 842, the Company elected the transition package of three practical expedients permitted within the standard. In accordance with the package of practical expedients, the Company did not reassess initial direct costs, lease classification, or whether its contracts contain or are leases. The Company made an accounting policy election not to recognize right of use assets and liabilities for leases with a term of 12 months or less, or those that do not meet the Company's capitalization threshold, unless the leases include options to renew or purchase the underlying asset that are reasonably certain to be exercised. Lease costs associated with those leases are recognized as incurred. The Company has also chosen the practical expedient that allows it to combine lease and non-lease components as a single lease component.

Lease renewal options are not recognized as part of the lease liability until the Company determines it is reasonably certain it will exercise any applicable renewal options. The Company has determined it is not reasonably certain it will exercise any applicable renewal options. The Company has not recorded any liability for renewal options in these Interim Financial Statements. The useful lives of leased assets as well as leasehold improvements, if any, are limited by the expected lease term.

*Operating Leases*

The Company's operating lease activities primarily consist of leases for office space in the U.S., the United Kingdom and Germany. Most of these leases include options to renew, with renewal terms generally ranging from one to seven years. The exercise of lease renewal options is at the Company's sole discretion. Certain of the Company's operating lease agreements include variable lease costs that are based on common area maintenance and property taxes. The Company expenses these payments as incurred. The Company's operating lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Supplemental balance sheet information as of September 30, 2019 for the Company's operating leases is as follows:

	(in thousands)
<b>NON-CURRENT ASSETS:</b>	
Right of use assets, net	\$ 1,162
Total lease assets	<u>\$ 1,162</u>
<b>CURRENT LIABILITIES:</b>	
Accrued expenses (Note 9)	\$ 449
<b>NON-CURRENT LIABILITIES:</b>	
Other non-current liabilities	889
Total lease liabilities	<u>\$ 1,338</u>

The Company's operating lease cost for the three and nine months ended September 30, 2019 was \$117,000 and \$359,000, respectively, and is included in general and administrative expenses in its condensed consolidated statement of operations.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of September 30, 2019, a schedule of maturity of lease liabilities under all of the Company’s operating leases is as follows:

<b>Years Ending December 31</b>	<b>(In thousands)</b>	
2019 (remaining)	\$	140
2020		562
2021		449
2022		151
2023		151
Thereafter		151
Total		1,604
Less amount representing interest		(266)
Present value of minimum lease payments		1,338
Less current portion		(449)
Non-current portion	\$	889

Cash paid for operating leases was \$369,000 during the nine months ended September 30, 2019. Right of use assets of \$676,000 were obtained in exchange for operating leases for the nine months ended September 30, 2019.

As of September 30, 2019, the weighted average remaining lease terms of the Company’s operating leases was 3.8 years. The weighted average discount rate used to determine the lease liabilities was 10.2%. When available, the Company uses the rate implicit in the lease or sublease to discount lease payments to present value; however, most of the Company’s leases do not provide a readily determinable implicit rate. Therefore, the Company must estimate its incremental borrowing rate to discount the lease payments based on information available at lease commencement. The incremental borrowing rate is defined as the rate of interest that the Company would have to pay to borrow, on a collateralized basis and over a similar term, an amount equal to the lease payments in a similar economic environment. In using the Company’s incremental borrowing rate, management has elected to utilize a portfolio approach and apply the rates to a portfolio of leases with similar underlying assets and terms. Upon adoption of the new lease standard, discount rates used for existing leases were established at January 1, 2019.

*Finance Leases*

The Company’s finance lease activities primarily consist of leases for office equipment and automobiles. The property and equipment is capitalized at the lesser of fair market value or the present value of the minimum lease payments at the inception of the leases using the Company’s incremental borrowing rate. The Company’s finance lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Supplemental balance sheet information as of September 30, 2019 and December 31, 2018 for the Company’s finance leases is as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>(In thousands)</b>	
<b>NON-CURRENT ASSETS:</b>		
Property and equipment, net	\$ 462	\$ 615
Total lease assets	\$ 462	\$ 615
<b>CURRENT LIABILITIES:</b>		
Finance lease obligations	\$ 258	\$ 236
<b>NON-CURRENT LIABILITIES:</b>		
Finance lease obligations — less current portion	132	305
Total lease liabilities	\$ 390	\$ 541

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Depreciation expense associated with property and equipment under finance leases was approximately \$83,000 and \$59,000 for the three months ended September 30, 2019 and 2018, respectively. Depreciation expense associated with property and equipment under finance leases was approximately \$236,000 and \$161,000 for the nine months ended September 30, 2019 and 2018, respectively. Interest expense associated with finance leases was \$9,000 and \$10,000 for the three months ended September 30, 2019 and 2018, respectively. Interest expense associated with finance leases was \$26,000 and \$25,000 for the nine months ended September 30, 2019 and 2018, respectively.

As of September 30, 2019, a schedule of maturity of lease liabilities under finance leases, together with the present value of minimum lease payments, is as follows:

<b>Years Ending December 31</b>		<b>(In thousands)</b>
2019 (remaining)	\$	72
2020		262
2021		78
2022		2
Total		414
Less amount representing interest		(24)
Present value of minimum lease payments		390
Less current portion		(258)
Non-current portion	\$	132

Cash paid for finance leases was \$283,000 during the nine months ended September 30, 2019. The Company acquired \$124,000 of property and equipment in exchange for finance leases during the nine months ended September 30, 2019.

As of September 30, 2019, the weighted average remaining lease terms of the Company's financing leases was 1.4 years. The weighted average discount rate used to determine the financing lease liabilities was 7.4%. When available, the Company uses the rate implicit in the lease or sublease to discount lease payments to present value; however, most of the Company's leases do not provide a readily determinable implicit rate. Therefore, the Company must estimate its incremental borrowing rate to discount the lease payments based on information available at lease commencement. The incremental borrowing rate is defined as the rate of interest that the Company would have to pay to borrow, on a collateralized basis and over a similar term, an amount equal to the lease payments in a similar economic environment. In using the Company's incremental borrowing rate, management has elected to utilize a portfolio approach and applies the rates to a portfolio of leases with similar underlying assets and terms.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**6. GOING CONCERN**

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

To date, the Company has incurred recurring losses and negative cash flow from operations and has accumulated a deficit of \$388,068,000 from inception through September 30, 2019. As of September 30, 2019, the Company had approximately \$7,903,000 in cash and cash equivalents. The Company's ability to achieve profitability and positive cash flow depends upon its ability to increase revenue and contain its expenses.

Further, the Company must maintain compliance with the debt covenants of its \$40,000,000 Loan and Security Agreement dated January 5, 2018 with Solar Capital Ltd. as Collateral Agent, and the parties signing such agreement from time to time as Lenders, including Solar Capital in its capacity as a Lender (see Note 11). In management's opinion, the uncertainty regarding future revenues raises substantial doubt about the Company's ability to continue as a going concern, and the Company is likely to need additional debt and/or equity financing over the course of the next twelve months.

To meet the Company's future working capital needs, the Company may need to raise additional debt or equity financing. While the Company has historically been able to raise additional capital through issuance of equity and/or debt financing, and while the Company has implemented a plan to control its expenses to satisfy its obligations due within one year from the date of issuance of these Interim Financial Statements, the Company cannot guarantee that it will be able to maintain debt compliance, raise additional equity, contain expenses, or increase revenue. Accordingly, there is substantial doubt about the Company's ability to continue as a going concern within one year after these Interim Financial Statements are issued.

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## 7. INVENTORY

Inventory consisted of the following:

	September 30, 2019	December 31, 2018
	(In thousands)	
Component parts (1)	\$ 482	\$ 129
Work-in-process (2)	510	924
Finished goods	650	1,352
Total Inventory	<u>\$ 1,642</u>	<u>\$ 2,405</u>

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

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

## 8. INTANGIBLE ASSET

As a result of the approval of ILUVIEN by the U.S. Food and Drug Administration (FDA) in 2014, the Company was required to pay EyePoint a milestone payment of \$25,000,000 (the EyePoint Milestone Payment) (see Note 10).

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 approximately \$489,000 for both the three months ended September 30, 2019 and 2018, respectively. The amortization expense related to the intangible asset was approximately \$1,451,000 for both the nine months ended September 30, 2019 and 2018, respectively. The net book value of the intangible asset was \$15,272,000 and \$16,723,000 as of September 30, 2019 and December 31, 2018, respectively.

The estimated future amortization expense as of September 30, 2019 for the remaining periods in the next five years and thereafter is as follows:

<u>Years Ending December 31</u>	<u>(In thousands)</u>
2019 (remaining)	\$ 489
2020	1,946
2021	1,940
2022	1,940
2023	1,940
Thereafter	7,017
Total	<u>\$ 15,272</u>

Property and equipment and definite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, the Company evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved.

In the third quarter of 2019, as a result of a decrease in the Company's market capitalization, the Company performed an asset impairment analysis by comparing future undiscounted cash flows of the identified asset group to the carrying value of that asset group. The Company concluded no impairment was necessary for the three and nine months ended September 30, 2019.

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**9. ACCRUED EXPENSES**

Accrued expenses consisted of the following:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
	(In thousands)	
Accrued clinical investigator expenses	\$ 886	\$ 781
Accrued compensation expenses	1,829	1,427
Accrued rebate, chargeback and other revenue reserves	583	346
Accrued lease liabilities (Note 5)	449	—
Other accrued expenses	169	1,089
Total accrued expenses	<u>\$ 3,916</u>	<u>\$ 3,643</u>

**10. LICENSE AGREEMENTS***EyePoint Agreement*

In February 2005, the Company entered into an agreement with EyePoint (formerly known as pSivida US, Inc.) for the use of fluocinolone acetonide (FAc) in EyePoint's proprietary insert technology. This agreement was subsequently amended a number of times (as amended, the EyePoint Agreement). The EyePoint Agreement provides the Company with a worldwide exclusive license to utilize certain underlying technology used in the development and commercialization of ILUVIEN.

Second Amended and Restated Collaboration Agreement

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

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

The New Collaboration Agreement converted the Company's previous profit share obligation to a royalty payable on global net revenues of ILUVIEN. The Company began paying a 2% royalty on net revenues and other related consideration to EyePoint on July 1, 2017. This royalty amount increased to 6% effective December 12, 2018. Pursuant to the New Collaboration Agreement, the Company is required to pay an additional 2% royalty on global net revenues and other related consideration in excess of \$75,000,000 in any year. During the three and nine months ended September 30, 2019, the Company recognized approximately \$514,000 and \$1,464,000 of royalty expense, respectively, which is included in cost of goods sold, excluding depreciation and amortization. As of September 30, 2019, approximately \$497,000 of this royalty expense was included in the Company's accounts payable. During the three and nine months ended September 30, 2018, the Company recognized approximately \$221,000 and \$632,000 of royalty expense, respectively, which is included in cost of goods sold, excluding depreciation and amortization.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with a previous agreement with EyePoint, the Company was entitled to recover commercialization costs that were incurred prior to profitability of ILUVIEN and offset a portion of future payments owed to EyePoint in connection with sales of ILUVIEN with those accumulated commercialization costs. (The Company's future rights to recover these amounts from EyePoint are referred to as the Future Offset.) Following the signing of the New Collaboration Agreement, the Company retained a right to recover up to \$15,000,000 of the Future Offset. Due to the uncertainty of future net profits, the Company has fully reserved the Future Offset in the accompanying Interim Financial Statements. In March 2019, pursuant to the New Collaboration Agreement, the Company forgave \$5,000,000 of the Future Offset in connection with the approval of ILUVIEN for NIPU in the United Kingdom. As of September 30, 2019, the balance of the Future Offset was approximately \$9,346,000. The Company will be able to recover the balance of the Future Offset as a reduction of future royalties that would otherwise be owed to EyePoint as follows:

- From December 12, 2018 through December 12, 2020, the royalty has been and will continue to be reduced from 6% to 4% for net revenues and other related consideration up to \$75,000,000 annually and from 8% to 5% for net revenues and other related consideration in excess of \$75,000,000 on an annual basis; and
- Beginning December 13, 2020, the royalty will be reduced from 6% to 5.2% for net revenues and other related consideration up to \$75,000,000 annually and from 8% to 6.8% for net revenues and other related consideration in excess of \$75,000,000 on an annual basis.

Possible Reversion of the Company's License Rights to EyePoint

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

- fail twice to cure its breach of an obligation to make certain payments to EyePoint following receipt of written notice thereof;
- fail to cure other breaches of material terms of the New Collaboration 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;
- 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
- notify EyePoint in writing of its decision to abandon its license with respect to a certain product using EyePoint's proprietary delivery device.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

11. LOAN AGREEMENTS

*Hercules Loan Agreement*

In April 2014, Alimera Sciences Limited (Alimera UK), a subsidiary of the Company, entered into a loan and security agreement (Hercules Loan Agreement) with Hercules Capital, Inc. (Hercules) providing for a term loan of up to \$35,000,000 (Hercules Loan). The Company amended the Hercules Loan Agreement several times. On January 5, 2018, the Company paid off the Hercules Loan on behalf of Alimera UK.

Under the Hercules Loan Agreement, when the Company prepaid the Hercules Loan Agreement on January 5, 2018, (a) the Company paid a prepayment penalty of 2.0% of the principal amount prepaid, or \$709,000, which is included in loss on early extinguishment of debt for the nine months ended September 30, 2018; and (b) Alimera UK paid an end of term payment of \$1,400,000.

*Extinguishment of Debt*

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

2014 Warrant

In connection with Alimera UK entering into the Hercules Loan Agreement, the Company issued a warrant that granted Hercules the right to purchase up to 285,016 shares of the Company's common stock at an exercise price of \$6.14 per share (the 2014 Warrant). The Company amended the 2014 Warrant a number of times to increase the number of shares issuable upon exercise to 1,258,993 and decrease the exercise price to \$1.39 per share. The right to exercise this warrant expires on November 2, 2020.

2016 Warrant

In connection with Alimera UK entering into an amendment to the Hercules Loan Agreement on October 20, 2016, the Company agreed to issue a new warrant to Hercules (the 2016 Warrant) that granted Hercules the right to purchase up to 458,716 shares of the Company's common stock at an exercise price of \$1.09 per share. The right to exercise this warrant expires on October 20, 2021.

*Solar Capital Loan Agreement*

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

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

Interest on the 2018 Loan Agreement is payable at one-month LIBOR plus 7.65% per annum. The 2018 Loan Agreement provides for interest only payments for the first 30 months ending on July 1, 2020, followed by 24 months of payments of principal and interest. If the Company meets certain revenue thresholds and no event of default shall have occurred and is continuing, the Company can extend the interest only period an additional six months to end on January 1, 2021, followed by 18 months of payments of principal and interest. As of September 30, 2019, the interest rate on the 2018 Loan Agreement was approximately 10.1%.

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

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- a. 1.00% of the principal amount prepaid for a prepayment made after January 5, 2019 through and including January 5, 2020; and
- b. 0.50% of the principal amount prepaid for a prepayment made after January 5, 2020 and greater than 30 days before the maturity date.

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

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

- a. first, if the Company achieves revenues of \$80,000,000 or more from the sale of its ILUVIEN product in the ordinary course of business to third party customers, measured on a trailing 12-month basis during the term of the agreement, tested at the end of each month; and
- b. second, if the Company achieves revenues of \$100,000,000 or more from the sale of its ILUVIEN product in the ordinary course of business to third party customers, measured in the same manner.

The Company agreed, for itself and its subsidiaries, to customary affirmative and negative covenants and events of default in connection with the 2018 Loan Agreement. The occurrence of an event of default could result in the acceleration of the Company’s obligations under the 2018 Loan Agreement and an increase to the applicable interest rate, and would permit Solar Capital to exercise remedies with respect to the collateral under the 2018 Loan Agreement.

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

*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, 2019 and December 31, 2018.

**ALIMERA SCIENCES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**
**12. EARNINGS (LOSS) PER SHARE (EPS)**

The Company follows ASC 260, *Earnings Per Share* (ASC 260), which requires the reporting of both basic and diluted earnings per share. Because the Company's preferred stockholders participate in dividends equally with common stockholders (if the Company were to declare and pay dividends), the Company uses the two-class method to calculate EPS. However, the Company's preferred stockholders are not contractually obligated to share in losses.

Basic EPS is computed by dividing net income (loss) available to stockholders by the weighted average number shares outstanding for the period. Diluted EPS is calculated in accordance with ASC 260 by adjusting weighted average shares outstanding for the dilutive effect of common stock options, restricted stock units and warrants. In periods where a net loss is recorded, no effect is given to potentially dilutive securities, since the effect would be anti-dilutive.

The Company had net income available to stockholders for the three and nine months ended September 30, 2018 primarily due to the gain on extinguishment of preferred stock (Note 13).

Basic and diluted earnings per share attributable to common and participating shares of common stock for the period were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands, except share and per share data)			
Net (loss) income available to stockholders	\$ (3,140)	\$ 34,880	\$ (10,941)	\$ 23,196
Allocation of undistributed (losses) earnings:				
(Losses) earnings attributable to common stock	\$ (3,140)	\$ 27,769	\$ (10,941)	\$ 18,534
Earnings attributable to participating securities	\$ —	\$ 7,111	\$ —	\$ 4,662
Basic shares:				
Weighted average common shares	71,002,307	70,038,411	70,912,124	69,981,744
Weighted average participating shares	—	17,934,164	—	17,604,533
Total basic weighted average shares	<u>71,002,307</u>	<u>87,972,575</u>	<u>70,912,124</u>	<u>87,586,277</u>
Diluted shares:				
Weighted average common shares	71,002,307	70,038,411	70,912,124	69,981,744
Dilutive weighted average shares	—	510,929	—	522,003
Total dilutive weighted common shares	<u>71,002,307</u>	<u>70,549,340</u>	<u>70,912,124</u>	<u>70,503,747</u>
Weighted average participating shares	—	17,934,164	—	17,604,533
Total dilutive weighted average shares	<u>71,002,307</u>	<u>88,483,504</u>	<u>70,912,124</u>	<u>88,108,280</u>
Basic EPS	<u>\$ (0.04)</u>	<u>\$ 0.40</u>	<u>\$ (0.15)</u>	<u>\$ 0.26</u>
Diluted EPS	<u>\$ (0.04)</u>	<u>\$ 0.39</u>	<u>\$ (0.15)</u>	<u>\$ 0.26</u>

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Common stock equivalent securities that would potentially dilute basic EPS in the future, but were not included in the computation of diluted EPS because they were either classified as participating and do not share in losses or would have been anti-dilutive, were as follows:

	Three and Nine Months Ended September 30,	
	2019	2018
Series A convertible preferred stock	9,022,556	—
Series C convertible preferred stock	10,150,000	—
Common stock warrants	1,795,663	1,795,663
Stock options	13,201,631	12,253,983
Restricted stock units	551,400	—
Total	34,721,250	14,049,646

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**13. 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 (Series A Preferred Stock) and warrants to purchase 300,000 shares of Series A 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 Preferred Stock are set forth in the certificate of designation for the Series A Preferred Stock filed by the Company with the Delaware Secretary of State as part of the Company's certificate of incorporation. Each share of Series A Preferred Stock 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 Preferred Stock shall automatically be converted into shares of common stock at the then-effective Conversion Price upon 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 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 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 additional shares of Series A Preferred Stock. The rights to exercise these warrants expired on October 1, 2017.

In 2014, the Company issued 6,015,037 shares of common stock pursuant to the conversion of 400,000 shares of Series A Preferred Stock. As of September 30, 2019, there were 600,000 shares of Series A 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 (Series B 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 Preferred Stock as a subscription premium to the purchasers. On September 4, 2018, all of the outstanding shares of Series B Preferred Stock were exchanged for shares of Series C Convertible Preferred Stock (see below).

On September 4, 2018, following the closing of the exchange of all outstanding shares of Series B Preferred Stock for shares of Series C Convertible Preferred Stock, the Company filed with the Delaware Secretary of State a Certificate of Elimination of Series B Convertible Preferred Stock of Alimera Sciences, Inc., which eliminated from the Company's amended and restated certificate of incorporation, as amended, the Alimera Sciences, Inc. Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock. As a result, all shares of the Company's preferred stock previously designated as Series B Convertible Preferred Stock were eliminated and returned to the status of authorized but unissued shares of preferred stock, without designation as to series.

*Series C Convertible Preferred Stock*

On September 4, 2018, the Company entered into and closed a Series B Preferred Stock Exchange Agreement (Exchange Agreement) with the holders of all of the outstanding approximately 8,416 shares of Series B Preferred Stock. Under the Exchange Agreement, the holders of Series B Preferred Stock exchanged their shares of Series B Preferred Stock for an aggregate of 10,150 shares of Series C Convertible Preferred Stock, par value \$0.01 per share (Series C Preferred Stock). The powers, preferences and rights of the Series C Preferred Stock are set forth in the certificate of designation filed by the Company with the Delaware Secretary of State as part of the Company's certificate of incorporation, as amended. All of the outstanding shares of Series B Preferred Stock were canceled in the exchange. The Company incurred approximately \$122,000 in legal costs related to the Exchange Agreement.

The 10,150 issued and outstanding shares of Series C Preferred Stock have an aggregate stated value of \$10,150,000 and are convertible into shares of the Company's common stock at \$1.00 per share, or 10,150,000 shares of the Company's common stock in total, at any time at the option of the holder, provided that the holder will be prohibited from converting shares of Series C 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 C Preferred Stock is not redeemable at the option of the holder. In the event of a liquidation, dissolution or winding up of the Company and in the event of certain mergers, tender offers and asset sales, the holders of the Series C

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Preferred Stock will receive the greater of (a) the liquidation preference equal to \$10,150,000 in the aggregate, plus any declared but unpaid dividends, or (b) the amount such holders would receive had all shares of the Series C Preferred Stock been converted into the Company's common stock immediately before such event. With respect to rights upon liquidation, the Series C Preferred Stock ranks junior to the Company's Series A Preferred Stock and senior to the Company's common stock. The Series C 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 C Preferred Stock does not have voting rights. The Series C Preferred Stock is not subject to any price-based anti-dilution protections and does not provide for any accruing dividends.

The Company determined that the Exchange Agreement resulted in an extinguishment of the Series B Preferred Stock. As a result, the Company recognized a gain of \$38,330,000 on the extinguishment of preferred stock during the third quarter of 2018. As of the transaction date, the Company made an assessment of the fair market value of the Series C Preferred Stock and calculated the value to be \$11,239,000, prior to the payment of approximately \$122,000 of related transaction costs. The Company recorded this gain within stockholders' equity and as an increase to earnings available to stockholders during the third quarter of 2018. The \$38,330,000 gain on extinguishment of preferred stock was derived by the difference in the fair market value of the Series C Preferred Stock and the carrying value of the Series B Preferred Stock.

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. STOCK INCENTIVE PLANS

*Stock Option Plans*

During the three months ended September 30, 2019 and 2018, the Company recorded compensation expense related to stock options of approximately \$408,000 and \$829,000, respectively. During the nine months ended September 30, 2019 and 2018, the Company recorded compensation expense related to stock options of approximately \$1,470,000 and \$2,583,000, respectively. As of September 30, 2019, the total unrecognized compensation cost related to non-vested stock options granted was \$2,321,000 and is expected to be recognized over a weighted average period of 2.33 years. The following table presents a summary of stock option activity for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,			
	2019		2018	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	13,682,709	\$ 2.40	12,507,150	\$ 2.70
Grants	81,150	0.84	30,000	1.05
Forfeitures	(562,228)	3.17	(283,167)	2.29
Exercises	—	—	—	—
Options outstanding at period end	13,201,631	2.36	12,253,983	2.71
Options exercisable at period end	9,731,119	2.82	8,955,385	3.14
Weighted average per share fair value of options granted during the period	\$ 0.50		\$ 0.67	

The following table presents a summary of stock option activity for the nine months ended September 30, 2019 and 2018:

	Nine months ended September 30,			
	2019		2018	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	12,447,355	\$ 2.63	11,595,510	\$ 2.90
Grants	1,903,900	0.90	1,583,625	1.10
Forfeitures	(1,149,624)	2.83	(923,589)	2.37
Exercises	—	—	(1,563)	1.06
Options outstanding at period end	13,201,631	2.36	12,253,983	2.71
Options exercisable at period end	9,731,119	2.82	8,955,385	3.14
Weighted average per share fair value of options granted during the period	\$ 0.56		\$ 0.73	

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options that were expected to vest as of September 30, 2019:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	13,201,631	\$ 2.36	6.07 years	\$ —
Exercisable	9,731,119	2.82	5.12 years	—
Outstanding, vested and expected to vest	12,795,052	2.40	5.97 years	—

The following table provides additional information related to outstanding stock options, exercisable stock options and stock options that were expected to vest as of December 31, 2018:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
				(In thousands)
Outstanding	12,447,355	\$ 2.63	6.25 years	\$ —
Exercisable	9,138,544	3.09	5.37 years	—
Outstanding, vested and expected to vest	12,044,311	2.67	6.16 years	—

As of September 30, 2019, the Company was authorized to grant stock options and restricted stock units (RSUs) to acquire up to an additional 7,070,539 shares under the 2019 Omnibus Incentive Plan.

*Employee Stock Purchase Plan*

During the three months ended September 30, 2019 and 2018, the Company recorded compensation expense related to its employee stock purchase plan of approximately \$6,000 and \$7,000, respectively. During the nine months ended September 30, 2019 and 2018, the Company recorded compensation expense related to its employee stock purchase plan of approximately \$17,000 and \$24,000, respectively.

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Restricted Stock Units*

A summary of RSU transactions under the plans are as follows:

	Three Months Ended September 30,			
	2019		2018	
	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value
Restricted stock units outstanding at beginning of period	551,400	\$ 0.88	1,014,730	\$ 1.15
Grants	—	—	9,810	1.03
Vested units	—	—	—	—
Forfeitures	—	—	(102,790)	1.16
Restricted stock units outstanding at period end	<u>551,400</u>	<u>0.88</u>	<u>921,750</u>	<u>1.15</u>

  

	Nine months ended September 30,			
	2019		2018	
	RSUs	Weighted Average Grant Date Fair Value	RSUs	Weighted Average Grant Date Fair Value
Restricted stock units outstanding at beginning of period	900,252	\$ 1.15	839,285	\$ 1.21
Grants	551,400	0.88	1,090,640	1.15
Vested units	(889,752)	1.15	(839,285)	1.21
Forfeitures	(10,500)	1.16	(168,890)	1.16
Restricted stock units outstanding at period end	<u>551,400</u>	<u>0.88</u>	<u>921,750</u>	<u>1.15</u>

As of September 30, 2019, there was approximately \$223,000 of total unrecognized compensation cost related to outstanding RSUs that will be recognized through the first quarter of 2020. Employee stock-based compensation expense related to RSUs recognized in accordance with ASC 718, *Compensation - Stock Compensation* (ASC 718) was \$90,000 and \$196,000 for the three months ended September 30, 2019 and 2018, respectively. Employee stock-based compensation expense related to RSUs recognized in accordance with ASC 718 was \$416,000 and \$783,000 for the nine months ended September 30, 2019 and 2018, respectively.

## ALIMERA SCIENCES, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**15. INCOME TAXES**

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

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

The Company's income tax expense and resulting effective tax rate are based upon the respective estimated annual effective tax rates applicable for the respective periods adjusted for the effects of items required to be treated as discrete to the period, including changes in tax laws, changes in estimated exposures for uncertain tax positions and other items. The Company's effective tax rate for the three and nine months ended September 30, 2019 properly excluded tax benefits associated with year-to-date pre-tax losses generated in the U.S. and the Netherlands. Income tax positions are considered for uncertainty in accordance with ASC 740-10. The Company has recorded an immaterial amount of unrecognized tax benefits. In accordance with ASC 740-10, such attributes are reduced to the amount that is expected to be recognized in the future. The Company has not accrued interest or penalties as no research and development credits have been utilized due to significant net operating losses (NOLs) available. The Company does not expect any decreases to the unrecognized tax benefits within the next twelve months due to any lapses in statute of limitations. Tax years remain subject to examination at the U.S. federal level between 2010 and 2018, and subject to examinations at various state levels between 2005 and 2018. The statute of limitations on these years will close when the NOLs expire or when the statute closes on the years in which the NOLs are utilized. Tax years since 2012 remain subject to examination in the United Kingdom and the Netherlands. Tax years since 2013 remain subject to examination in Germany.

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

At December 31, 2018, the Company had federal NOL carry-forwards of approximately \$122,455,000 and state NOL carry-forwards of approximately \$153,333,000 available to reduce future taxable income. The Company's federal NOL carry-forwards remain fully reserved as of September 30, 2019. If not utilized, the federal NOL carry-forwards will expire at various dates between 2029 and 2037 and the state NOL carry-forwards will expire at various dates between 2020 and 2037.

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

**ALIMERA SCIENCES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

deferred tax asset due to the annual Section 382 limitation and the NOL carryforward period would result in an offsetting reduction in valuation allowance recorded against the NOL deferred tax asset.

As of December 31, 2018, the Company had cumulative book losses in foreign subsidiaries of \$126,648,000. 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.

**ALIMERA SCIENCES, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**
**16. SEGMENT INFORMATION**

During the three months ended September 30, 2019 and 2018, two customers within the U.S. segment that are large pharmaceutical distributors accounted for 68% and 74%, respectively, of the Company's consolidated revenues. During the nine months ended September 30, 2019 and 2018, these same two customers accounted for 62% and 76%, respectively, of the Company's consolidated revenues. These same two customers within the U.S. segment accounted for approximately 72% and 73% of the Company's consolidated accounts receivable at September 30, 2019 and at December 31, 2018, respectively.

The Company's chief operating decision maker is the Chief Executive Officer (CEO). While the CEO is apprised of a variety of financial metrics and information, the business is principally managed and organized based upon geographic and regulatory environment. Each segment is separately managed and is evaluated primarily upon segment loss from operations. Non-cash items including stock-based compensation expense and depreciation and amortization are categorized as Other within the table below. The Company does not report balance sheet information by segment because the Company's chief operating decision maker does not review that information.

The following table presents a summary of the Company's reporting segments for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30, 2019				Three Months Ended September 30, 2018			
	U.S.	International	Other	Consolidated	U.S.	International	Other	Consolidated
	(In thousands)							
NET REVENUE	\$ 8,692	\$ 4,158	\$ —	\$ 12,850	\$ 8,492	\$ 2,645	\$ —	\$ 11,137
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,001)	(578)	—	(1,579)	(715)	(250)	—	(965)
GROSS PROFIT	7,691	3,580	—	11,271	7,777	2,395	—	10,172
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,573	1,100	88	2,761	1,684	904	211	2,799
GENERAL AND ADMINISTRATIVE EXPENSES	2,032	768	321	3,121	2,050	786	610	3,446
SALES AND MARKETING EXPENSES	4,502	1,840	95	6,437	3,913	1,356	211	5,480
DEPRECIATION AND AMORTIZATION	—	—	668	668	—	—	642	642
OPERATING EXPENSES	8,107	3,708	1,172	12,987	7,647	3,046	1,674	12,367
SEGMENT (LOSS) INCOME FROM OPERATIONS	(416)	(128)	(1,172)	(1,716)	130	(651)	(1,674)	(2,195)
OTHER INCOME AND EXPENSES, NET	—	—	(1,347)	(1,347)	—	—	(1,227)	(1,227)
NET LOSS BEFORE TAXES				<u>\$ (3,063)</u>				<u>\$ (3,422)</u>

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

The following table presents a summary of the Company's reporting segments for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30, 2019				Nine Months Ended September 30, 2018			
	U.S.	International	Other	Consolidated	U.S.	International	Other	Consolidated
	(In thousands)							
NET REVENUE	\$ 22,778	\$ 13,817	\$ —	\$ 36,595	\$ 23,096	\$ 8,388	\$ —	\$ 31,484
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(2,494)	(1,859)	—	(4,353)	(2,084)	(898)	—	(2,982)
GROSS PROFIT	20,284	11,958	—	32,242	21,012	7,490	—	28,502
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	4,629	3,361	332	8,322	4,926	2,808	664	8,398
GENERAL AND ADMINISTRATIVE EXPENSES	6,116	2,876	1,197	10,189	6,209	2,416	1,905	10,530
SALES AND MARKETING EXPENSES	12,760	5,324	374	18,458	12,427	4,127	821	17,375
DEPRECIATION AND AMORTIZATION	—	—	1,974	1,974	—	—	1,941	1,941
OPERATING EXPENSES	23,505	11,561	3,877	38,943	23,562	9,351	5,331	38,244
SEGMENT (LOSS) INCOME FROM OPERATIONS	(3,221)	397	(3,877)	(6,701)	(2,550)	(1,861)	(5,331)	(9,742)
OTHER INCOME AND EXPENSES, NET	—	—	(3,831)	(3,831)	—	—	(5,288)	(5,288)
NET LOSS BEFORE TAXES				\$ (10,532)				\$ (15,030)

ALIMERA SCIENCES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**17. SUBSEQUENT EVENTS**

On October 24, 2019, the Company entered into a purchase agreement (the “Purchase Agreement”) with Lincoln Park Capital Fund, LLC (“Lincoln Park”). The Purchase Agreement provides that, upon its terms and subject to its conditions and limitations, the Company may direct Lincoln Park to purchase up to \$20,000,000 of shares of its common stock, from time to time over the 36-month term of the Purchase Agreement. On October 28, 2019, Lincoln Park made its initial purchase of 2,000,000 shares at a price of \$0.50 per share, for an aggregate price of \$1,000,000.

On November 4, 2019, the Company held a special meeting of stockholders at which the stockholders authorized the Company’s board of directors (Board), in its sole and absolute discretion, and without further action of the stockholders, to file an amendment to the Company’s restated certificate of incorporation, to effect a reverse stock split of the Company’s issued and outstanding Common Stock at a ratio to be determined by the Board, ranging from one-for-five to one-for-30 to be effected at such time and date, if at all, as determined by the Board in its sole discretion, but no later than May 4, 2020.

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

### Overview

*The following discussion and analysis should be read in conjunction with our unaudited interim condensed consolidated financial statements and the related notes that appear elsewhere in this quarterly report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the sections entitled "Risk Factors" in our most recent annual report on Form 10-K and in Part II, Item 1A of this report below. For further information regarding forward-looking statements, please refer to the "Special Note Regarding Forward-Looking Statements and Projections" immediately after the index to this report above.*

Alimera Sciences, Inc., and its subsidiaries (we, our, Alimera or the Company), is a pharmaceutical company that specializes in the commercialization and development of prescription ophthalmic pharmaceuticals. We presently focus on diseases affecting the back of the eye, or retina, because these diseases are not well treated with current therapies and affect millions of people in our aging populations.

Our only product is ILUVIEN<sup>®</sup>, which has received marketing authorization in the U.S., Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Kuwait, Lebanon, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, the United Arab Emirates and the United Kingdom. In the U.S., Australia, Canada, Kuwait, Lebanon and the United Arab Emirates, ILUVIEN is indicated for the treatment of diabetic macular edema (DME) in patients who have been previously treated with a course of corticosteroids and did not have a clinically significant rise in intraocular pressure (IOP). In the European Economic Area (EEA) countries in which ILUVIEN has received marketing authorization, it is indicated for the treatment of vision impairment associated with DME considered insufficiently responsive to available therapies.

In addition, as explained in the following paragraph, ILUVIEN is now indicated for prevention of relapse in recurrent non-infectious uveitis affecting the posterior segment of the eye (NIPU) in the EEA countries where we have satisfied the country's labeling requirements. Uveitis is an inflammatory disease of the uveal tract, which is comprised of the iris, ciliary body and choroid, that can lead to severe vision loss and blindness. As of the date of this filing, we have satisfied the labeling requirements in Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Luxembourg, Norway, Poland, Portugal, Spain and Sweden and the United Kingdom and expect to comply with the local labeling requirements of the remaining two EEA countries, but timelines for satisfying individual country requirements vary.

In July 2017, we amended and restated our license agreement with EyePoint Pharmaceuticals US, Inc. (EyePoint), formerly known as pSivida US, Inc., which was made effective July 1, 2017 (the New Collaboration Agreement). Under the New Collaboration Agreement, we have rights to the technology underlying ILUVIEN for the treatment of uveitis, including NIPU, in Europe, the Middle East and Africa. In December 2017, we filed an application for a new indication for ILUVIEN for the treatment of NIPU in the 17 EEA countries where ILUVIEN is currently approved for the treatment of DME. In March 2019, we received the Final Variation Assessment Report (FVAR) for ILUVIEN from the Medicines and Healthcare products Regulatory Agency of the United Kingdom (MHRA) based on our submission to the MHRA through the Mutual Recognition Procedure. Under that procedure, the United Kingdom has acted as the Reference Member State and prepared an assessment report to share with the 16 other countries in the EEA in which we applied for the NIPU indication. The FVAR states that ILUVIEN is approved for the additional indication for prevention of relapse in NIPU. In June 2019, the United Kingdom's National Institute for Health and Care Excellence (NICE) recommended funding for ILUVIEN for NIPU. In the United Kingdom, a NICE recommendation for funding signifies that the country's National Health Service (NHS) will pay for ILUVIEN prescriptions for the treatment of NIPU as part of its offering. In September 2019, we established national pricing in Germany for use of ILUVIEN for the treatment of NIPU with the Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte), the medical regulatory authority in Germany. Timing for receiving reimbursement for ILUVIEN for NIPU, if received at all, in the other EEA countries in which we have applied for the additional indication can vary. The reimbursement process in each EEA country usually starts after we have satisfied the labeling requirements of that country.

The New Collaboration Agreement converted our previous profit share obligation to a royalty payable on global net revenues of ILUVIEN. We began paying a 2% royalty on net revenues and other related consideration to EyePoint effective July 1, 2017. The royalty amount increased to 6% as of December 12, 2018. We will pay an additional 2% royalty on global net revenues and other related consideration in excess of \$75.0 million in any year. During the three and nine months ended September 30, 2019, we recognized approximately \$514,000 and \$1,464,000 of royalty expense, respectively, which is included in cost of goods sold, excluding depreciation and amortization. As of September 30, 2019, approximately \$497,000 of this royalty expense was included in our accounts payable. During the three and nine months ended September 30, 2018, we

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recognized approximately \$221,000 and \$632,000 of royalty expense, respectively, which is included in cost of goods sold, excluding depreciation and amortization.

Following the signing of the New Collaboration Agreement, we retained a right to offset \$15.0 million of future royalty payments. In March 2019, pursuant to the New Collaboration Agreement, we forgave \$5,000,000 of the Future Offset in connection with the approval of ILUVIEN for NIPU in the United Kingdom. As of September 30, 2019, the balance of the Future Offset was approximately \$9,346,000. (See Note 10 of our notes to the accompanying unaudited interim condensed consolidated financial statements and notes thereto (Interim Financial Statements).)

We market ILUVIEN directly in the U.S., Germany, the United Kingdom, Portugal, Austria and Ireland. In addition, we have entered into various agreements under which distributors are providing or will provide regulatory, reimbursement and sales and marketing support for ILUVIEN in Belgium, France, Italy, Luxembourg, the Netherlands, Spain, Australia, New Zealand, Canada and several countries in the Middle East. In 2016, our Middle East distributor launched ILUVIEN and initiated named-patient sales in the United Arab Emirates. Our Italian distributor launched ILUVIEN in Italy in 2017. Our Spanish distributor began selling on a named-patient basis in 2017 and upon receiving reimbursement, plans a full-scale launch in 2019. Our French distributor received pricing and reimbursement approval in March 2019 for ILUVIEN for DME and began selling in April 2019. The first application for reimbursement in Canada was not approved by the Canadian Agency for Drugs & Technologies in Health. However, our Canadian distributor is considering resubmission using real world data and opinions from experts in DME that were not included in the initial application. As of September 30, 2019, we have recognized sales of ILUVIEN to the Company's international distributors in the Middle East, France, Italy and Spain.

We commenced operations in June 2003. Since our inception we have incurred significant losses. As of September 30, 2019, we had accumulated a deficit of \$388.1 million. We expect to incur additional expenses as we:

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

As of September 30, 2019, we had approximately \$7.9 million in cash and cash equivalents.

Our revenues for the three and nine months ended September 30, 2019 and 2018 were generated from product sales primarily in the U.S., Germany and the United Kingdom. In the U.S., two large pharmaceutical distributors accounted for 68% and 74% of our consolidated revenues for the three months ended September 30, 2019 and 2018, respectively, and 62% and 76% of our consolidated revenues for the nine months ended September 30, 2019 and 2018, respectively. These U.S.-based distributors purchase ILUVIEN from us, maintain inventories of ILUVIEN and sell downstream to physician offices, pharmacies and hospitals. Internationally, in countries where we sell direct, our customers are hospitals, clinics and pharmacies. We sometimes refer to physician offices, pharmacies, hospitals and clinics as end users. In international countries where we sell to distributors, these distributors maintain inventory levels of ILUVIEN and sell to their customers.

**Results of Operations**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands, except share and per share data)			
NET REVENUE	\$ 12,850	\$ 11,137	\$ 36,595	\$ 31,484
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,579)	(965)	(4,353)	(2,982)
GROSS PROFIT	11,271	10,172	32,242	28,502
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	2,761	2,799	8,322	8,398
GENERAL AND ADMINISTRATIVE EXPENSES	3,121	3,446	10,189	10,530
SALES AND MARKETING EXPENSES	6,437	5,480	18,458	17,375
DEPRECIATION AND AMORTIZATION	668	642	1,974	1,941
OPERATING EXPENSES	12,987	12,367	38,943	38,244
NET LOSS FROM OPERATIONS	(1,716)	(2,195)	(6,701)	(9,742)
INTEREST EXPENSE AND OTHER	(1,232)	(1,211)	(3,696)	(3,540)
UNREALIZED FOREIGN CURRENCY (LOSS) GAIN, NET	(115)	(16)	(135)	18
LOSS ON EARLY EXTINGUISHMENT OF DEBT	—	—	—	(1,766)
NET LOSS BEFORE TAXES	(3,063)	(3,422)	(10,532)	(15,030)
PROVISION FOR TAXES	(77)	(28)	(409)	(104)
NET LOSS	(3,140)	(3,450)	(10,941)	(15,134)
GAIN ON EXTINGUISHMENT OF PREFERRED STOCK	—	38,330	—	38,330
NET (LOSS) INCOME AVAILABLE TO STOCKHOLDERS	\$ (3,140)	\$ 34,880	\$ (10,941)	\$ 23,196
NET (LOSS) INCOME PER COMMON SHARE — Basic	\$ (0.04)	\$ 0.40	\$ (0.15)	\$ 0.26
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING — Basic	71,002,307	70,038,411	70,912,124	69,981,744
NET (LOSS) INCOME PER COMMON SHARE — Diluted	\$ (0.04)	\$ 0.39	\$ (0.15)	\$ 0.26
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING — Diluted	71,002,307	70,549,340	70,912,124	70,503,747

**Net Revenue**

We began generating revenue from ILUVIEN in 2013. Revenue from our U.S. distributors and revenue from our partners in the markets in our international segment where we do not sell direct fluctuates depending on the timing of the shipment of ILUVIEN to the distributors and the distributors' sales of ILUVIEN to their customers.

Net revenue increased by approximately \$1.8 million, or 16%, to approximately \$12.9 million for the three months ended September 30, 2019, compared to approximately \$11.1 million for the three months ended September 30, 2018. The increase was primarily attributable to revenue increases in our international segment, including increases of approximately \$900,000 in the international markets where we sell to distributors and \$600,000 in the international markets where we sell direct. The increase was also attributable to a revenue increase of approximately \$200,000 in the U.S.

Net revenue increased by approximately \$5.1 million, or 16%, to approximately \$36.6 million for the nine months ended September 30, 2019, compared to approximately \$31.5 million for the nine months ended September 30, 2018. The increase was primarily attributable to revenue increases in our international segment, including increases of approximately \$3.2 million in the international markets where we sell to distributors and \$2.2 million in the international markets where we sell direct, partially offset by a \$300,000 revenue decrease in our U.S. segment.

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

Gross profit is affected by costs of goods sold, which includes costs of manufactured goods sold and royalty payments to EyePoint under the New Collaboration Agreement. Additionally, cost of goods sold from our international distributors fluctuates depending on the timing of the shipment of ILUVIEN to the distributor.

Cost of goods sold, excluding depreciation and amortization, increased by approximately \$630,000, or 65%, to approximately \$1.6 million for the three months ended September 30, 2019, compared to approximately \$970,000 for the three months ended September 30, 2018. The increase was primarily attributable to an increase in royalty expense payable on our global net revenue as a result of the increased royalty percentage payable to EyePoint.

Cost of goods sold, excluding depreciation and amortization, increased by approximately \$1.4 million, or 47%, to approximately \$4.4 million for the nine months ended September 30, 2019, compared to approximately \$3.0 million for the nine months ended September 30, 2018. The increase was primarily attributable to an increase in royalty expense payable on our global net revenue as a result of the increased royalty percentage payable to EyePoint.

Gross profit increased by approximately \$1.1 million, or 11%, to approximately \$11.3 million for the three months ended September 30, 2019, compared to approximately \$10.2 million for the three months ended September 30, 2018. Gross margin was 88% and 91% for the three months ended September 30, 2019 and 2018, respectively.

Gross profit increased by approximately \$3.7 million, or 13%, to approximately \$32.2 million for the nine months ended September 30, 2019, compared to approximately \$28.5 million for the nine months ended September 30, 2018. Gross margin was 88% and 91% for the nine months ended September 30, 2019 and 2018, respectively.

### ***Research, Development and Medical Affairs Expenses***

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

Research, development and medical affairs expenses were approximately \$2.8 million for both the three months ended September 30, 2019 and 2018.

Research, development and medical affairs expenses decreased by approximately \$100,000, or 1%, to approximately \$8.3 million for the nine months ended September 30, 2019, compared to approximately \$8.4 million for the nine months ended September 30, 2018.

### ***General and Administrative Expenses***

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

General and administrative expenses decreased by approximately \$300,000, or 9%, to approximately \$3.1 million for the three months ended September 30, 2019, compared to approximately \$3.4 million for the three months ended September 30, 2018. The decrease was primarily attributable to decreases in personnel costs.

General and administrative expenses decreased by approximately \$300,000, or 3%, to approximately \$10.2 million for the nine months ended September 30, 2019, compared to approximately \$10.5 million for the nine months ended September 30, 2018. The decrease was primarily attributable to decreases of approximately \$1.1 million in personnel costs, partially offset by an increase of approximately \$700,000 in professional fees and logistics costs, some of which are attributable to Brexit preparation related to increased setup and IT charges from our third-party logistics providers.

### ***Sales and Marketing Expenses***

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

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Sales and marketing expenses increased by approximately \$900,000, or 16%, to approximately \$6.4 million for the three months ended September 30, 2019, compared to approximately \$5.5 million for the three months ended September 30, 2018. The increase was primarily attributable to increases of approximately \$570,000 in personnel costs including costs associated with refilling previously vacant territories and approximately \$350,000 in marketing costs, some of which were associated with the launch of our direct-to-patient advertising pilot program.

Sales and marketing expenses increased by approximately \$1.1 million, or 6%, to approximately \$18.5 million for the nine months ended September 30, 2019, compared to approximately \$17.4 million for the nine months ended September 30, 2018. The increase was primarily attributable to increases of approximately \$790,000 in marketing costs, some of which were associated with the launch of our direct-to-patient advertising pilot program, and approximately \$250,000 in market access costs.

### ***Operating Expenses***

As a result of the increases and decreases in various expenses described above, total operating expenses increased by approximately \$600,000, or 5%, to approximately \$13.0 million for the three months ended September 30, 2019, compared to approximately \$12.4 million for the three months ended September 30, 2018. The increase was primarily attributable to an approximately \$900,000 increase in sales and marketing expenses, partially offset by a \$300,000 decrease in general and administrative expenses.

Total operating expenses increased by approximately \$700,000, or 2%, to approximately \$38.9 million for the nine months ended September 30, 2019, compared to approximately \$38.2 million for the nine months ended September 30, 2018. The increase was primarily attributable to an approximately \$1.1 million increase in sales and marketing expenses, partially offset by decreases of \$300,000 in general and administrative expenses and \$100,000 in research and development expenses.

### ***Interest Expense and Other***

Interest expense and Other was approximately \$1.2 million for the three months ended September 30, 2019 and 2018. Interest expense and other increased by approximately \$200,000, or 6%, to approximately \$3.7 million for the nine months ended September 30, 2019, compared to approximately \$3.5 million for the nine months ended September 30, 2018. For these periods, interest expense consisted primarily of interest and amortization of deferred financing costs and debt discounts associated with our outstanding debt under the 2018 Loan Agreement with Solar Capital. As discussed in Note 11 of our notes to Interim Financial Statements, we entered into a new loan facility with Solar Capital on January 5, 2018 and refinanced the Hercules Loan Agreement with the proceeds.

### ***Loss on early extinguishment of debt***

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

**Basic and Diluted Net Income (Loss) Applicable to Common Stockholders per Share of Common Stock**

We follow FASB Accounting Standards Codification, *Earnings Per Share* (ASC 260), which requires the reporting of both basic and diluted earnings per share. Because our preferred stockholders participate in dividends equally with common stockholders (if we were to declare and pay dividends), we use the two-class method to calculate EPS. However, our preferred stockholders are not contractually obligated to share in losses.

Basic EPS is computed by dividing net income (loss) available to stockholders by the weighted average number of shares outstanding for the period. Diluted EPS is calculated in accordance with ASC 260 by adjusting weighted average shares outstanding for the dilutive effect of common stock options, restricted stock units and warrants. In periods where a net loss is recorded, no effect is given to potentially dilutive securities, since the effect would be anti-dilutive.

We had net income available to stockholders for the three and nine months ended September 30, 2018, primarily due to the gain on extinguishment of preferred stock (Note 13).

Basic and diluted earnings per share attributable to common and participating shares of common stock for the period were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands, except share and per share data)			
Net (loss) income available to stockholders	\$ (3,140)	\$ 34,880	\$ (10,941)	\$ 23,196
Allocation of undistributed (losses) earnings:				
(Losses) earnings attributable to common stock	\$ (3,140)	\$ 27,769	\$ (10,941)	\$ 18,534
Earnings attributable to participating securities	\$ —	\$ 7,111	\$ —	\$ 4,662
Basic shares:				
Weighted average common shares	71,002,307	70,038,411	70,912,124	69,981,744
Weighted average participating shares	—	17,934,164	—	17,604,533
Total basic weighted average shares	<u>71,002,307</u>	<u>87,972,575</u>	<u>70,912,124</u>	<u>87,586,277</u>
Diluted shares:				
Weighted average common shares	71,002,307	70,038,411	70,912,124	69,981,744
Dilutive weighted average shares	—	510,929	—	522,003
Total dilutive weighted common shares	71,002,307	70,549,340	70,912,124	70,503,747
Weighted average participating shares	—	17,934,164	—	17,604,533
Total dilutive weighted average shares	<u>71,002,307</u>	<u>88,483,504</u>	<u>70,912,124</u>	<u>88,108,280</u>
Basic EPS	<u>\$ (0.04)</u>	<u>\$ 0.40</u>	<u>\$ (0.15)</u>	<u>\$ 0.26</u>
Diluted EPS	<u>\$ (0.04)</u>	<u>\$ 0.39</u>	<u>\$ (0.15)</u>	<u>\$ 0.26</u>

Common stock equivalent securities that would potentially dilute basic EPS in the future, but were not included in the computation of diluted EPS because they were either classified as participating and do not share in losses or would have been anti-dilutive, were approximately 34,721,250 for the three and nine months ended September 30, 2019 and 14,049,646 for the three and nine months ended September 30, 2018.

**Results of Operations - Segment Review**

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

We have three segments: U.S., International and Other. Each segment is separately managed and is evaluated primarily upon segment loss from operations. Non-cash items including stock-based compensation expense, depreciation and amortization are categorized as Other. We allocate certain operating expenses between our reporting segments based on activity-based costing methods. These activity-based costing methods require us to make estimates that affect the amount of each expense category that is attributed to each segment. Changes in these estimates will directly affect the amount of expense allocated to each segment and therefore the operating profit of each reporting segment. There were no significant changes in our expense allocation methodology during 2019 or 2018.

**U.S. Segment**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
NET REVENUE	\$ 8,692	\$ 8,492	\$ 22,778	\$ 23,096
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(1,001)	(715)	(2,494)	(2,084)
GROSS PROFIT	7,691	7,777	20,284	21,012
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,573	1,684	4,629	4,926
GENERAL AND ADMINISTRATIVE EXPENSES	2,032	2,050	6,116	6,209
SALES AND MARKETING EXPENSES	4,502	3,913	12,760	12,427
OPERATING EXPENSES	8,107	7,647	23,505	23,562
SEGMENT (LOSS) INCOME FROM OPERATIONS	\$ (416)	\$ 130	\$ (3,221)	\$ (2,550)

***U.S. Segment - three months ended September 30, 2019 compared to the three months ended September 30, 2018***

*Net revenue.* Net revenue increased by approximately \$200,000, or 2%, to approximately \$8.7 million for the three months ended September 30, 2019, compared to approximately \$8.5 million for the three months ended September 30, 2018.

*Cost of goods sold, excluding depreciation and amortization.* Cost of goods sold, excluding depreciation and amortization, increased by approximately \$280,000, or 39%, to approximately \$1.0 million for the three months ended September 30, 2019, compared to approximately \$720,000 for the three months ended September 30, 2018. The increase was primarily attributable to royalty expense payable on U.S. net revenue as a result of the increased royalty percentage payable to EyePoint.

*Research, development and medical affairs expenses.* Research, development and medical affairs expenses decreased by approximately \$100,000, or 6%, to approximately \$1.6 million for the three months ended September 30, 2019, compared to approximately \$1.7 million for the three months ended September 30, 2018.

*General and administrative expenses.* General and administrative expenses decreased by approximately \$100,000, or 5%, to approximately \$2.0 million for the three months ended September 30, 2019, compared to approximately \$2.1 million for the three months ended September 30, 2018.

*Sales and marketing expenses.* Sales and marketing expenses increased by approximately \$600,000, or 15%, to approximately \$4.5 million for the three months ended September 30, 2019, compared to approximately \$3.9 million for the three months ended September 30, 2018. The increase was primarily attributable to increases of approximately \$290,000 in personnel costs including costs associated with refilling previously vacant territories and \$180,000 in marketing costs, some of which were associated with the launch of our direct-to-patient advertising pilot program.

**U.S. Segment - nine months ended September 30, 2019 compared to the nine months ended September 30, 2018**

*Net revenue.* Net revenue decreased by approximately \$300,000, or 1%, to approximately \$22.8 million for the nine months ended September 30, 2019, compared to approximately \$23.1 million for the nine months ended September 30, 2018. However, end user demand, which represents units purchased by physicians and pharmacies from our distributors, increased 2% in the nine months ended September 30, 2019, increasing to 2,829 units compared to 2,783 units in the nine months ended September 30, 2018.

*Cost of goods sold, excluding depreciation and amortization.* Cost of goods sold, excluding depreciation and amortization, increased by approximately \$400,000, or 19%, to approximately \$2.5 million for the nine months ended September 30, 2019, compared to approximately \$2.1 million for the nine months ended September 30, 2018. The increase was primarily attributable to royalty expense payable on U.S. net revenue as a result of the increased royalty percentage payable to EyePoint.

*Research, development and medical affairs expenses.* Research, development and medical affairs expenses decreased by approximately \$300,000, or 6%, to approximately \$4.6 million for the nine months ended September 30, 2019, compared to approximately \$4.9 million for the nine months ended September 30, 2018. The decrease was primarily attributable to decreases of approximately \$160,000 in safety & quality costs and \$100,000 in personnel costs.

*General and administrative expenses.* General and administrative expenses decreased by approximately \$100,000, or 2%, to approximately \$6.1 million for the nine months ended September 30, 2019, compared to approximately \$6.2 million for the nine months ended September 30, 2018.

*Sales and marketing expenses.* Sales and marketing expenses increased by approximately \$400,000, or 3%, to approximately \$12.8 million for the nine months ended September 30, 2019, compared to approximately \$12.4 million for the nine months ended September 30, 2018. The increase was primarily attributable to an increase of approximately \$350,000 in marketing costs, some of which were associated with the launch of our direct-to-patient advertising pilot program.

**International Segment**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
NET REVENUE	\$ 4,158	\$ 2,645	\$ 13,817	\$ 8,388
COST OF GOODS SOLD, EXCLUDING DEPRECIATION AND AMORTIZATION	(578)	(250)	(1,859)	(898)
GROSS PROFIT	3,580	2,395	11,958	7,490
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	1,100	904	3,361	2,808
GENERAL AND ADMINISTRATIVE EXPENSES	768	786	2,876	2,416
SALES AND MARKETING EXPENSES	1,840	1,356	5,324	4,127
OPERATING EXPENSES	3,708	3,046	11,561	9,351
SEGMENT (LOSS) INCOME FROM OPERATIONS	\$ (128)	\$ (651)	\$ 397	\$ (1,861)

**International Segment - three months ended September 30, 2019 compared to the three months ended September 30, 2018**

*Net revenue.* Net revenue increased by approximately \$1.6 million, or 62%, to approximately \$4.2 million for the three months ended September 30, 2019, compared to approximately \$2.6 million for the three months ended September 30, 2018. The increase was primarily attributable to increases of approximately \$900,000 in the international markets where we sell to distributors and \$600,000 in the international markets where we sell direct.

*Cost of goods sold, excluding depreciation and amortization.* Cost of goods sold, excluding depreciation and amortization, increased by approximately \$330,000, or 132%, to approximately \$580,000 for the three months ended September 30, 2019, compared to approximately \$250,000 for the three months ended September 30, 2018. The increase was primarily attributable to royalty expense payable on our increased international net revenue as a result of the increased royalty percentage payable to EyePoint.

*Research, development and medical affairs expenses.* Research, development and medical affairs expenses increased by approximately \$200,000, or 22%, to approximately \$1.1 million for the three months ended September 30, 2019, compared to approximately \$900,000 for the three months ended September 30, 2018. The increase was primarily related to an increase in costs associated with our ongoing clinical studies.

*General and administrative expenses.* General and administrative expenses decreased by approximately \$20,000, or 3%, to approximately \$770,000 for the three months ended September 30, 2019, compared to approximately \$790,000 for the three months ended September 30, 2018.

*Sales and marketing expenses.* Sales and marketing expenses increased by approximately \$400,000, or 29%, to approximately \$1.8 million for the three months ended September 30, 2019, compared to approximately \$1.4 million for the three months ended September 30, 2018. The increase was primarily attributable to an increase of approximately \$390,000 in personnel costs.

***International Segment - nine months ended September 30, 2019 compared to the nine months ended September 30, 2018***

*Net revenue.* Net revenue increased by approximately \$5.4 million, or 64%, to approximately \$13.8 million for the nine months ended September 30, 2019, compared to approximately \$8.4 million for the nine months ended September 30, 2018. The increase was primarily attributable to sales increases of \$3.2 million in markets where we sell to distributors and \$2.2 million in the markets in Europe where we sell direct.

*Cost of goods sold, excluding depreciation and amortization.* Cost of goods sold, excluding depreciation and amortization, increased by approximately \$1.0 million, or 111%, to approximately \$1.9 million for the nine months ended September 30, 2019, compared to approximately \$900,000 for the nine months ended September 30, 2018. The increase was primarily attributable to the cost of units sold associated with our increased international net revenue and royalty expense payable on our increased international net revenue as a result of the increased royalty percentage payable to EyePoint.

*Research, development and medical affairs expenses.* Research, development and medical affairs expenses increased by approximately \$600,000, or 21%, to approximately \$3.4 million for the nine months ended September 30, 2019, compared to approximately \$2.8 million for the nine months ended September 30, 2018. The increase was primarily related to increases of approximately \$310,000 in personnel costs and \$170,000 in costs associated with our ongoing clinical studies.

*General and administrative expenses.* General and administrative expenses increased by approximately \$500,000, or 21%, to approximately \$2.9 million for the nine months ended September 30, 2019, compared to approximately \$2.4 million for the nine months ended September 30, 2018. The increase was primarily attributable to an increase in professional fees and logistics costs, some of which are attributable to Brexit preparation.

*Sales and marketing expenses.* Sales and marketing expenses increased by approximately \$1.2 million, or 29%, to approximately \$5.3 million for the nine months ended September 30, 2019, compared to approximately \$4.1 million for the nine months ended September 30, 2018. The increase was primarily attributable to increases of approximately \$670,000 in personnel costs and \$430,000 in marketing costs.

**Other Segment**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>(In thousands)</b>			
RESEARCH, DEVELOPMENT AND MEDICAL AFFAIRS EXPENSES	\$ 88	\$ 211	\$ 332	\$ 664
GENERAL AND ADMINISTRATIVE EXPENSES	321	610	1,197	1,905
SALES AND MARKETING EXPENSES	95	211	374	821
DEPRECIATION AND AMORTIZATION	668	642	1,974	1,941
OPERATING EXPENSES	1,172	1,674	3,877	5,331
SEGMENT LOSS FROM OPERATIONS	<u>\$ (1,172)</u>	<u>\$ (1,674)</u>	<u>\$ (3,877)</u>	<u>\$ (5,331)</u>

Our chief operating decision maker manages and evaluates our U.S. and International segments based on net loss from operations adjusted for certain non-cash items, such as stock-based compensation expense and depreciation and amortization. Therefore, these non-cash expenses included in research, development and medical affairs expenses, general and administrative expenses, and sales and marketing expenses are classified within the Other segment within our Interim Financial Statements.

Within the respective financial statement line items included in the Other segment, stock-based compensation expense, collectively, decreased by approximately \$500,000, or 50%, to \$500,000 for the three months ended September 30, 2019, compared to approximately \$1.0 million for the three months ended September 30, 2018. Stock-based compensation expense, collectively, decreased by approximately \$1.5 million, or 44%, to \$1.9 million for the nine months ended September 30, 2019, compared to approximately \$3.4 million for the nine months ended September 30, 2018.

Depreciation and amortization increased by approximately \$30,000, or 5%, to \$670,000 for the three months ended September 30, 2019, compared to \$640,000 for the three months ended September 30, 2018. Depreciation and amortization increased by approximately \$100,000, or 5%, to \$2.0 million for the nine months ended September 30, 2019 compared to \$1.9 million for the nine months ended September 30, 2018.

### ***Liquidity and Capital Resources***

Since inception, we have incurred recurring losses, negative cash flow from operations and have accumulated a deficit of \$388.1 million through September 30, 2019. We have funded our operations through the public and private placement of common stock, convertible preferred stock, warrants, the sale of certain assets of the non-prescription business in which we were previously engaged and certain debt facilities.

On January 5, 2018, we entered into the \$40.0 million 2018 Loan Agreement with Solar Capital. Under this agreement, we borrowed the entire \$40.0 million as a term loan that matures on July 1, 2022. We used the proceeds of the 2018 Loan Agreement to repay the Hercules Loan Agreement and pay related expenses. We used the remaining loan proceeds in 2018 to provide additional working capital for general corporate purposes. (See Note 11 of our notes to Interim Financial Statements.)

As of September 30, 2019, we had approximately \$7.9 million in cash and cash equivalents. We will likely need to raise additional capital to fund the continued commercialization of ILUVIEN. If we are unable to raise additional financing, we will need to adjust our commercial plans so that we can continue to operate with our existing cash resources. The actual amount of funds that we will need will depend on many factors, some of which are beyond our control. We may need funds sooner than currently anticipated.

On October 24, 2019, we entered into a purchase agreement (the "Purchase Agreement") with Lincoln Park Capital Fund, LLC ("Lincoln Park"). The Purchase Agreement provides that, upon its terms and subject to its conditions and limitations, we may direct Lincoln Park to purchase up to \$20.0 million of shares of our common stock (the "Purchase Shares"), from time to time over the 36-month term of the Purchase Agreement. Lincoln Park made an initial purchase of 2,000,000 shares at a price of \$0.50 per share, for an aggregate price of \$1,000,000. Our ability to raise additional capital via the Purchase Agreement will depend on, among other things, our ability to satisfy the conditions in the Purchase Agreement to direct Lincoln Park to make purchases of common stock and thereby generate net proceeds for us to use to strengthen our liquidity. For more information about this equity line arrangement, please see our Current Report on Form 8-K filed with the SEC on October 25, 2019 and the exhibits to it.

We cannot be sure that other additional financing will be available when needed or that, if available, the additional financing would be obtained on terms favorable to us or our stockholders. If we were to raise additional funds by issuing equity securities, substantial dilution to existing stockholders would likely result and the terms of any new equity securities may have a preference over our common stock. (Under the Purchase Agreement, we may direct Lincoln Park to purchase only common stock.) If we were to attempt to raise additional funds through strategic collaboration agreements, we may not be successful in obtaining those agreements, or in receiving milestone or royalty payments under them. If we were to attempt to raise additional funds through debt financing, (a) 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; and (b) we would be required to obtain the permission or participation of Solar Capital, which we might not be able to obtain. Our capital raising efforts may be hindered by the fact that we are currently not in compliance with two different Nasdaq continuing listing requirements, which could ultimately lead to our delisting from Nasdaq if we are unable to regain compliance. See Part II, Item 1A, Risk Factors. Our recurring losses and any potential needs to raise capital create substantial doubt about our ability to continue as a going concern for the next 12 months following the issuance of the financial statements.

For the nine months ended September 30, 2019, cash used in our operations was approximately \$4.6 million. The cash used in our operations was primarily due to our net loss of \$10.9 million and an increase in prepaid expenses and other current assets of \$450,000, offset by \$2.0 million of non-cash depreciation and amortization, \$1.9 million of non-cash stock-based compensation expense, a \$660,000 decrease in accounts receivable, and a \$410,000 net increase in accounts payable, accrued expenses and other current liabilities. Cash used in operations for the nine months ended September 30, 2019 was further offset by \$730,000 of inventory, \$630,000 for non-cash interest expense associated with the amortization of our debt discount and a \$380,000 increase in other long-term liabilities.

For the nine months ended September 30, 2018, cash used in our operations was \$12.2 million. The cash used in our operations was primarily due to our net loss of \$15.2 million, offset by \$3.4 million of non-cash stock-based compensation expense, \$1.8 million loss on our early extinguishment of debt, \$1.9 million for non-cash depreciation and amortization and \$630,000 for non-cash interest expense associated with the amortization of our debt discount. Cash in operations was impacted by a net decrease in our working capital. Accounts receivable increased by \$2.9 million, accounts payable accrued expenses and other current liabilities decreased by \$1.0 million, prepaid expenses and other current assets increased by \$540,000 and inventory increased by \$250,000.

For the nine months ended September 30, 2019, net cash used in our investing activities was approximately \$150,000, which was due to the purchase of property and equipment.

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For the nine months ended September 30, 2018, net cash used in our investing activities was approximately \$170,000, which was due to the purchase of property and equipment, primarily the purchase of additional software.

For the nine months ended September 30, 2019, net cash used in our financing activities was approximately \$200,000, which is primarily due to payments of finance lease obligations.

For the nine months ended September 30, 2018, net cash provided by our financing activities was approximately \$980,000, which is primarily due to entering into the \$40.0 million 2018 Loan Agreement with Solar Capital, offset by paying off the \$35.0 million Hercules Loan Agreement and payment of related debt costs of \$3.7 million.

### ***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, 2018, filed with the SEC on February 25, 2019.

### ***Off-Balance Sheet Arrangements***

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

### ***Impact of Recent Accounting Pronouncements***

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

**ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk***

Not required for smaller reporting companies.

**ITEM 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we evaluated the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2019.

**Changes in Internal Control over Financial Reporting**

We have implemented new internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standard related to leases on our financial statements as a result of its adoption on January 1, 2019. There have been no other changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the nine months ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Limitations on the Effectiveness of Controls**

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

**PART II. OTHER INFORMATION**

**ITEM 1. *Legal Proceedings***

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, 2018, filed with the SEC on February 25, 2019, we identify under Item 1A of Part I important factors that 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 described below, there have been no material changes in our risk factors after the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. However, the risks described in our Form 10-K are not the only risks we face. Additional risks and uncertainties that we currently deem to be immaterial or not currently known to us, as well as other risks reported from time to time in our reports to the SEC, also could cause our actual results to differ materially from our anticipated results or other expectations.

You should read the following information in conjunction with the Interim Financial Statements and related notes in Part I, Item 1, Financial Information and the discussion and analysis of our financial condition in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

***We have received two different notices in 2019 from The Nasdaq Stock Market (“Nasdaq”) that we have failed to comply with the Nasdaq Global Market’s continuing listing requirements. In June 2019, we received notice that we had failed to comply with the minimum bid requirement because our stock price was below \$1.00 per common share for 30 consecutive business days. In September 2019, we received notice that, for the last 30 consecutive trading days prior to the date of the notice, the Market Value of Listed Securities (MVLS) for our common stock was below the minimum MVLS of \$50,000,000 required for continued listing on the Nasdaq Global Market. We have not regained compliance with either requirement, and we may be unable to do so. If we were to fail to regain compliance with both requirements, our shares could be delisted from the Nasdaq Global Market, which could materially reduce the liquidity of our common stock and have an adverse effect on its market price.***

Our common stock trades on the Nasdaq Global Market, which we believe helps support and maintain liquidity for our stock. Companies listed on the Nasdaq Global Market, however, are subject to various rules and requirements imposed by the Nasdaq Stock Market (“Nasdaq”) that a listed company must satisfy to continue having its stock listed on the exchange. One of these standards is the “minimum bid price” requirement, which requires that the bid price of the stock of a listed company be at least \$1.00 per share. A listed company risks being delisted and removed from the Nasdaq Global Market if the closing bid price of its stock remains below \$1.00 per share for an extended period of time.

We received notice on June 3, 2019 from the Listing Qualifications Department of Nasdaq that as of May 31, 2019, the closing bid price for our common stock on the Nasdaq Global Market had been below \$1.00 for 30 consecutive business days and that, as a result, we were not in compliance with the minimum bid price requirement under Nasdaq Listing Rule 5450(a)(1) (“Bid Price Rule”). This is the third notice of noncompliance with the minimum bid price requirement that we have received since June 2018. The notice stated that pursuant to Nasdaq Listing Rule 5810(c)(3)(A), we would have 180 calendar days, until December 2, 2019 (the “Compliance Date”), to regain compliance. For us to regain compliance with the Bid Price Rule, our common stock must have a closing bid price of \$1.00 or more for 10 consecutive business days. Under certain circumstances, however, to ensure that a company can sustain long-term compliance, Nasdaq may require the closing bid price to equal or to exceed the \$1.00 minimum bid price requirement for more than 10 consecutive business days before determining that the company complies. Our common stock is continuing to trade on Nasdaq under the symbol ALIM during this 180-day period.

If we do not regain compliance with the Bid Price Rule by the Compliance Date, we may be eligible for an additional 180-calendar day compliance period. To qualify, we would need to transfer the listing of our common stock to the Nasdaq Capital Market, provided that we meet the continued listing requirement for the market value of publicly held shares and all other initial listing standards, with the exception of the Bid Price Rule. To effect such a transfer, we would also need to pay an application fee to Nasdaq and provide written notice to Nasdaq of our intention to cure the deficiency during the additional compliance period.

If we do not regain compliance with the Bid Price Rule by the Compliance Date and we are not eligible for an additional compliance period at that time, Nasdaq will provide written notification to us that our common stock may be delisted. At that time, we may appeal that delisting determination to a Nasdaq Listing Qualifications Panel (the “Panel”). We expect that our common stock would remain listed pending the Panel’s decision. There can be no assurance that, if we do appeal the delisting determination to the Panel, that appeal would be successful.

To seek to regain compliance with the Bid Price Rule, we held a special stockholders meeting on November 4, 2019 to seek stockholder approval of a reverse stock split of our issued and outstanding common stock. Under the proposal approved by our stockholders at this special meeting, our board of directors has the authority to determine the ratio of the reverse split, ranging from one-for-five to one-for-30 (the “Reverse Split”), and to implement the Reverse Split at any time up to May 4,

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2020. We have filed a Current Report on Form 8-K reporting the preliminary stockholder voting results and will file an amendment to that report with the final voting numbers. The difference between the preliminary and final voting results, if any, will not change the outcome of the voting. As of the date of this Quarterly Report on Form 10-Q, the board of directors has not determined the ratio of the Reverse Split nor has the board determined to effect the Reverse Split, and if so, the timing of its implementation.

In addition, we received notice on September 11, 2019 from the Listing Qualifications Department of Nasdaq that as of September 10, 2019, the market value of our listed securities had been below \$50,000,000 for 30 consecutive business days and that, as a result, we were not in compliance with the minimum market value of listed securities requirement under Nasdaq Listing Rule 5450(b)(2)(A). The notice stated that pursuant to Nasdaq Listing Rule 5810(c)(3)(C), we would have 180 calendar days, until March 9, 2020, to regain compliance. For us to regain compliance with the minimum market value requirement, our common stock must have a market value of \$50,000,000 or more for 10 consecutive business days. We are considering how we might regain compliance with this requirement, which could involve transferring the listing of our common stock to the Nasdaq Capital Market if we are able to meet the requirements for doing so, including regaining compliance with the Bid Price Rule through the Reverse Split.

If our common stock is delisted from Nasdaq, the only established trading market for our common stock would be eliminated and we would be forced to list our shares on the OTC Markets or another quotation medium, depending on our ability to meet the specific listing requirements of those quotation systems. As a result, an investor would likely find it more difficult to trade, or to obtain accurate price quotations for, our shares. Delisting would likely also reduce the visibility, liquidity and value of our common stock, including as a result of reduced institutional investor interest in our company, and may increase the volatility of our common stock. Delisting could also cause a loss of confidence of potential industry partners, lenders and employees, which could further harm our business and our future prospects. If we do not regain compliance during the initial 180-day compliance period, we may be eligible for an additional 180-day compliance period to regain compliance if we elect to transfer to the Nasdaq Capital Market. To qualify, we would be required to meet the continued listing requirement for MVLS and all other initial listing standards for the Nasdaq Capital Market, with the exception of the Bid Price Rule, and we would need to provide written notice of our intention to cure the deficiency during the second compliance period. If it appears to Nasdaq that we will not be able to cure the deficiency or we are otherwise not eligible, Nasdaq would notify us that our securities would be subject to delisting. If we were to receive such a notification, we could appeal Nasdaq's determination to delist our securities, but there can be no assurance Nasdaq would grant our request for continued listing.

**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**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Restated Certificate of Incorporation of Registrant, as amended on various dates (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q, as filed on November 9, 2018, and incorporated herein by reference).</a>
3.2	<a href="#">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).</a>
3.3	<a href="#">Amendment No. 1 to the Company's Amended and Restated Bylaws (filed as Exhibit 3.3 to the Registrant's Current Report on Form 8-K, as filed on September 16, 2019 and incorporated herein by reference).</a>
4.17	<a href="#">Registration Rights Agreement, dated as of October 24, 2019, between Alimera Sciences, Inc. and Lincoln Park Capital Fund, LLC (filed as Exhibit 4.17 to the Registrant's Current Report on Form 8-K, as filed on October 25, 2019 and incorporated herein by reference).</a>
10.62	<a href="#">Alimera Sciences, Inc. 2019 Non-Employee Director Compensation Program (filed as Exhibit 10.62 to the Registrant's Current Report on Form 8-K, as filed on July 19, 2019 and incorporated herein by reference).</a>
10.63	<a href="#">Form of Alimera Sciences, Inc. Deduction Agreement (filed as Exhibit 10.63 to the Registrant's Current Report on Form 8-K, as filed on September 5, 2019 and incorporated herein by reference).</a>
10.64	<a href="#">Purchase Agreement, dated as of October 24, 2019, between Alimera Sciences, Inc. and Lincoln Park Capital Fund, LLC (filed as Exhibit 10.64 to the Registrant's Current Report on Form 8-K, as filed on October 25, 2019 and incorporated herein by reference).</a>
31.1*	<a href="#">Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certification of the Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.</a>
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.
*	Filed herewith.
+	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 5, 2019

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

**Richard S. Eiswirth, Jr.**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

November 5, 2019

By: /s/ J. Philip Jones

**J. Philip Jones**  
**Chief Financial Officer**  
**(Principal Financial and Accounting 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, including its consolidated subsidiaries, 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 5, 2019

/s/ Richard S. Eiswirth, Jr.

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**Richard S. Eiswirth, Jr.**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

## CERTIFICATION

I, J. Philip Jones, 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, including its consolidated subsidiaries, 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 5, 2019

/s/ J. Philip Jones

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**J. Philip Jones**  
**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, 2019 (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, as amended, 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 5, 2019

/s/ Richard S. Eiswirth, Jr.

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**Richard S. Eiswirth, Jr.**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

Date: November 5, 2019

/s/ J. Philip Jones

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**J. Philip Jones**  
**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.